EDITOR'S NOTE

Dear Readers,
On the occasion of its 34th Anniversary, *The Daily Star* is proud to present a special 200-page supplement, divided into five segments. The first segment, which you are reading today, is titled "The Economy: Reviving & Rebuilding." The following segments will be released on the specified dates: Segment 2: "Future Forged: Youth at the Helm" on February 20; Segment 3: "Tradition Meets Tomorrow" on February 23; Segment 4: "Towards Equality" on February 26; and Segment 5: "Reform & Rebuild" on February 27.

The recent mass uprising in July has marked a defining moment in Bangladesh's history. It has not only shaken the foundations of an oppressive regime but also opened a new chapter for the country, providing a unique opportunity to build a prosperous, peaceful, and democratic society. This moment rightly calls for a society founded on the principles of equality, human dignity, social justice, and pluralism.

The people of Bangladesh, having once again shown extraordinary courage and resilience in reclaiming their destiny from the grip of an unjust government, are now tasked with dismantling the entrenched systems of oppression that have developed over the years. In their place, they must forge a system that is just, efficient, and truly representative of the people's aspirations.

The July uprising has sparked attention around the world, with the youth of Bangladesh leading the charge, supported by citizens from all walks of life. The message is clear: Bangladeshis are determined to build the nation of their dreams, one grounded in justice, opportunity, and collective progress. In this first segment, we focus on the critical task of reviving the economy, which has long been stifled by corruption and mismanagement. We explore how the economy, once damaged by years of failed leadership, can be revitalised—how businesses can thrive and create jobs, and how the benefits of a rejuvenated economy can be shared among all citizens.

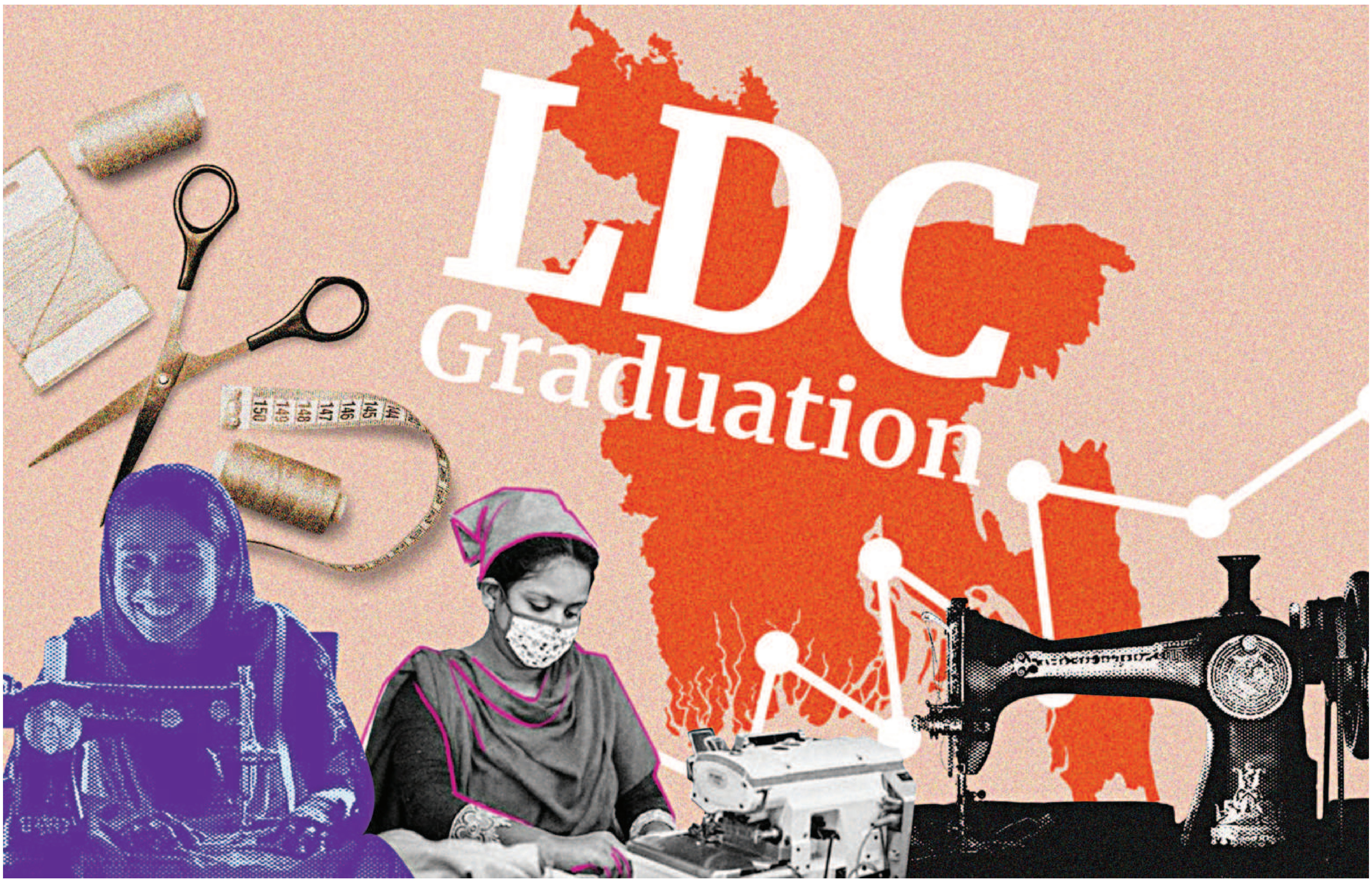
We are pleased to share that the contributors to this special supplement are experts, practitioners, researchers, scholars, and academics who have provided insightful and valuable perspectives. Their contributions are both thought-provoking and rich in analysis, and we believe they will help shape meaningful discourse on these crucial issues.

Our goal with this supplement is to offer impactful, objective, and constructive content. And we have included relevant suggestions and recommendations that we are confident will enrich the ongoing discussions surrounding these topics and help guide the nation towards a brighter future.

We also take this opportunity to express our heartfelt gratitude to our readers and patrons, whose unwavering support and encouragement have been instrumental in our continued progress. Your commitment to *The Daily Star* and our motto, "Your Right to Know," inspires us every day.

Mahfuz Anam
Editor & Publisher

ILLUSTRATION: BIPLOB CHAKROBORTY



VISUAL: ANWER SOHEL

LDC graduation

IS IT A 'TO BE OR NOT TO BE' QUESTION?

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MUSTAFIZUR RAHMAN

The title of this write-up may appear somewhat misleading, but there are valid reasons to pose such a question, as there is context to it. Bangladesh is set to graduate from the group of least developed countries (LDCs) on November 24, 2026. However, there are some sections among concerned stakeholders in Bangladesh who are arguing for the deferment of this graduation for an unspecified period. An objective analysis of the issue and an assessment of the veracity of the divergent views regarding it have practical significance.

As may be recalled, the group of LDCs was first identified by the United Nations in 1971 as a sub-stratum among developing countries. At the time, the global community felt that several developing countries would require special and additional international support measures (ISMs) to help them in their quest for economic development. Accordingly, a separate group of developing countries, called the LDCs, was identified for additional assistance and special and differential (S&D) treatment. What is important to note in this context is that inclusion in the LDC group was to be decided on the basis of certain criteria, but the decision for inclusion would only be effective if the concerned developing country agreed to be categorised as an LDC. On the other hand, graduation from the group would be decided based on the LDCs meeting the criteria stipulated for graduating out of the LDC group. In this sense, inclusion in the LDC group was voluntary, while graduation would be mandatory.

Accordingly, a developing country that satisfies the relevant criteria for inclusion in the LDC group may choose whether or not to join the LDC group. For example, in 2006, Zimbabwe rejected the determination by the UN Committee for Development Policy (CDP) to be categorised as an LDC (Bangladesh joined the LDC group in December 1975). Zimbabwe took this stance, stating that it "refuses to be downgraded as an LDC." On the other hand, as noted, there is a defined procedure for an LDC's graduation from the group. An LDC needs to meet the criteria for graduation and sustain the record over two successive triennial reviews carried out by the CDP. The CDP then recommends the LDC in question to the UN Economic and Social Council (ECOSOC) for graduation. Based on these, and following consultations and deliberations, the UN General Assembly (UNGA) takes the final decision regarding the graduation of the concerned LDC, as well as when the decision will come into effect.

The criteria for inclusion and graduation are periodically reviewed by the CDP; indeed, these have undergone several changes since 1971. According to the current procedures (2024), an LDC needs to meet at least two of the three graduation criteria to be considered for graduation: a GNI per capita of $1,306 and above, a Human Asset Index (HAI) of 66 and above, and an Economic Vulnerability Index (EVI) of 32 and below. An LDC may also be eligible for graduation based on the income criterion alone if its GNI per capita is three times the income graduation threshold (i.e. $3,918 or above) over two consecutive triennial reviews by the CDP.

To recall, Bangladesh first met the criteria for graduation in 2018. In fact, the country met all three criteria (at the time, the threshold for GNI per capita was $1,222 and above, while HAI and EVI values remained the same at 66 and above, and 32 and below, respectively). This record was sustained at the next triennial review of the CDP, held in 2021 (Bangladesh's GNI per capita was estimated to be $1,827, HAI was 75.4, and EVI was 27). Bangladesh, thus, was set to be recommended for graduation to the UNGA, and the graduation was expected to be effective from 2024. However, graduation for all LDCs eligible for graduation at the time (in 2021) was deferred by two years because of the adverse impacts of the Covid pandemic on the economies of these countries. In this context, Bangladesh's LDC graduation was recommended by the UNGA, in its meeting held on November 24, 2021, to be effective from November 24, 2026 (instead of 2024, which would have been the general scenario).

- Bangladesh is scheduled to graduate from the least developed country status on November 24, 2026, after meeting all required graduation criteria in 2018 and 2021.
- Some stakeholders, particularly in Bangladesh's export-oriented RMG sector, advocate for deferment to maintain preferential trade benefits, including duty-free market access and exemptions under WTO agreements.
- Past instances of LDC graduation deferments were linked to specific vulnerabilities (e.g., natural disasters, economic instability), but deferment for Bangladesh would have political costs and position it unfavourably compared to regional peers.
- Losing LDC-specific benefits will require Bangladesh to transition to competitiveness based on skills, productivity, and compliance with stricter trade and environmental standards, as global trade dynamics evolve.
- To ensure a smooth and sustainable transition, Bangladesh must implement structural reforms, negotiate preferential trade agreements, and focus on innovation, infrastructure, and compliance with global market requirements.

IS DEFERMENT OF GRADUATION AN OPTION FOR BANGLADESH?

As noted at the outset, a number of stakeholders in Bangladesh are calling for the deferment of Bangladesh's LDC graduation. However, as mentioned, when an LDC satisfies the graduation criteria and the attendant procedure, it is the UNGA that takes the final decision. This has already been the case for Bangladesh, with a concrete timeline now set. It is true that the graduation of LDCs has been deferred in the past even when eligibility for graduation has been met by the concerned LDCs.

Decisions regarding the graduation of several Pacific Island LDCs—e.g., Small Island Developing Countries (SIDS), such as Vanuatu, Kiribati—were deferred several times, as these were considered highly vulnerable to environmental challenges (they were eligible for graduation primarily based on the "income only" criterion). Samoa's graduation timeline was deferred by three years when it was hit by a tsunami (it finally graduated in 2014). In 2005, the UNGA unanimously adopted a resolution to defer the Maldives' smooth transition period, and the country graduated in 2011. Nepal, an LDC that first met the graduation criteria in 2015 (three years earlier than Bangladesh), was not recommended by the CDP at the 2018 triennial review due to the devastating earthquake in April 2015, which brought havoc to the country's economy and people's well-being. Nepal was recommended at the next triennial review in 2021. Nepal will, thus, graduate (three years later than originally envisaged, plus the Covid-related additional two years) at the same time as Bangladesh (on November 24, 2026, along with Lao PDR). In 2023, the UNGA decided to extend the graduation of the Solomon Islands until December 13, 2027. Angola was scheduled to graduate in February 2021, but the UNGA decided to defer its graduation to a later date due to the deterioration of its economy.

The call for Bangladesh's graduation deferment is being spearheaded by the country's export-oriented RMG sector. Since the sector accounts for about 85 percent of Bangladesh's total exports, the

CONTINUED ON PAGE 4

LDC preferential treatment allows Bangladesh's apparel to enjoy significant preferential margins in almost all destination countries.

PHOTO: COLLECTED

LDC graduation: Is it a 'to be or not to be' question?

As may be recalled, the EU and the UK (along with a number of other preference-providing countries such as Canada) have agreed to extend preferential treatment (duty-free market access) for goods originating from graduating LDCs such as Bangladesh for an additional three years following their respective graduation timelines. However, one must keep in mind that these are time-bound offers (and not all currently preference-providing countries have made this offer).

FROM PAGE 2

implications of losing preferences for the sector, as well as the country, are understandable. Deferment of graduation would allow Bangladesh to continue enjoying various S&D treatments in the WTO for which it is currently eligible as an LDC (e.g., as part of the 25 S&D provisions in the WTO specifically targeted at the LDCs). These include preferential access to almost all markets for almost all products of exports (about 70 percent of the country's exports enjoy duty-free, quota-free market access as part of the 40 or so LDC-GSP schemes maintained by its trading partners), derogation from obligations under the WTO-TRIPS (Trade-related Intellectual Property Rights) Agreement, aid for trade support, assistance from the Technology Bank for LDCs, flexibility with regard to many compliance requirements, and financial support for participation in various global fora, etc.

LDC preferential treatment allows Bangladesh's apparel to enjoy significant preferential margins in almost all destination countries (except the US market, where the GSP scheme does not cover most apparel items). Preferential market access is particularly important for apparel since import duties on these items in all major export markets tend to be significantly high (e.g., in the markets of the EU, UK, Japan, and Canada, these duties range from 10-15 percent). Additionally, Bangladesh has benefitted significantly from the derogation from TRIPS compliance, as evidenced by the impressive performance of the country's pharmaceutical sector, both in the domestic and external markets. Indeed, among the LDCs, Bangladesh has the distinction of being the country that has benefitted the most from LDC preferential treatment due to its higher supply-side capacities compared to most other LDCs. Not surprisingly, the country has also the most to lose in the absence of preferences. Indeed, estimates carried out by the WTO (2020) show that, of the potential losses arising from preference erosion (in terms of foregone export earnings) to be incurred by the 12 LDCs (that were eligible for graduation at the time), 90 percent would be on account of Bangladesh alone!

While it is conceivable that the government may, at some future point, decide to submit a request for the deferment of graduation, there must be strong supporting arguments favouring the request. The CDP will closely monitor and assess the smooth transition process. In the final analysis, the UN General Assembly will need to be convinced of the reasons and justification for such a request. Ultimately, this is a political decision that Bangladesh will need to weigh very carefully.

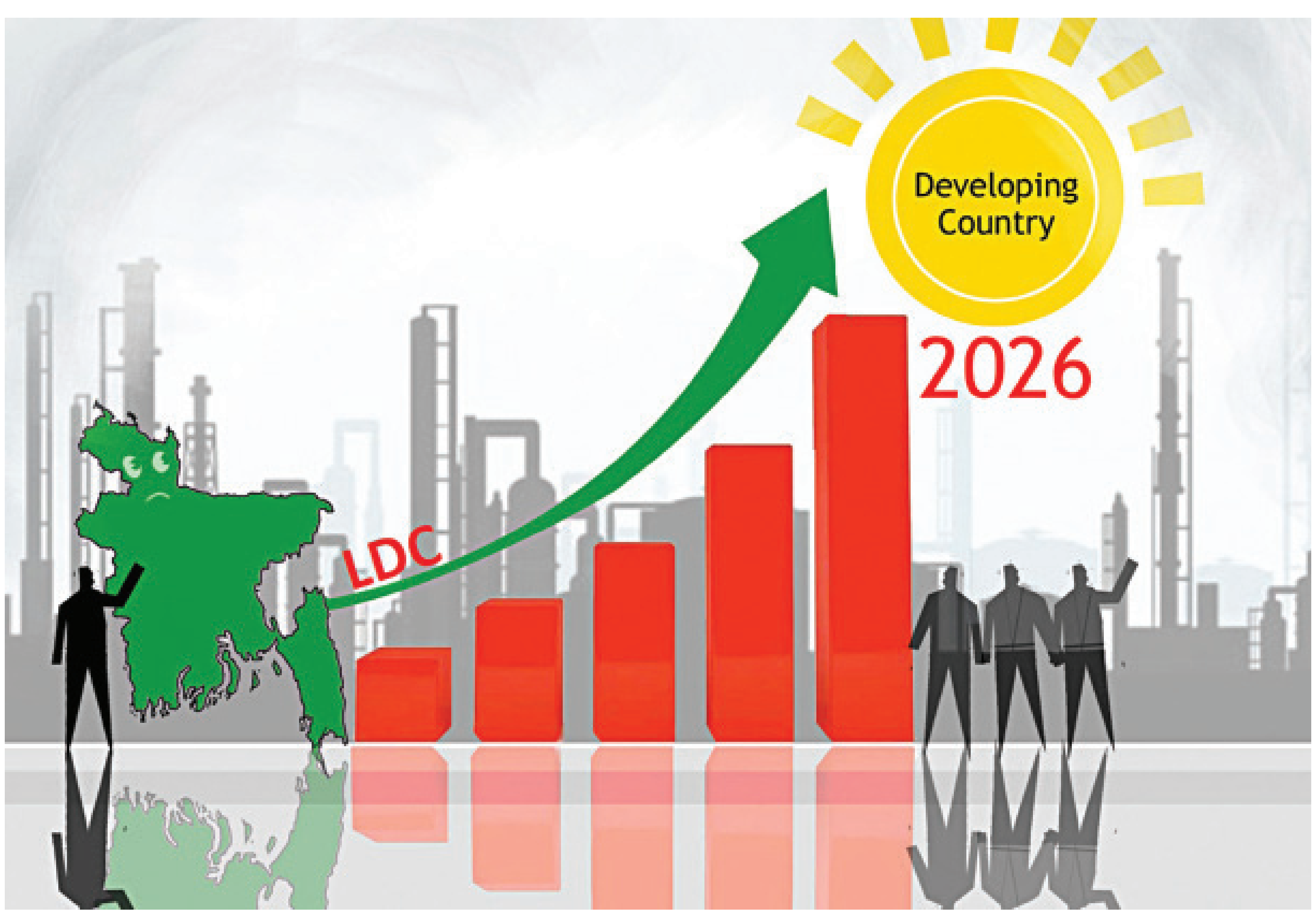
Indeed, as the White Paper Committee Report has noted, according to the most recent triennial review by the CDP (in February 2024), Bangladesh's eligibility for graduation has been reconfirmed. Even after taking into account the hyperbole about the development track record promoted by the previous government of Sheikh Hasina, "there is hardly any plausible reason, as of now, for Bangladesh to request a deferment of the exit date from the group," the White Paper states. Bangladesh still has some time to make up its mind and take a decision regarding whether to make such a request. To be true, Bangladesh is considered by other LDCs (and many other countries) to be an outlier among the LDCs, given the size of its economy and the surplus score with respect to the relevant correlates. Asking for deferment has political costs as well. As the White Paper cautions, such a call for deferment "is going to invite political backlash from expected quarters." As is known, Nepal and Lao PDR are gearing up for graduation at full speed; the issue of deferment is not on their agendas. Bhutan, in the South Asia region, graduated in December 2023 (the country did not ask for any deferment). Bangladesh's deferment would result in a situation where, in the South Asian region, it would be the only country along with war-ravaged Afghanistan remaining as an LDC beyond 2026. Not a scenario to look forward to.

Bangladesh will need to strengthen the competitiveness of its exports and regional and global integration of the economy from a position of strength.

PHOTO: STAR

STRATEGIES GOING FORWARD

The fact is that a date (November 26, 2026) has now been fixed by the UNGA for Bangladesh's graduation. The smart thing for Bangladesh to do, in this context, is to undertake the necessary preparations for a smooth and sustainable graduation from the LDC group.



VISUAL: STAR

As is known, Bangladesh has already prepared a Smooth Graduation Strategy, with concrete recommendations provided by the seven sub-committees. The strategy is to be approved by the National Committee on Graduation. The White Paper states that "concerns remain regarding coordinated implementation of the strategy, including the challenge of institutional and policy leadership." Such concerns must be addressed through energetic actions and urgent initiatives in a time-bound manner. It will be prudent for Bangladesh to prepare for graduation in 2026 by undertaking the necessary reforms and ensuring structural transformation towards smooth and sustainable graduation. Trade policies, incentives, and import duties will need to be scrutinised to ensure compliance with global obligations that graduation will entail. There must be a transition from preference-based competitiveness to skills- and productivity-based competitiveness as part of the sustainable graduation strategy. Adequate measures will need to be taken to ensure compliance with TRIPS obligations, obligations under the Trade Facilitation Agreement, and other WTO-mandated Agreements (as are applicable for non-LDC developing country members of the WTO). Compliance with ILO Conventions and Protocols will need to be ensured and enforced.

As may be recalled, the EU and the UK (along with a number of other preference-providing countries such as Canada) have agreed to extend preferential treatment (duty-free market access) for goods originating from graduating LDCs such as Bangladesh for an additional three years following their respective graduation timelines. However, one must keep in mind that these are time-bound offers (and not all currently preference-providing countries have made this offer). Bangladesh's work on preparing for graduation must begin earnestly, and now.

It is also to be recognised that the global trade and competitiveness scenario is set to undergo significant changes in the coming years, which will accentuate the graduation challenges for Bangladesh. Even if preferential market access under the EU's GSP plus scheme remains an option for Bangladesh, after the additional three-year period ends, it must be kept in mind that under this scheme, the rules of origin will become more stringent (for example, in the case of RMG, this will require a two-stage conversion—yarn to fabric to RMG—instead of the current one-stage conversion from fabric to RMG). Moreover, the GSP plus scheme covers only 66 percent of the items imported by the EU. It is also important to note that, due to the threshold for GSP plus eligibility (the share of a single country in total EU-GSP imports of a particular item, as proposed under the new EU-GSP scheme to be effective from 2027), Bangladesh's apparel items, its major export to the EU, will no longer be eligible for preferential treatment under the proposed stipulations. Negotiating with the EU (before the new EU-GSP scheme becomes effective in 2027) to raise the threshold should be seen as a high priority for Bangladesh's policymakers.

Also, as shown by the outcomes of the 13th WTO Ministerial Conference in Abu Dhabi (held between February 26 and March 2 of last year), the proposal submitted by the LDC group in the WTO seeking a new set of ISMs for graduating LDCs failed to gain tangible traction among member countries.

There is a need to closely monitor how Bangladesh's macroeconomic scenario develops and how the various indicators (criteria) associated with eligibility for LDC graduation evolve over the coming months. In the meantime, work on sustainable graduation must be carried out proactively and vigorously.

Bangladesh will need to strengthen the competitiveness of its exports and regional and global integration of the economy from a position of strength. Comprehensive Economic Partnership Agreements (CEPAs) must be negotiated, and offensive and defensive strategies designed accordingly. In the absence of such trading partnerships and groupings, Bangladesh may end up needing to export on a non-preferential (i.e., most-favoured nation, MFN) basis, while its competitors, such as India, Pakistan, Vietnam, China, and Cambodia, enjoy preferential access in many markets (thanks to bilateral and regional free trade agreements and CEPAs of which these countries are members).

The global trading scenario is changing rapidly: there is an increasing emphasis on greening trade and trade facilitation, and compliance requirements for both preferential and non-preferential trade are becoming more stringent. Carbon dioxide emissions in the production process and supply chains are being tracked, and environmental, gender, and social considerations are coming into sharper focus. Ensuring compliance with these will require skill-based interventions, innovation in green technology, and training. To be sure, all these steps would require additional investment in infrastructure, technology, and capacity.

It is a matter of concern, though, that many graduating LDCs are still having to deal with the adverse impacts of Covid and the Russia-Ukraine war on their economies. Their domestic resource mobilisation continues to remain weak, and the level of inflation remains very high. It also needs to be kept in mind that many of the ISMs in favour of the LDCs, including the WTO-Hong Kong Ministerial Decision regarding DF-QF market access for goods and the WTO-Bali Ministerial Decision concerning the offer of preferential market access for LDCs in the services markets of developed countries, have not been implemented and operationalised. The promised significantly higher aid for trade and aid for trade facilitation have yet to be delivered. The emerging global and regional geo-economics and geopolitics are not conducive to the smooth graduation of the LDCs—making the smooth and sustainable graduation of currently graduating LDCs doubly challenging.

Renewed efforts will need to be undertaken, in partnership with other LDCs in the WTO, for the adoption of a new set of ISMs for the graduating LDCs in view of the next WTO Ministerial Conference (MC14), to be held in Cameroon from March 26-29, 2026. Pressure should also be put on the development partners to take concrete steps to implement the decadal Doha Programme of Actions for the LDCs (2022-2031) adopted in Doha in March 2022 at the LDC V Conference. It also needs to be emphasised that the WTO should align its decision with the spirit of the SDGs (particularly SDG 17), which calls upon multilateral agencies and various global platforms, such as the WTO, to take concrete steps in support of the LDCs. However, the emphasis ought to be on undertaking our own homework.

CONCLUSION

The upshot of the above discussion is that Bangladesh's actions and priorities must focus on domestic preparatory measures and the implementation of the smooth and sustainable graduation strategy. Reforms and structural changes must be put in place, the capacity to access regional and global markets from a position of strength must be enhanced, and compliance with the newly emerging global trading regime must be ensured. Bangladesh's efforts must be geared toward the new and next lap of its journey as a non-LDC developing country.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Why are we missing out on global FDI opportunities?

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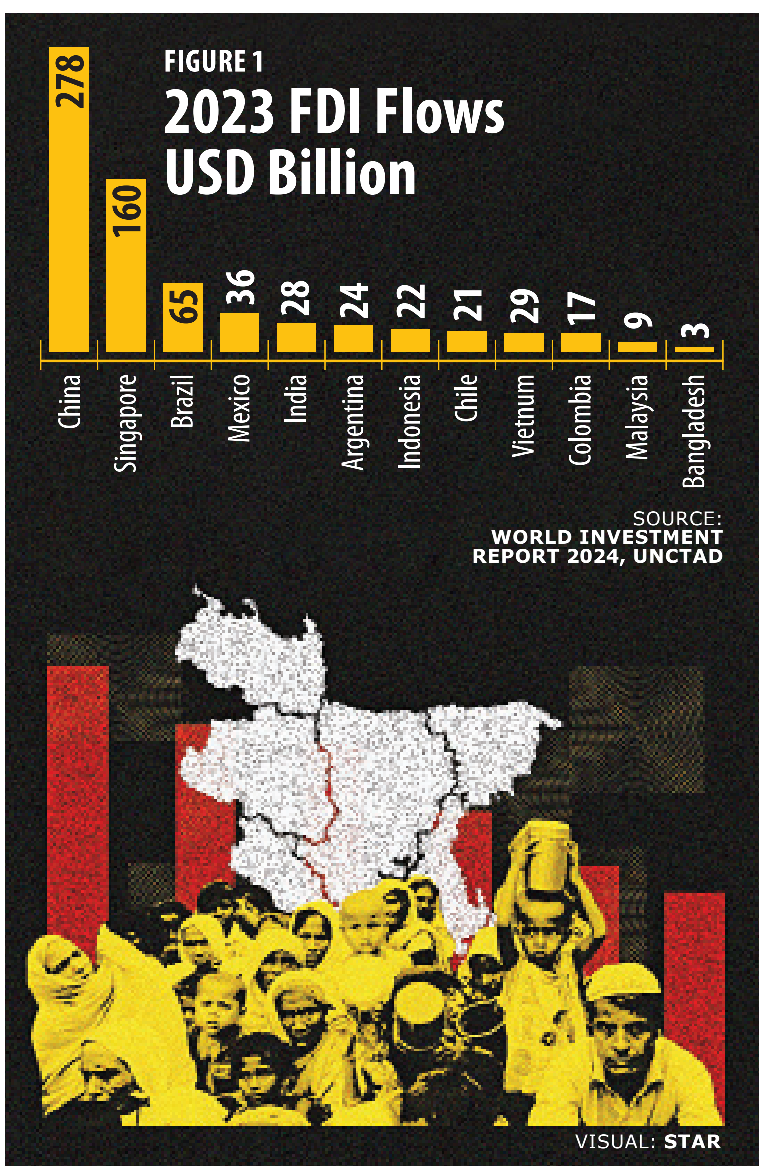
SADIQ AHMED

VISUAL: SALMAN SAKIB SHAHRYAR

Empirical evidence globally suggests that foreign direct investment (FDI), when used strategically and combined with supportive policies, can facilitate economic growth. Recent examples of countries that have prospered from a strong FDI role include Korea, China, Malaysia, Singapore, Indonesia, and Vietnam. The role of FDI has been more muted in South Asia. More recently, India has been gaining global FDI attention. FDI provides multiple benefits, including capital formation, technology transfer, opportunities for skill upgrading, and better access to global markets. The quality of FDI is as important as its quantity. Thus, FDI that is export-oriented is much more effective for boosting development compared to enclave-type FDI in mining.

Over the longer term, the global supply of FDI has prospered, rising from $204 billion in 1990 to a peak of $2,049 billion in 2015, before decelerating to $1,331 billion in 2023. The pace of increase in FDI flows for developing countries has been even more remarkable, accelerating from a mere $33 billion in 1990 to $889 billion in 2021. There has been a slight decline since then to $867 billion in 2023.

Much of the FDI flows to developing countries have concentrated on countries like China, Singapore, Brazil, Mexico, India, Indonesia, and Vietnam. Bangladesh has made repeated efforts to court higher FDI, yet the track record is poor. It reached a peak of $3.6 billion in 2018 and has basically fluctuated between $2-3 billion per year. The latest FDI position of Bangladesh, compared with the developing world's more dynamic economies, is illustrated in Figure 1.



VISUAL: STAR

Clearly, despite a downturn in global FDI flows, the supply of FDI to developing countries has been relatively robust, exhibiting a rising share of developing countries in total global FDI flows. So, the supply of FDI is not a constraint. It is the inability of Bangladesh to capture a reasonable share of the available FDI. Thus, compared with $867 billion of FDI to developing countries, Bangladesh secured a mere $3 billion in 2023. This is almost a drop in the large FDI bucket.

The dismal FDI performance is surprising. With open access to the sea, an abundantly endowed low-cost labour force, and a proven entrepreneurial class, Bangladesh has huge growth potential. The growth value of these features is demonstrated by the major successes in the exports of ready-made garments (RMG) and foreign remittance earnings. Yet the benefits of these advantages seem to have localised in the areas of exports of RMG and low-skilled labour only. They have been stunted in the matter of export diversification and the attraction of FDI.

Efforts to mobilise FDI must carefully examine the factors that hinder inflows. Global research provides several clues about what the constraining factors are. The main finding is that the investment climate of Bangladesh is not hospitable. Global rankings of investment climates conducted by the World Bank and the World Economic Forum place Bangladesh in the bottom 25 percent of countries ranked, much below the rankings for Singapore, China, Indonesia, Malaysia, India, and Vietnam.

The major constraints that hamper FDI include high transaction costs related to securing investment permits, obtaining land, getting electricity, paying taxes, cross-border trading, restrictive foreign exchange policies, enforcing contracts, securing skills, and weak infrastructure. More recently, a sharp deterioration in law and order and political uncertainties have become binding constraints.

The investment climate-strengthening agenda is large and will require sustained reforms over the medium to long term. There are no quick fixes, but a start can be made by setting priorities. The best approach would be to learn and adapt from the good practice example of Vietnam. Research shows that several factors contributed to growing FDI inflows in Vietnam.

First and foremost, Vietnam adopted an export-led growth strategy since the early days of adopting the "Doi Moi" (Renovation) reform programme in 1986. Since then, Vietnam has shown unwavering commitment to implementing this export-led growth strategy. Commensurate with this, Vietnam integrated the attraction of FDI, participation in Global Value Chains (GVC), and free trade agreements (FTAs) as core elements. Thus, FDI became an integral part of its growth strategy and not an afterthought.

Secondly, policies, investments, and institutions were adapted appropriately to pursue this strategy progressively.

Finally, Vietnam focused strong attention on political stability, law and order, and policy consistency. It gets high marks on all three aspects, which has greatly facilitated FDI inflows.

On the policy front, core policy reforms included:

1) Trade liberalisation: Vietnam recognised that the successful pursuit of an export-led growth strategy can only co-exist with a trade policy that lowered trade restrictions and avoided trade policy-related anti-export bias. Accordingly, most export restrictions were removed, and import duties were cut. Consequently, Vietnam has one of the most liberal trade policy regimes in the developing world.

2) Liberal foreign investment policy: Vietnam adopted a very liberal foreign investment policy, welcoming foreign investment in all sectors of the economy (agriculture, manufacturing, construction, and services). It took comprehensive regulatory reforms to improve all aspects of the investment climate for foreign investment, including business clearances, land acquisition, utility connections, foreign exchange transactions, and paying taxes.

3) Sound macroeconomic management: Vietnam took strong measures at early stages to stabilise the macroeconomy and took steps to preserve macroeconomic stability throughout the development process.

4) Proper exchange rate management: Vietnam recognised the importance of proper export incentives by maintaining a flexible exchange rate and avoiding sharp appreciation in real terms.

5) Improving trade logistics: Vietnam invested strongly in infrastructure (especially seaport container terminals) and reformed trade facilitation institutions. As a result, there was substantial improvement in all areas of trade logistics, including customs clearances, port facilities, power supply, and inland transport.

6) Importance of participating in Global Value Chains: Vietnam rapidly integrated into the global production process by participating in global value chains (GVC). This strategy, by itself, unleashed huge FDI inflows. Vietnam's entry into GVC was strategic and targeted the hugely prospective electronics market, which reached an estimated global export value of $2.5 trillion in 2023. Vietnam is now a leading manufacturer and exporter of electronics, and in 2023 it was ranked as the 10th largest exporter of electronics, with an estimated value of $142 billion.

7) Strengthening innovation and technology adoption: Vietnam's strategic decision to enter the global electronics market was supported with a policy drive to strengthen innovation and technology. While much of the production and exports in high-tech industries are based on FDI, domestic capabilities are being built up. Investment in R&D is picking up steam to support innovation and technology development, the skill base is improving through large investments in education and training, and a strong focus on ICT is enhancing knowledge acquisition, knowledge transfer, skill development, and labour productivity.

8) Strengthening human capital and skills development: Vietnam scaled up its human development programme through large public investments in health, education, training, and social protection. Vietnam spends a massive 12 percent of GDP on human development, compared to 3-4 percent of GDP by Bangladesh. Progress on the human capital front has made it possible for Vietnam to rapidly train and deploy its labour force to work with multinational companies to acquire technology and high-end skills.

PHOTO: COLLECTED

Implications for Bangladesh FDI strategy and policies: The lessons for Bangladesh are clear. Bangladesh will be best served by adopting an export-led growth strategy, with the integration of FDI, GVC, and FTAs as core elements of this strategy. To support the outward orientation of the production structure, Bangladesh must sharply cut back on trade protection. It must welcome FDI in all sectors, while focusing especially on export-oriented FDI. A major deregulation drive should simplify business registration, land acquisition, foreign exchange transactions, utility connections, and tax payments for all FDI.

Bangladesh must take all steps to stabilise the macroeconomy, focusing on fiscal reforms that collect more revenues from the taxation of income and profits from state-owned enterprises and sharply cut back reliance on trade taxes. Trade logistics costs must be lowered in line with good practice countries through customs and port clearance deregulation, document digitisation, and investments in multimodal transport infrastructure. Investments in R&D and ICT should be used to upgrade innovation and technology adaptation capabilities.

A strong focus on education and training is necessary to take full advantage of the abundant labour force that presently suffers from low education and low employable skills. Public spending on education and training must be increased to at least 4 percent of GDP over the next 5 years. Partnership with the private sector in imparting training programmes, including on-the-job training, will need to be a core component of the training programme.

Restoration of law and order and political stability are sine qua non for any sustainable FDI drive. Without a strong push in these areas, it will be very difficult to attract higher FDI into Bangladesh.

» The supply of FDI is not a constraint. It is the inability of Bangladesh to capture a reasonable share of the available FDI. Thus, compared with $867 billion of FDI to developing countries, Bangladesh secured a mere $3 billion in 2023.

» The dismal FDI performance is surprising. With open access to sea, an abundantly endowed low-cost labour force and a proven entrepreneurial class, Bangladesh has huge growth potential.

» Efforts to mobilise FDI must look carefully at factors that hinder the inflows. Global research provides several clues about what the constraining factors are. The main finding is that the investment climate of Bangladesh is not hospitable.

» Bangladesh will be best served by adopting an export-led growth strategy and integration of FDI, GVC, and FTAs are core elements of this strategy. To support the outward orientation of the production structure, Bangladesh must sharply cut back on trade protection.

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Economic inequality and why it must be addressed

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SELIM JAHAN

Today, Bangladesh aspires to build a society without inequalities—particularly economic inequalities. From the days of Pakistan to the present day, the people of Bangladesh have been fighting against economic inequalities. Even after the independence of Bangladesh, questions of social justice, equality, and equity have emerged again and again. People's desire for a disparity-free society continues. Therefore, addressing economic inequality is a prime ethical and developmental issue for Bangladesh.

Theoretically speaking, violations of fundamental human rights, destruction of social justice, and unjust economic biases remain at the centre of economic inequalities and discrimination. While assessing inequalities, the focus is often on outcomes—e.g., income or wealth inequalities. However, in today's world, inequalities of opportunity—e.g., access to education and health services, information and communication technologies (ICTs), or employment opportunities—have become critical factors in economic inequalities. In most cases, inequalities in opportunities determine the inequalities in outcomes. For example, inequalities in education lead to inequalities in employment opportunities, resulting in income inequalities.

In the economic field, the existence of inequalities in income and wealth is well-known. A look at either defaulted bank loans or cross-border money laundering, amounting to thousands of crores or taka, clearly indicates that money and wealth in Bangladesh are concentrated in a few hands. An analysis of overall data shows that while the bottom 40 percent of the population in Bangladesh receives 13 percent of the country's GDP, the top 10 percent of the population enjoys 38 percent of it. Economic inequalities result in unequal human development outcomes as well. For example, in Bangladesh, the under-five mortality rate among the bottom quintile of the population is 49 per 1,000 live births, while the under-five mortality rate among the top quintile is 25 per 1,000 live births. Similarly, 85 percent of the births among the top 20 percent of the population are attended by trained birth personnel, while the comparable figure for the bottom 20 percent is 32 percent.

Disparities in the educational and health sectors are quite widespread. In education, with the coexistence of public and private education, schools for the wealthy versus poor children, and English versus Bengali medium schools, large-scale inequalities have been created. These have been reflected in educational achievements and later, in job opportunities and employment. Similarly, by maintaining a three-tier health system in Bangladesh, a huge discriminatory wall has been erected in society. Consequently, the public health facilities are inadequate and substandard. Naturally, it is the general public, which avails of the public health system, that does not receive even the minimum acceptable services. On the other hand, the rich take advantage of private hospitals and clinics, and the wealthier people go overseas for medical treatment. In ICT services, while three-fourths of the top quintile households have access to internet services, the comparable figure for the bottom quintile is only 9 percent.

VISUAL: ANWER SOHEL

- In most cases, inequalities in opportunities determine the inequalities of outcomes.
- Economic inequalities are linked to power relations in a society.
- There are moral and ethical reasons as well as economic, political, and social reasons for addressing economic inequalities. Economic inequalities can also be a political time bomb.
- The policy package to address economic inequalities must embrace macro, meso, and micro policies. No policy in favour of inequalities would be effective, if they bypass the issue of gender disparities.
- Improved access of poor and marginalised people to quality ICT services can be key in reducing economic inequalities.

Fifty percent of urban people use the internet, while only 35 percent of the rural population uses it. In rural areas, only 3 percent of households have computers, and 78 percent of the rural population does not know how to use a computer. All these contribute to economic inequalities.

In Bangladesh, economic inequalities are reflected in gender disparities regarding outcomes as well as opportunities. For example, the labour force participation rate among women is 36 percent, compared to 81 percent among men. The representation of women in senior and middle management in the country is only 12 percent. The gender disparity in the use of mobile phones is 29 percent. About 33 percent and 17 percent of men and women, respectively, use the internet. The economic disempowerment of women stems from these aspects.

Economic inequalities are linked to power relations in society. In fact, economic inequalities and power relations reinforce each other. The disparities in economic endowment give rise to unequal economic, political, and social power

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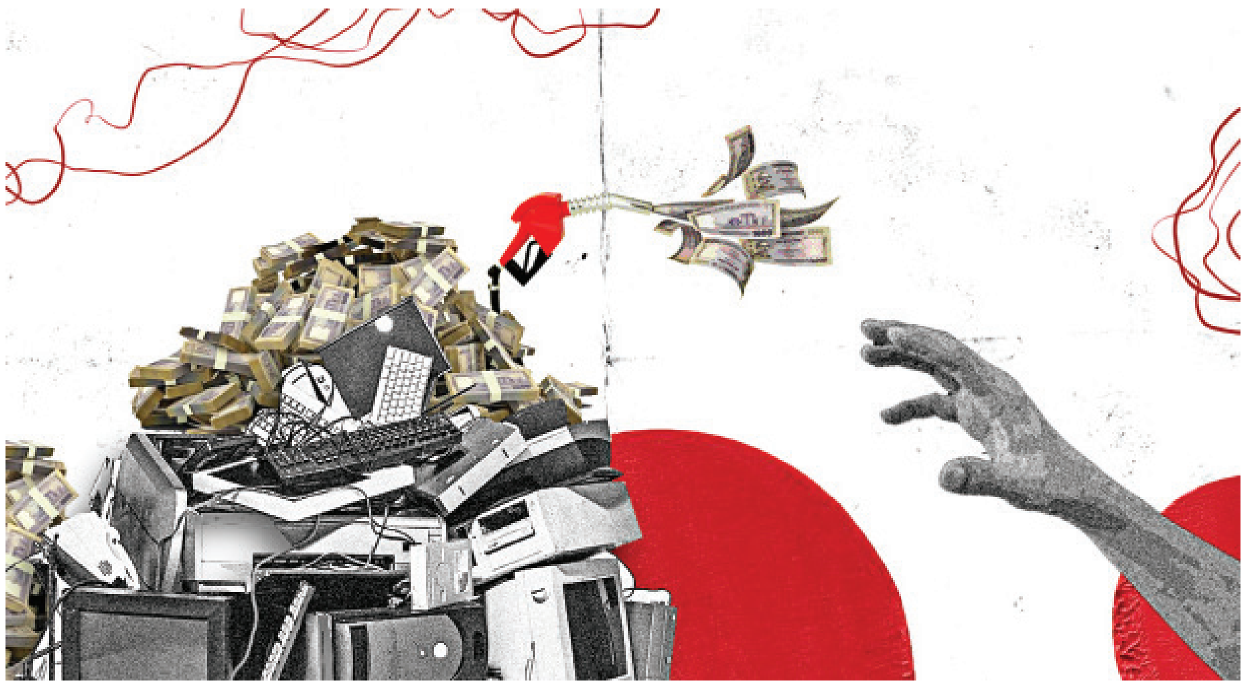
Economic inequality and why it must be addressed



VISUAL: **SALMAN SAKIB SHAHRYAR**

Inequalities in social services like health and education need to be tackled not only by enhancing the quantitative access of poor people to social services but also by ensuring the quality of services they receive.

FROM PAGE 8

between the rich and marginalised groups.

The unequal power relations help the rich and powerful consolidate their wealth. In the process, the entire dynamic becomes institutionalised, and the state facilitates that process, becoming a vested party to it. As a result, the poor become more marginalised and discriminated against in political spaces, social dynamics, decision-making, and even in the eyes of the law. As a result, human dignity and social justice for them become mere rhetoric.

Why is it important to address economic inequalities? There are moral and ethical reasons on one hand, and economic, social, and political reasons on the other. Discrimination among human beings and resultant inequalities on several planes are simply immoral and unethical. They are contrary to human rights and human dignity. Economic inequalities result in sub-optimal distribution of resources and depress economic growth. They also contribute to lower human development. Socially, economic inequalities destroy social cohesion and create social tensions between the advantaged and the disadvantaged. Economic inequalities can also be a political time bomb, which, if it explodes, can destroy a society and a country.

Now the million-dollar question is: what can be done to address economic inequalities? There needs to be strategies and measures on the economic front, in social arenas, in political spaces, and also in the cultural spectrum. Economically, the policy package must embrace macro policies, meso-policies, and micro policies. In terms of macro policies, the growth strategy must be pro-poor and inclusive. Job creation must concentrate in areas where poor people live. Furthermore, it is not growth-led employment, but employment-led growth that needs to be pursued. Redistributive tax policies and pro-poor biases in both direct and indirect taxes can reduce the gap between the rich and the poor. Favouring the poor and marginalised groups in trade policies, monetary, and fiscal policies can reduce economic inequalities. Social protection can help those disadvantawged groups who are not part of the growth and market mechanisms and need help.

At the meso level, institutions must be reformed and built to implement the pro-poor and inclusive macro policies. Institutions can perpetuate inequalities, and thus institutional reforms are as important as policy reforms. In this context, the importance of correct data and reliable statistics can hardly be overemphasised. Disaggregation of data on different planes is key to understanding the dynamics of economic inequalities and addressing them. At the micro level, support for farmers, small and medium-sized enterprises, informal sector producers, and particularly women entrepreneurs, is of significant importance. No policy in favour of equality would be effective if it bypasses the issues of gender disparities in economic opportunities and the discrimination women face in their productive and reproductive roles.

In the political arena, people must have the voice and autonomy to express which economic inequalities they want to tackle. In fact, participation in the decision-making process to influence economic policy-making and implementation can help not only the political empowerment of the common people but also address the economic inequalities they face. Such a process has economic inequality-dampening externalities. Inequalities in social services like health and education need to be tackled not only by enhancing the quantitative access of poor people to social services but also by ensuring the quality of services they receive. Levelling the playing field of social service opportunities would reduce social disparities, resulting in a reduction of economic inequalities. In recent times, access to ICTs has become a critical determining factor for inequality creation. Again, improved access for poor and marginalised people to quality ICT services can be key in reducing economic inequalities.

Inequalities, particularly economic inequalities, have become the defining issue of our time. An equitable society is the aspiration of the people of Bangladesh. Building an equitable and non-discriminatory society in Bangladesh is a difficult task, but definitely not an impossible one.

Economic inequalities destroy social cohesion and create social tensions between the advantaged and the disadvantaged.

PHOTO: **ANISUR RAHMAN**

Why women must be empowered

Nawshin Khair
is managing director at Aranya.

NAWSHIN KHAIR

Bangladesh, with its population of 170 million, holds immense potential for women to drive innovation, productivity, and economic growth. As almost 50 percent of the population comprises women, their active participation in various sectors can significantly shape the nation's future trajectory. Recent data from the Bangladesh Bureau of Statistics reveals a notable rise in female-led households, reflecting the increasing leadership role women are taking in society. This shift highlights their potential as key contributors to sustainable economic development.

Women in Bangladesh are making significant strides in leadership across a wide range of sectors, including government, non-governmental organisations, and industries. Their influence is expanding beyond traditional roles, with an increasing presence in the economic and business spheres. This progress is particularly evident in the growing number of women entrepreneurs and leaders in key sectors such as the ready-made garment (RMG) industry, agriculture, fisheries, handicrafts, fashion, and the digital economy. From e-commerce platforms to corporate boardrooms, women are not only contributing to but also reshaping the nation's economic landscape. Their active participation highlights the vital role they play in fostering sustainable and inclusive development, positioning women as key drivers of Bangladesh's future growth.

As almost 50 percent of the population comprises women, their active participation in various sectors can significantly shape the nation's future trajectory.

PHOTO: ANISUR RAHMAN

As a woman entrepreneur, I have had the privilege of working alongside many remarkable women who are boldly venturing into diverse SMEs, including handicrafts, e-commerce, food processing, beauty, and tech startups. Together, we have participated in numerous training initiatives organised by business support groups and international NGOs. These programmes have provided invaluable opportunities, ranging from export readiness training and sponsoring international trade participation to practical workshops on how to successfully manage small businesses. Through these initiatives, I have seen firsthand how they bring key stakeholders together, fostering a collaborative approach that drives the growth of women-owned businesses in Bangladesh. The focus on capacity building and the efforts to create inclusive networks have been truly commendable, laying the foundation for the growth of women-led enterprises. However, despite these promising developments, a significant challenge remains—the prevalence of informal businesses in the SME sector. Most local businesses, especially those run by women, operate within the informal economy.

ILLUSTRATION: ANWAR SOHEL

- Women in Bangladesh are increasingly driving innovation and economic growth, particularly through leadership roles in sectors like agriculture, RMG, and the digital economy.
- Despite progress, challenges such as the prevalence of informal businesses and unregulated markets continue to hinder the success of women-led enterprises.
- A transparent, data-driven system is essential to overcoming barriers like fluctuating material costs and supply chain disruptions that affect women entrepreneurs.
- The rise of unregulated e-commerce platforms poses significant challenges for legally compliant women-led businesses, necessitating regulatory reform.
- To unlock Bangladesh's economic potential, targeted support for women entrepreneurs through policy changes and infrastructure improvements is crucial for sustainable growth.

Without formal structures, many women-led businesses in Bangladesh face significant challenges in participating in larger supply chains, both domestically and internationally. Fluctuating costs of material resources, inconsistent supply chains, and unregulated markets are some of the key hurdles. The unpredictable prices of raw materials and irregular availability disrupt production schedules and inflate costs, making it difficult to remain competitive. Additionally, unregulated markets lack transparency, exposing women entrepreneurs to exploitative practices such as overpricing and poor-quality supplies. These challenges limit our ability to secure long-term contracts, fulfil large orders, or scale operations effectively.

A data-driven, transparent, and accountable system is crucial to overcoming these obstacles and establishing structured, women-owned businesses. Reliable data on market trends, raw material pricing, and supply chain dynamics can empower women entrepreneurs to make informed decisions, plan better, and mitigate risks. Transparency in supply chains and marketplaces ensures fair pricing, eliminates exploitative practices, and builds trust between stakeholders. Moreover, an accountable system that monitors and regulates market practices fosters a level playing field, enabling women entrepreneurs to operate competitively and confidently. To truly support women-led businesses, targeted solutions such as collective procurement, building strong supplier relationships, advocating for market regulation, leveraging digital platforms, and introducing supportive government policies must incorporate these principles. By addressing these systemic issues with data-driven and transparent frameworks, women-led businesses can thrive, driving greater economic inclusion and sustainable growth in Bangladesh.

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Why women must be empowered

FROM PAGE 10

Another alarming trend in Bangladesh is the unchecked growth of unregulated e-commerce and social commerce platforms, where many businesses, including women-led enterprises, operate beyond the reach of government oversight. These businesses often evade tax and VAT obligations, creating an uneven playing field that undermines the sustainability of legally compliant enterprises. This lack of regulation not only facilitates the sale of smuggled goods and unethical procurement practices but also exposes significant gaps in the policy and governance of the e-commerce sector. Additionally, legitimate entrepreneurs face considerable challenges due to the disparity in access to competitively priced imported goods, as they are overburdened by an outdated tariff structure that continues to treat imports as if Bangladesh were a nascent economy.

Despite the country's emergence as an economic powerhouse, excessive duties on essential materials and resources remain a barrier to growth, stifling the ability of businesses to scale in a competitive local or global market. Furthermore, establishing traditional brick-and-mortar stores has become increasingly difficult due to unregulated and exorbitant rent tariffs, forcing many entrepreneurs, particularly women, to opt for selling through e-commerce and social media. Addressing these critical issues requires a holistic approach that includes modernising tax policies, strengthening regulatory frameworks for online businesses, and introducing fair rent controls to foster a more equitable and sustainable business environment.

VISUAL: SHAIKH SULTANA JAHAN BADHON

VISUAL: COLLECTED

Women in Bangladesh also face significant cultural and societal barriers that restrict their mobility and independence, deeply rooted in longstanding norms shaped by inadequate security and protection measures. These challenges are particularly pronounced for women in rural areas, where access to reliable and safe transportation is severely limited. In urban centres, overcrowded streets dominated by men have become increasingly hostile environments for women, forcing them to navigate daily challenges ranging from harassment to a lack of gender-sensitive infrastructure. Whether traveling for work, attending meetings, or managing business activities, women are often confronted with safety concerns, societal judgments, and logistical hurdles. The lack of robust law enforcement and government support to mitigate these issues also does not help, perpetuating a cycle of restriction and vulnerability. Addressing these barriers requires systemic reforms, including better public transportation tailored to women's needs, stricter enforcement of laws to ensure safety, and broader cultural shifts to create an environment where women can move freely and participate fully in economic and social life.

At present, we are also facing immense economic challenges due to global conflicts, political instability, and rising inflation, which have significantly impacted consumer purchasing power. In such times, stimulating the economy becomes more critical than ever. The Bangladesh government must take proactive measures to address these pressing issues and implement well-thought-out policies to support local women-owned businesses while empowering consumers. Strategic programmes, stimulus packages, and incentives can be designed to encourage consumers to buy from local businesses. These can include tax breaks, subsidies, or cashback initiatives for purchasing locally produced goods and services. Additionally, promoting awareness of the benefits of supporting local industries—such as job creation, economic resilience, and sustainability—can help foster a culture of local consumption. By bridging the gap between struggling businesses and cautious consumers, these policies can help revitalise the economy, increase buying power, and ensure that local enterprises, especially women-led businesses, continue to thrive despite the challenges. This dual approach benefits both the entrepreneurial ecosystem and the general public, creating a more robust and inclusive economic framework for Bangladesh.

Bangladesh today stands at a crucial juncture, with half of its population under the age of 25, presenting a tremendous opportunity for growth. To capitalise on this youthful demographic, our country must focus on addressing skill gaps by incorporating entrepreneurial education throughout the schooling system, from primary schools to universities. Establishing business and social business clubs and research centres will provide students with hands-on experience, preparing them to meet the evolving demands of the economy. In addition, the government should introduce well-structured grant programmes to support business students and startups, enabling them to develop their ideas and build valuable partnerships. Tailored vocational training programmes aligned with industry-specific needs, along with the creation of research centres at universities focusing on key sectors like e-commerce, green businesses, and the creative industries, will equip the workforce with the skills necessary to drive innovation and growth.

I believe Bangladesh now needs to deliver on its promise of empowerment and inclusivity by creating an environment where women can thrive. This means fostering robust support systems, ensuring access to resources, modernising policies, and addressing the inequalities that hold them back. In the vision of Bangladesh 2.0, young women entrepreneurs are not just participants in economic growth but leaders and changemakers, driving the nation towards sustainable development and global recognition. The future of Bangladesh depends on empowering these women to dream bigger, break barriers, and build a legacy for generations to come.

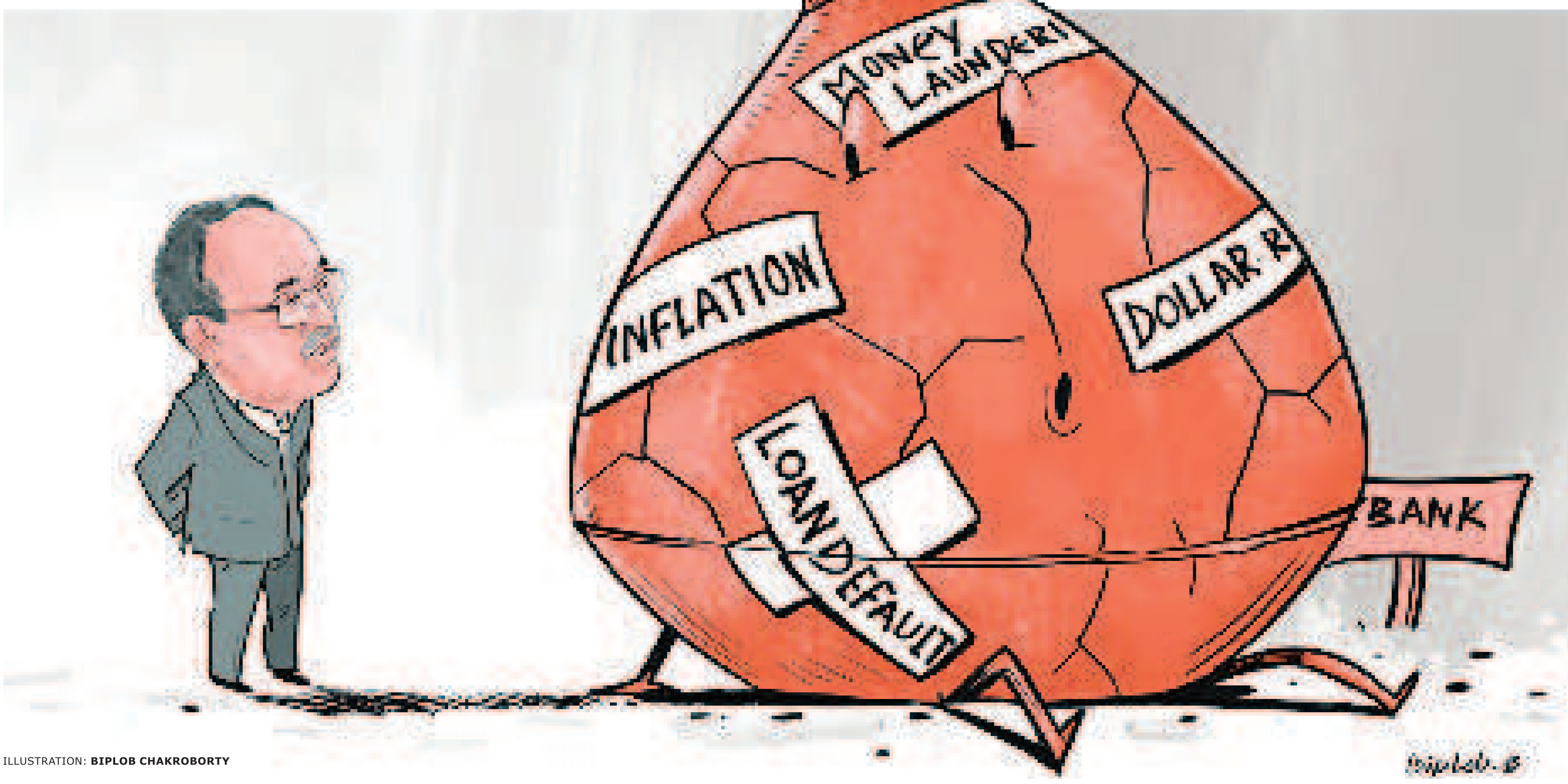

ILLUSTRATION: **BIPLOB CHAKROBORTY**

The root of the FINANCIAL CORRUPTION

Dr Birupaksha Paul *is professor of economics at the State University of New York at Cortland in the US. His recent book is 'Sangkatkaler Orthoniti.'*

BIRUPAKSHA PAUL

One of Benjamin Franklin's quotes states, "Creditors have better memories than debtors." But the inverse is true in Bangladesh, where the creditors often intentionally suffer from amnesia. Their inefficiency and malpractice have made the culture of defaulting by debtors a state-of-the-art bonanza in the country. The miseries of Bangladesh's financial sector are attributable to the rent-seeking behaviour of politicians who use the sector for personal pecuniary gains.

Bangladesh's banking sector and capital market have been ruthlessly plundered by the same group of oligarchs who have grown like parasites with the regime. Rarely will anyone find a country where the share of distressed loans amounts to 30-40 percent of total outstanding loans. That is the biggest vulnerability of Bangladesh's financial sector, warranting urgent reforms.

Forty-three private commercial banks, six state-owned commercial banks, three specialised banks, nine foreign banks, and one digital bank make up the total of 62 banks in Bangladesh. The regimes have always let banks mushroom not to promote competition but to fuel the growth of a handful of oligarchs who can sponsor the party in power. The banks in Bangladesh have grown in an unhealthy way, populating the financial landscape just like village-based grocery shops. This has developed cracks in the financial system, where institutions are fragile, inept, and susceptible to disasters.

According to World Bank data for GDP in 2023 at constant 2015 prices, Bangladesh's GDP was $323.28 billion, Pakistan's $400.17 billion, and India's $3,199.06 billion. Hence, Pakistan's GDP was 1.24 times larger than Bangladesh's, while the number of banks in Pakistan amounted to 41 compared to 62 in Bangladesh. India's economy was 9.9 times larger than Bangladesh's, yet India had only 33 banks. This indicates that the number of banks in Bangladesh is simply too high. India and Pakistan have increased the number of branches of existing big banks, which should have been the strategy for bringing banking services to the common

The amount of defaulted loans is estimated to be no less than Tk 4 trillion if the governor's assessment is considered. PHOTO: COLLECTED

people.

The licenses for new banks were not distributed to promote competition but to create monopolies. For example, only one Chattogram-based family controls as many as seven banks—something unprecedented in comparable countries. The oligarchs have kept opening banks one after another to continue plundering assets—a practice deeply endorsed by the politicians in power, particularly during the 15 years of the Awami League regime. Sometimes, tycoons used cash from one bank to buy another, then emptied another for money laundering.

Bangladesh Bank Governor Dr Ahsan Mansur stated that almost $17 billion was laundered overseas during the last 15 years, with a Chattogram-based family alone looting $10 billion. At least 10 banks are now suffering from a liquidity crisis, and Bangladesh Bank has printed Tk 225 billion to provide them liquidity support. The failure of liquidity management is another vulnerability that can cause bank runs—a progressive collapse of banks when customers withdraw deposits after losing confidence.

The default loans are akin to a broken roof for Bangladesh because of four reasons: 1) the actual amount of distressed loans is much higher than recorded; 2) the beneficiaries of these defaulted loans are mostly the bank owners; 3) the unconscionable tardiness of the judiciary acts as a haven for defaulters; and 4) the parliament, being a club of business tycoons, indulges the default culture that benefits corrupt politicians. This default culture is the killer of the financial industry and is more pronounced in Bangladesh than in comparable countries.

The big defaulters were allowed to restructure their loans in 2015—a provision that disproportionately favoured major delinquents. The finance minister during the 2019-2023 period loosened the definition of default loans, allowing them to be renamed "regular loans" by adjusting as little as 5 percent of the total defaulted amount. The default culture worsened when the government appointed two former bureaucrats as governors in 2016 and 2022. This marked a sharp deterioration in the institutional quality of the central bank, which requires scholarly leadership to control inflation and promote employment.

The big defaulters were allowed to restructure their loans in 2015—a provision that disproportionately favoured major delinquents.

PHOTO: COLLECTED

The total amount of outstanding loans rose to Tk 16.43 trillion in August 2024. Bangladesh Bank data shows that the share of default loans reached 16.93 percent in September 2024. However, it could be as high as 25-30 percent, as the Bangladesh Bank governor asserted. The situation worsened under the leadership of the two bureaucrat-turned governors. If the financial sector's leadership is inept and unfit, the economy cannot expect any meaningful development for any of the stakeholders.

The amount of defaulted loans is estimated to be no less than Tk 4 trillion if the governor's assessment is considered. The IMF's assessment aligns with this figure, while the White Paper Committee estimates it at around Tk 6.75 trillion. Regardless of the exact figure, the entire banking sector appears doomed. The financial industry has been looted by a handful of financial hooligans, who have laundered a substantial portion of the money overseas.

The country has entered an inescapable trap, termed the "Devil's Triangle," formed by loan defaulters, tax dodgers, and fund traffickers. When a tycoon shows a loss in the income statement of his business, it enables him to avoid repaying bank loans and dodge taxes. Since he has money stashed away, he feels safe laundering it overseas. Thus, the same group of people occupies the three corners of the Devil's Triangle, with corrupt politicians at its centre.

The financial sector's primary objective is to finance consumption and investment for households and the government. While long-term capital should be raised from the capital market by issuing stocks, businessmen resort to using the banking sector, which is meant for short-term working capital. Banks must return savers' deposits on demand, making banking capital suitable for short-term support. However, businessmen often take long-term loans from banks, motivated by incentives to default and siphon funds abroad—something that cannot be done through the capital market due to accountability to shareholders.

This perversion has rendered both the capital market and banking sector largely dysfunctional. Two major stock market disasters occurred in 1996 and 2010. The culprits were rewarded with ministerial powers instead of punishment, creating moral hazards in the capital market. Over the 2018-2022 period, Bangladesh's market capitalisation averaged only 20 percent, compared to 97 percent for India. The Dhaka Stock Exchange index rose to 7,266 in August 2021 but gradually fell to around 5,000 by the end of 2024, indicating a loss of stakeholder confidence.

The discussion on reforms may be even simpler if we just consider correcting the misdeeds and malpractices that took place in both the capital market and the banking sector. The main tasks of reform should include the following actions:

1) Identifying troubled banks and reducing their number through consolidation or mergers.

2) Redefining default loans according to global standards.

3) Discouraging large loans to big industries and encouraging them to access the capital market.

4) Authorising the central bank and securities exchange commission to exercise magisterial powers for quicker resolution of default-loan cases and stock market irregularities.

5) Restructuring bank boards by engaging professionals and experts.

6) Limiting the number of directors from each family and reducing their tenures.

7) Making the banking sector a supportive vehicle for small and medium enterprises to generate wider employment.

8) Introducing laws holding financial institutions accountable for ensuring macroeconomic stability.

Bangladesh's financial sector must be brought back to stability and dynamism by combating corruption and irregularities that primarily originate from wealth-greedy politicians in power. The problems with the financial industry in Bangladesh are mainly institutional and political, not strictly economic.

- The banks in Bangladesh have grown in an unhealthy way, populating the financial landscape just like village-based grocery shops.
- The financial industry has been looted by a handful of financial hooligans, who have laundered a substantial portion of the money overseas.
- Bangladesh's financial sector must be brought back to stability and dynamism by combating corruption and irregularities that primarily originate from wealth-greedy politicians in power.
- The problems with the financial industry in Bangladesh are mainly institutional and political, not strictly economic.

VISUAL: **STAR**

Can we overcome our economic woes?

Arun Devnath
is deputy editor at The Daily Star.

ARUN DEVNATH

If you've been to a grocery store in Bangladesh lately, you've probably felt the sting of rising prices. For months, Bangladeshis have watched their purchasing power shrink as prices soared. Household spending ballooned, wages stagnated and economic frustration ran deep. But January brought a glimmer of relief—inflation has eased for the second straight month, offering a brief breather for struggling households.

The country's benchmark for measuring inflation, the Consumer Price Index, dipped to 9.94 percent in January from 10.89 percent in December. The biggest shift? Food inflation dropped to 10.72 percent from 12.92 percent, thanks to an influx of winter vegetables that helped stabilise prices. For families grappling with rising costs, this seasonal price dip has offered some reprieve.

Yet, while these numbers bring some good news, they don't change the bigger picture. For nearly two years, inflation has battered household budgets, forcing families to cut back on essentials. Wages haven't kept up, businesses are still struggling and the country's deeper economic flaws remain unresolved. The interim government, which came to power after the 2024 uprising, promised relief. But instead of taming the beast, they've been tossing out poorly thought-out policies that haven't made a dent. On top of everything else, the government raised the value-added tax on everyday goods. That backfired. Price monitoring? Mostly just talk.

But let's rewind a little. The mess didn't start with the interim government—it was years in the making. The previous administration, led by Sheikh Hasina, spent years talking up Bangladesh's economic success story, pointing to rising GDP numbers and megaprojects as proof of progress. But beneath the shiny infrastructure and flashy growth rates, cracks were forming. Inflation was creeping up, debt was piling on, and economic inequality was widening.

Hasina's go-to move was to blame external factors—global oil prices, supply chain disruptions and the pandemic. And while those things played a role, the real issue was a failure to prepare for economic shocks. There was little investment in food security, little effort to rein in monopolies controlling essential goods, and almost no real reforms to make Bangladesh's economy more resilient.

A recent report from the task force on economic reforms doesn't hold back. It details how years of policy missteps, unregulated borrowing, and crony capitalism during Hasina's tenure laid the foundation for today's economic crisis. The banking sector? "A bottomless mine of public funds indiscriminately extracted by a kleptocratic government," the task force said. The energy sector? Drowning in subsidies and mismanagement. Food prices? Manipulated by cartels that operated under the government's nose.

The economic chaos we're seeing now isn't just the result of global inflation or some temporary post-pandemic hiccup. A litany of policy failures made the crisis worse. One of the biggest problems was the government's addiction to borrowing. The Hasina administration loved big infrastructure projects—roads and bridges—but much of it was funded through unsustainable borrowing. Bangladesh's debt-to-GDP ratio soared, and when global economic conditions worsened, the country found itself trapped.

Then there was the energy crisis. Under Hasina, the government poured billions into subsidies for quick rental power plants—short-term electricity solutions that were supposed to be temporary but ended up draining public funds. Meanwhile, long-term investments in sustainable energy and local gas exploration were neglected. So, when global fuel prices surged, Bangladesh was left scrambling.

One particularly damning section in the task force report highlights how food inflation, which has been running between 10-14 percent since early 2023, was made worse by structural inefficiencies that were never addressed. The previous government ignored supply chain inefficiencies, allowing middlemen to take a cut at every stage, driving up prices for consumers. Rice, wheat, and oil prices didn't just rise because of global shocks—years of unchecked corruption and poor governance played a major role too.

CONTINUED ON PAGE 15

The government keeps trying to put out the inflation fire, but so far, their efforts seem to be adding more smoke than relief.

PHOTO: AFP

- Bangladesh is grappling with soaring inflation, with consumer prices rising faster than wages, leaving households struggling.
- Years of economic mismanagement, excessive borrowing, and corruption under the previous government laid the foundation for today's crisis.
- The banking and energy sectors suffered from unchecked corruption, bad loans, and unsustainable subsidies, worsening economic instability.
- Despite promises of reform, the interim government's policies have largely failed to control inflation or address structural inefficiencies.
- Without urgent economic reforms, including breaking monopolies and tackling corruption, Bangladesh risks deeper financial and political turmoil.

Can we overcome our economic woes?

> **People are tired of promises, tired of policies that don't work, and tired of seeing their money disappear while a handful of elites get richer.**

VISUAL: SALMAN SAKIB SHAHRYAR

FROM PAGE 14

The banking sector was another ticking time bomb. Instead of making meaningful reforms, the Hasina administration let politically connected businesses rack up billions in bad loans, leading to a fragile financial sector. Bangladesh's economy was teetering on the precipice.

And then came the student-led protests, a moment that revealed just how deep the frustration ran. A White Paper committee laid it all out: mass capital flight, policy failures and a financial system that had been gutted by a decade of reckless decision-making. The new government, headed by Professor Muhammad Yunus, wasted no time setting up teams to dig into the economic wreckage.

But while the interim government inherited a disaster, they haven't exactly been doing a stellar job fixing it. Inflation is still stubbornly high, eating away at household budgets, businesses are struggling to stay afloat, and the same market inefficiencies that plagued the previous administration remain firmly in place. The message is clear—without structural changes, the cycle of economic mismanagement will continue.

When Professor Yunus entered office, foreign exchange reserves were dwindling. His actions, including efforts to improve policymaking and restore confidence, appear to have averted a bigger economic crisis. "But the economy has still taken a hit, due to political unrest and the uncertainty it has sown for businesses and investors," the International Crisis Group said in a report on January 30.

For nearly two years now, inflation has been running wild, often clocking in at over 10 percent.

PHOTO: TITU DAS

The International Monetary Fund expects economic growth to rebound sharply and inflation to halve in the next fiscal year, but "a buoyant economy will require reforms to encourage local and foreign investment, tackle corruption and red tape, and diversify into new sectors."

"Conversely, failure to create enough jobs for Bangladesh's young, increasingly well-educated population risks sowing the seeds of future political unrest," Crisis Group said.

For ordinary people, all of this is more than just numbers on a spreadsheet—it's a daily struggle. Families are cutting back on spending. The purchasing power of the Bangladeshi taka is eroding.

The frustration is mounting, and unless something changes soon, the economic strain could spark more discontent. People are tired of promises, tired of policies that don't work, and tired of seeing their money disappear while a handful of elites get richer. Inflation isn't just an issue that can be ignored anymore—it's a crisis that's hitting every household. The government needs to stop running in circles and start making meaningful reforms before it's too late—and not shoot the messenger just for telling the inconvenient truth.

So, what's the way out? Bangladesh needs to break up monopolies in essential goods markets, enforce real price regulation, and invest in a smarter, more resilient economy. But whether the interim government has the political will—and the time—to pull off these reforms remains to be seen.

Addressing the crisis in employment generation

Rizwanul Islam
is an economist and former special adviser, Employment Sector, International Labour Office. His latest book is 'Unnayan O Bishwayan' (in Bengali, forthcoming, Baatighar, Dhaka).

RIZWANUL ISLAM

In the third quarter of 2024 (July-September), the rate of unemployment in Bangladesh rose to 4.49 percent from 4.07 percent during the same period of 2023 (*The Daily Star,* January 6, 2025). In December 2024, the rates were 4.9 percent for Organisation for Economic Co-operation and Development (OECD) countries, 5.9 percent for the EU countries and 4.1 percent in the US. And policymakers in those countries are quite happy that unemployment rates have remained at such (read: "low") levels despite two years of inflation fighting by raising interest rates. So, why am I using the word crisis in the title of this article?

In view of the definitional/measurement issues regarding unemployment (i.e., whether a person has worked at least one hour in the week prior to the survey), it is necessary to look at other indicators to understand what is going on in the labour market. Also, it is important to put the whole issue in the context of what is happening in the economy as a whole—especially with respect to investment and growth. And if one does that, one gets a sense of crisis looming there.

Even though official data (especially on GDP growth) of the previous regime painted an unduly rosy picture of the economy, one can say that there was an acceleration in growth over the decades and growth has been reasonably high. And yet, employment growth was low and falling. We have been warning for some time that the economy was experiencing jobless growth. And now with the closure of many factories and lay-off of workers, the situation has worsened. With the adoption of contractionary monetary policies, and slowing down of investment amidst the current uncertainties, the prospect of job growth appears to be rather bleak.

Economic growth should enable people to move from agriculture and other traditional sectors to modern sectors, especially to manufacturing and modern services where productivity and earnings can be higher. This is how economic growth benefits people—through better jobs and higher incomes. But recent data show some worrisome trends. Although the process mentioned above had started, there has been a reversal in recent years. Several aspects of this reversal warrant attention.

First, the share of agriculture in employment started rising instead of falling. Second, the share of manufacturing has started to decline. In fact, between 2016 and 2023, the absolute number employed in manufacturing declined from a little over 88 lakh to about 82 lakh (Table 1). The number employed in the ready-made garment industry increased by a paltry 183,000 in seven years. And the number of women in the industry is falling. Quite clearly, the economy has not only failed to continue its structural transformation, there is a tendency towards premature de-industrialisation.

One indicator of the failure of the economy to generate good jobs is the continuation of a huge proportion (almost 85 percent) of the labour force in informal sector and in informal jobs within the formal sector. Most of these jobs are characterised by low productivity, low income and absence of any social protection for those engaged in them.

Likewise, migration for jobs abroad is also an indicator of the failure of the economy to generate jobs in the country.

Unemployment among the youth is a major issue. It is not only much higher than overall unemployment but has been rising since 2010 (Figure 1). The rise is particularly noticeable for young men. The improvement seen in 2022 and 2023 is misleading because that is entirely due to the fall in the case of women which in turn can be explained by a big rise in own-account work. There has not been any real improvement in the overall employment situation of the youth. So, the frustration and discontent among them is easily understandable.

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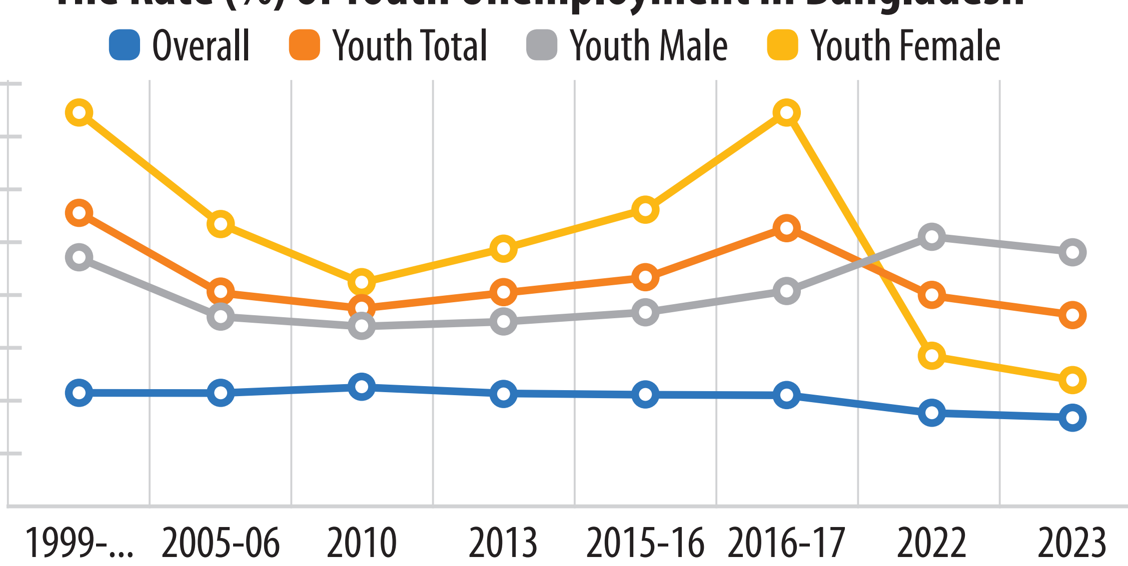
The Rate (%) of Youth Unemployment in Bangladesh



SOURCE: CONSTRUCTED BY THE AUTHOR USING DATA FROM THE LABOUR FORCE SURVEYS CONDUCTED BY THE BANGLADESH BUREAU OF STATISTICS.

- The crisis in employment generation is not something that has hit us today. It has been in the making for years and decades.
- Unemployment among the youth is not only much higher than overall unemployment but has been rising since 2010. So, the frustration and discontent among them is easily understandable.
- In fighting inflation, the aim should be to attain soft landing rather than crash landing—i.e., stability without choking investment, growth, and employment.
- Fiscal, trade, and industrialisation policies need to be applied in an integrated manner to create an attractive environment for all export-oriented labour-intensive industries.
- Addressing the employment crisis requires integrated action on a wide front. What is important is to recognise the seriousness of the problem and the political will to address it accordingly.

One indicator of the failure of the economy to generate good jobs is the continuation of a huge proportion of the labour force in informal sector and in informal jobs within the formal sector.

PHOTO: STAR

Addressing the crisis in employment generation

In the short run, the first thing to do would be to restore investors' confidence by taking decisive steps to improve the law-and-order situation and the industrial relations environment—the latter through effective tripartite consultations.

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Another indicator of the crisis in the labour market is the trend in real wages (Table 2). Although real wages of workers are expected to rise as an economy attains economic growth, this has not happened in Bangladesh on a sustained basis. Real wages did rise during certain periods but the trend has not been sustained.

They fell during 2008-09 to 2014-15 when economic growth accelerated, and have been falling again for the last three years since 2022. Quite clearly, the benefits of growth have not been shared equitably.

The crisis in employment generation is not something that has hit us today. It has been in the making for years and decades. Policymakers usually consider employment to be an automatic outcome of economic growth and consider it unnecessary to have policies for that. The best that could be seen in official documents are perfunctory mentions of the issue or very rough projections to be forgotten later.

Employment is linked to output which in turn needs investment. But the current environment with all its uncertainties is not conducive to investment. The situation has been made more difficult by a restrictive monetary policy. Increases in interest rate were ostensibly aimed at fighting inflation. While macroeconomic stability is regarded as essential for economic growth, it is important to balance considerations of stability with those of investment, output, and employment. In fighting inflation, the real challenge before policymakers is to balance these considerations and to steer the economy towards a soft landing rather than crash landing. In other words, the aim should be to attain stability without choking investment, growth, and employment.

In the short run, the first thing to do would be to restore investors' confidence by taking decisive steps to improve the law-and-order situation and the industrial relations environment—the latter through effective tripartite consultations.

But experience shows that economic growth does not automatically guarantee employment growth. Productive employment can result from growth

What Has Happened to Real Wages of Workers (1999-2000 to 2022-23)

Period	Rise/Fall/Stagnation
1999-00 to 2002-03	Rise
2002-03 to 2005-06	Stagnation
2006-07 to 2008-09	Rise
2008-09 to 2014-15	Fall
2014-15 to 2020-21	Rise
2020-21 to 2023-24	Fall

SOURCE: COMPILED BY THE AUTHOR FROM VARIOUS STUDIES (ORIGINAL SOURCE OF DATA: BANGLADESH BUREAU OF STATISTICS)

in sectors that create jobs with high productivity. From that point of view, growth of manufacturing and modern services is important. Within manufacturing, it is labour intensive industries that generate jobs in large number. In Bangladesh, the start was promising with the growth of the ready-made garment industry. However, the process remained confined to this single industry where employment growth has declined sharply in recent years. Although the country has potentials for other labour-intensive export-oriented industries like leather and non-leather shoes, electronics, furniture, etc., policymaking has never addressed the issue properly. Unifying the incentive structure is essential so that one single industry does not become too much more attractive for investment. Fiscal, trade, and industrialisation policies need to be applied in an integrated manner to create an attractive environment for *all* export-oriented labour-intensive industries.

High rate of youth unemployment is caused by a variety of factors including paucity of jobs compared to the number of job-seekers, difficulties in transition from the world of learning to the world of work, mismatch between qualifications possessed by job-seekers and those required by potential employers, difficulties faced in starting own business, and so on. While the availability of jobs is dependent on the rate and pattern of growth and can be influenced by macroeconomic and sectoral policies, special attention needs to be given to the other issues mentioned above. And that is best done through targeted programmes for assisting young job-seekers. There are examples of "good practices" on this from where ideas can be drawn.

One well-known instrument for addressing the employment challenge in countries like Bangladesh is direct employment generation programmes. They usually generate employment in infrastructure—especially at the local level where labour-intensive methods can be used. The concept can be broadened to cover other sectors also. Bangladesh has experience in such programmes which can be revived with appropriate modifications to suit the current situation and requirements.

A major issue with respect to the employment challenge in Bangladesh is the mismatch between qualifications and skills required and what job-seekers possess. There are several issues here that have been the subject of discussion for a long time. First, as the economy moves to higher levels, the emphasis should shift towards increasingly higher levels of education and technical education. Second, whether job-specific skills are to be imparted by educational and training institutions or through alternative means, e.g., enterprise-based training is a subject that can be debated. Third, there is the question of who pays for training. Should the government alone be responsible or enterprises should also bear at least part of the costs is an issue that needs to be discussed.

In sum, addressing the employment crisis requires integrated action on a wide front. What is important is to recognise the seriousness of the problem and the political will to address it accordingly.

Employment in selected manufacturing industries of Bangladesh (Figures in "000")

Industries	2016-17	2022	2023
Ready-made garments	3,315	3,461	3,498
Textiles	1,409	855	832
Leather and leather products	139	161	204
Pharmaceuticals	177	235	269
Furniture	777	676	671
Total	8,772	7,856	8,193

Note: The total includes other industries not shown in this table

SOURCE: BANGLADESH BUREAU OF STATISTICS: LABOUR FORCE SURVEY, VARIOUS YEARS.

VISUAL: STAR

A major issue with respect to the employment challenge in Bangladesh is the mismatch between qualifications and skills required and what job-seekers possess.

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Over the years, the microfinance sector in Bangladesh has undergone significant transformation.

PHOTO: **AFP**

Scaling microfinance is a prime need

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MUSTAFA K MUJERI

Microfinance—which started as microcredit after independence—now covers a range of financial products and services, such as savings, credit, insurance, payments, and money transfers. The core, however, still refers to offering and servicing small loans to the poor, provided to borrowers or groups who would otherwise have no access to financial services. Banks and formal financial institutions usually do not extend loans to those with little or no assets or collateral, especially in the small amounts typically involved in microfinance.

For microfinance institutions (MFIs), the "credit for target group" approach results in a focus on providing loans in specified quantities and earmarked for specific purposes. This operational approach translates into "supply-leading finance." Generally, the target group can only be partially and temporarily reached due to the failure of the supply-based approach. The emergence of the "pushing the financial frontier" view highlights the importance of permanent financial relationships for rural households and, thereby, the permanence of financial institutions. The adoption of "cost-covering interest rates" for MFIs (instead of subsidised interest rates) is a significant step toward achieving such permanence.

The emergence and expansion of MFIs have been greatly facilitated by financial liberalisation in Bangladesh since the 1990s. This has meant a reduced role for the government in the allocation of capital, less interference with financial institutions, and new opportunities for banks and MFIs to engage in the central function of financial institutions: intermediation between savers and borrowers.

At present, there seems to be a consensus on the broad objectives of microfinance—outreach to low-income people and financial sustainability. Given these two objectives, MFIs need to address two central issues in their day-to-day operations: (i) the information issue: how to establish borrowers' ability and willingness to repay; and (ii) the cost issue: how to handle small financial transactions cost-effectively, which are generally required by low-income people.

The first requires screening, monitoring, and enforcement procedures that comply with the specific circumstances of low-income people, which deviate widely from usual practices. The second requires operating with transaction costs that necessarily lead to interest rates well above commercial bank rates but are still competitive and attractive for MFI clients.

MFIs generally experience a trade-off in their operations between these two objectives: a focus on somewhat better-known clients who require larger loans, which eases the cost issue and brings financial sustainability closer, but leaves smaller clients outside the financial frontier. Conversely, a focus on new clients brings them inside the frontier but also involves more costs and risks. This trade-off between the two objectives is critical for MFIs.

Despite these dilemmas, Bangladesh's microfinance sector has created a unique space as important financial intermediaries with significant value propositions to their client base and the national economy. MFIs extend financial products, including basic social services, to clients, especially in rural and remote areas, through their widespread network and infrastructure. This has enabled MFIs to gain valuable experience in providing financial and human development services to extremely poor populations and offering microenterprise loans to credit-hungry cottage and microenterprises (CMEs), especially in the rural economy.

Through innovation and close work with target populations and enterprises, MFIs have also gained several strengths, such as ready access to an established client base, experience in cash management in small lots, well-functioning internal audit and monitoring systems, experienced field staff and local branches, client insights for new product development, and experience in client relationship management.

As of June 2023, the total number of MFIs—licensed under the Microcredit Regulatory Authority (MRA)—stood at 731, with more than 25,000 branches and 200,000 employees. These MFIs provided financial and human development services to more than 40 million low-income members and microenterprises, with a total outstanding loan of Tk 2,493 billion and a savings portfolio of Tk 621 billion. The credit services of the microfinance sector are categorised into six groups: (i) general microcredit for small-scale self-employment-based activities; (ii) microenterprise loans; (iii) loans for the ultra-poor; (iv) agricultural loans; (v) seasonal loans; and (vi) loans for disaster management. Loan amounts up to Tk 50,000 are generally considered microcredit, while loans above this amount are classified as microenterprise loans.

The concentration ratio of the microfinance sector is relatively high in Bangladesh. Overall, the 20 largest MFIs control nearly three-quarters of the market share, while the two largest MFIs (BRAC and ASA) control half in terms of both clients and financial portfolios.

Structural transformation of microfinance: Over the years, the microfinance sector in Bangladesh has undergone significant transformation, evolving from group-based, limited-scale microcredit operations to individual microenterprise operations to create widespread and sustainable development impacts. Over time, microcredit has graduated from its mainstream activity of supporting the basic needs of the poor to nurturing broader farm and nonfarm activities and microenterprises for graduating microcredit borrowers and microentrepreneurs. The focus on "appropriate" finance—scaling up credit to meet the threshold level of activities for sustainable livelihoods, targeting extremely poor groups and remote areas, mobilising the poor to promote social development, creating awareness of health, education, women empowerment, and other social issues, and fostering green and climate-resilient activities—has provided MFIs with a unique opportunity to emerge as key development partners in Bangladesh.

Over the decades, the sources of financing for MFIs' operations have broadened to include loanable funds from several sources, such as members' savings, cumulative net surplus, borrowing from banks, concessional loans (e.g., from Palli Karma-Sahayak Foundation), loans from large MFIs, loans from non-institutional sources (e.g., board and client members), and

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- Microfinance in Bangladesh has evolved from microcredit to a diverse range of financial products, focusing on small loans for the poor who lack access to formal financial services.
- Despite challenges such as high transaction costs and small loan amounts, microfinance institutions play a crucial role in providing financial services to rural households and microenterprises.
- The adoption of digital financial services is transforming microfinance by reducing transaction costs and expanding access to financial products for low-income populations.
- Microfinance's dual objectives of outreach and financial sustainability require balancing the needs of different clientele, including the ultra-poor and microentrepreneurs.
- The increasing focus on relationship-based lending and microenterprise loans reflects a shift towards more sustainable and scalable microfinance models, while addressing the needs of both vulnerable households and small businesses.

ILLUSTRATION: **ZARIF FAIAZ**

Bangladesh's microfinance sector has created a unique space as important financial intermediaries with significant value propositions to their client base and the national economy. PHOTO: ICAB

Scaling microfinance is a prime need

In Bangladesh, many MFIs have undergone digital transformation successfully, enabling them to evolve, scale, and compete more efficiently in the rapidly changing financial landscape. The expectations of customers are also changing rapidly, increasingly shaped by their experiences with smartphone apps, fintechs, and social media. For MFIs, digitising operations will no doubt emerge in the coming years as one of the most credible ways to meet the changing expectations of their customers in Bangladesh.

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other sources like reserve funds, staff security funds, and loan loss provision funds. The most important sources of funds for MFIs are the savings of their members/clients (43 percent), followed by cumulative net surplus (31 percent) and borrowings from banks (19 percent).

Overall, MFIs have contributed significantly to expanding access to microfinance services for poor and low-income households. In Bangladesh, microfinance—especially for poor women—is widely regarded as a virtuous tool and is seen as valuable for poverty reduction efforts. Microfinance is also considered a relatively efficient means of assisting the poor. Although interest rates on micro-loans are relatively high, they serve as a positive mechanism for rationing the limited volume of microfinance to borrowers who can earn sufficient returns to cover costs. In practice, this self-selection process is far from perfect, as the poor may borrow in desperation and become locked in a cycle of indebtedness. Moral hazard problems may also arise.

The controversy surrounding the effectiveness of microfinance in poverty reduction in Bangladesh runs deep. A comprehensive assessment of its capacity to reduce poverty requires an economy-wide framework. While microfinance can provide short-term relief from poverty, it is unlikely to serve as a long-term solution, especially for households with small amounts of land or productive assets. Modern agriculture's strong positive economies of scale are difficult for small farms to leverage effectively. Similarly, nonfarm economic opportunities may remain limited without strong economic growth and technological innovation.

A more important aspect of microfinance, however, is its role in enhancing the status of women and their bargaining power within families, as most micro-loans in Bangladesh are given to women. Although some studies show that increased access to microfinance does not necessarily improve women's health and education or enhance their role in household decision-making, these findings may be context-specific. The overall picture in Bangladeshi society is more positive, as many women have been empowered and have become successful microentrepreneurs using microcredit as their stepping stone.

Extrapolating the effects of microfinance on individual households to the rural economy provides insights into its broader impact. Increased individual capacity to deal with shocks reduces the effects of covariant shocks on the rural population as a whole, particularly when a substantial share of the population is within the financial frontier. Furthermore, increased savings in financial assets shift wealth away from low-productivity assets, aiding financial deepening and reducing inequality while raising the incomes of poorer segments of the population.

Financial deepening has direct relevance for microfinance in rural areas, as providing rural households with access to savings and credit is its core objective. Its effects go beyond individual MFI-household links, as the availability of capital for new, productive clients fundamentally affects economic relationships in rural areas. Enlarging microfinance to include a substantial share of the rural population enhances its positive effects.

Over the years, civic organisations (e.g., NGOs) have worked with local government institutions (LGIs) in Bangladesh to achieve transformative changes at the grassroots level, creating linkages upward—not just with government initiatives, but also to transform underlying behaviours and ideas that underpin social development. These micro-efforts and their macro-level transmissions provide a powerful stimulus for rapid social outcomes in Bangladesh.

Challenges of microfinance: Despite significant achievements, a major challenge for MFIs is their high transaction costs. Supporting a large volume of small transactions results in high costs with low returns per transaction.

For the poor in Bangladesh, there is a need to redesign conventional financial products to reflect their specific requirements and demands. In this context, MFIs are well-equipped to serve the poor effectively. Moreover, MFIs must find the right balance between financing income-generating activities for the poor and deprived groups and financing CMEs through larger loans.

MFIs must also focus on designing innovative financial products and services with terms and conditions suitable for vulnerable and risk-averse poor households. These products should emphasise creating multiple income sources, accumulating productive assets, and adopting risk-minimising techniques (e.g., microinsurance). In addition to appropriate supply-side policies, demand-side interventions are necessary to ensure that poor and low-income households are financially literate and capable of using services productively.

Policy implications are twofold: (i) the government's policy attention for rural finance is validated, not to provide capital directly but to enable financial institutions to mediate between savers and borrowers; and (ii) policies need to encourage financial institutions (including MFIs) to push the financial frontier to include new, low-income rural households by tackling information problems through innovative screening, monitoring, and enforcement procedures.

Microfinance and digital financial services: To increase access and perform more efficiently, MFIs need to capitalise on rapid advances in mobile communications and digital payment services (DFS) to connect poor households to affordable and reliable financial services. For the poor, access to financial services helps them successfully adopt new farming technologies, invest in new business opportunities, or find new and more productive jobs. At the same time, access to DFS prevents a large number of people from falling back into poverty or into deeper poverty due to health problems, financial setbacks, and other shocks. Simple yet powerful innovations, such as digital wallets and other innovations, help reach a greater number of poor people and drive down transaction costs. Although Bangladesh still has a long way to go to

For the poor in Bangladesh, there is a need to redesign conventional financial products to reflect their specific requirements and demands. In this context, MFIs are well-equipped to serve the poor effectively. Moreover, MFIs must find the right balance between financing income-generating activities for the poor and deprived groups and financing CMEs through larger loans.

take full advantage of digital finance, the country is moving rapidly to build the required ecosystems and remove barriers to ensure progression from payments to solutions "beyond payments."

To exploit digital technology both effectively and efficiently, key issues for MFIs are to ensure that: (i) financial products and services are tailored to the specific needs of different customer groups; are transparent and secure; and provide an optimal balance between different features of products and their prices; (ii) DFS are introduced through adopting well-sequenced and well-coordinated policies to nurture in-house technological innovation and ensure that financial operations become more efficient and diversified; (iii) to harness the widespread transformative power of digital technology, MFIs need to identify both opportunities and challenges so that management is prepared for both the rewards and risks of digitising financial services and reaching members of financially excluded groups; (iv) in digitising financial services, MFIs must place emphasis on designing customer-centric financial products and services, especially suited to low-income and financially excluded individuals and enterprises.

For MFIs, adopting a customer-centric approach is instrumental in bridging the "access-usage gap" in digital technologies. Although more than 90 percent of MFI borrowers are women, less than 20 percent of digital finance users are women. This shows the existence of a significant gender divide in access to DFS, which has strong repercussions on the uptake of digital technology by MFI members.

For successful digitisation, MFIs need to resolve a number of issues in creating an inclusive digital landscape, such as where to start, how to judge the readiness of a particular MFI to undergo digital transformation, what challenges and risks should be considered before embarking on transformation routes, and similar issues.

In Bangladesh, many MFIs have undergone digital transformation successfully, enabling them to evolve, scale, and compete more efficiently in the rapidly changing financial landscape. The expectations of customers are also changing rapidly, increasingly shaped by their experiences with smartphone apps, fintechs, and social media. For MFIs, digitising operations will no doubt emerge in the coming years as one of the most credible ways to meet the changing expectations of their customers in Bangladesh.

In reality, it is true that not all MFIs are ready to digitise to the same extent or at the same speed. The need for MFIs is to prioritise the processes for digital transformation based on their current and desired level of digital maturity. Based on available best practices, a framework may be used to deepen understanding of digital transformation by specific MFIs, identify digital transformation objectives and maturity for adoption, and take steps towards adopting successful digital transformation.

For CMEs, the adoption of digital technologies by MFIs can help address specific challenges in the value chain—especially those that need financial service solutions, and where traditional finance has limitations in fully addressing demands in the rural market. This is often due to high infrastructure costs and a lack of incentives to adapt products to the unique needs of these enterprises. Digital finance also offers a way to expand access to the formal financial system, taking advantage of the rapid growth of digital

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Scaling microfinance is a prime need

VISUAL: SALMAN SAKIB SHAHRYAR

In the coming decades, the priority for MFIs will be to provide their services in more efficient and sustainable ways facilitated by a better understanding of local communities.

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and mobile telephone infrastructure and the advent of agent banking. These factors have a direct link to increasing microentrepreneurs' income and wellbeing.

Designing MFI business models: Business models, to a large extent, determine the costs incurred to deliver financial products/services on one hand and the value generated on a sustainable basis, on the other. This in turn determines whether the provision of financial products and services will be sustainable. As such, designing efficient business models is a key determinant of the successful delivery of financial services by MFIs. It also needs to be recognised that business models are inspired and motivated by various factors. Usually, MFIs adopt diverse strategic approaches to product development, including roll-out and scale-up. The key for MFIs is to adopt pragmatic approaches towards developing business models, recognising both operational, regulatory, and policy challenges as well as practical difficulties in reaching customers.

One of the key concerns for developing business models of MFIs is the challenges that emerge from traditional small transactions, completing paperwork, and other complexities. For MFIs, the microfinance value chain involves multiple players, which allows several business model alternatives. In fact, MFIs can potentially emerge as intermediaries with a significant value proposition to their client base, extending financial products through their existing and innovative digital infrastructures in remote rural areas.

Innovation drivers for MFIs: The innovation drivers of MFIs need to encompass both push and pull factors. The push factors come from external sources outside the microfinance sector that motivate MFIs to develop innovative financial products and services to expand outreach to currently excluded and low-income groups. Internal factors act as pull forces, coming from within MFIs, encouraging them to develop internal capacities for delivering better-suited and efficient services to these groups.

The most important push factor is the government's determination to rejuvenate the financial sector to overcome the deep scars of past mismanagement and corruption, and make the sector more inclusive. In this context, MFIs may follow a three-pronged approach: (i) expand capacity and enhance the confidence of potential customers regarding the efficient delivery of tailored financial products and services; (ii) provide information and education on access to and use of DFS by the microfinance sector; and (iii) encourage the delivery of a variety of financial products and services using digital and more efficient mechanisms in line with the needs and demands of different target groups. The MRA, as the key regulator, may design specific measures in these areas.

In the coming decades, the priority for MFIs will be to provide their services in more efficient and sustainable ways facilitated by a better understanding of local communities, adopting innovative service design and delivery models, and lending techniques. Furthermore, new innovations may also be explored in the existing MFI models.

MFIs may explore the feasibility of developing partnerships with other financial service providers for performing some of their activities, e.g., accepting repayment instalments and micro-savings, releasing micro-loans to microcredit/microenterprise borrowers, providing microinsurance, and other services by creating access points for financial services in locations where MFI branches are not available.

MFIs may also explore several options to enhance and sustain their activities to meet emerging challenges: (i) build long-term relationships with banks for the supply of funds for lending; (ii) design new and digital financial products/services, particularly long-term housing loans and multiple loans including emergency loans and risk-minimising microinsurance products; (iii) implement human resource development programmes, both through training existing staff and recruiting adequately skilled personnel, especially in digital technologies; (iv) enhance security of funds, especially in relatively less accessible areas; (v) ensure access to information technology for complete documentation of members and borrowers using information from the credit information bureau for the microfinance sector; (vi) use the right skills and information for selecting borrowers/microenterprises and providing services; and (vii) explore options to mobilise voluntary and term deposits.

Repositioning microfinance: MFIs have already emerged as major players in providing financial services to the poor and disadvantaged in Bangladesh. More than 40 million individuals exist under the microfinance network, and about 2 million small businesses are lateral entrants into MFIs' credit network. Most of these clients are part of the "missing middle" in the formal bank credit market. Over time, the horizon of MFIs has also expanded; microloan products have diversified to include both financial and non-financial products.

Moreover, the regulations of MFIs have contributed to a structural shift in the microfinance market, signifying a move toward microenterprise-based higher loan sizes, creating intense competition for loans between microenterprises and traditional household-based activities. On the other hand, with an emphasis on sustainability, MFIs have also targeted their activities with a renewed focus on transaction costs and risk-minimising approaches. Coverage of poor members under the MFI financial network has been facilitated by the availability of subsidised funds, the institution of risk-minimising informal microinsurance (e.g., credit, livestock, and health insurance), and programme-induced and targeted lending activities. However, the shift towards microenterprise-based lending activities may have affected the loan portfolio of extreme and moderately vulnerable poor households, at least to some extent.

At present, there are three major targeted clientele groups for MFIs: (i) vulnerable poor, including extreme poor and moderate poor; (ii) graduating microcredit members; and (iii) lateral entrants of small businesses, e.g.,

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Scaling microfinance is a prime need

VISUAL: COLLECTED

Despite significant positive achievements, the challenge for MFIs is their high transaction costs needed to support a large number of small transactions.

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microentrepreneurs. This has also led MFIs to adopt two major mechanisms to deliver financial services to clients: (a) relationship-based lending to individual microentrepreneurs and small businesses; and (b) group-based lending under which several small borrowers come together to apply for loans and other services as a group. The group-based model represents an approach under which poor and near-poor households can have access to a range of appropriate financial services, including not just credit, but also savings, microinsurance, and fund transfers.

Some evidence shows that, for MFIs, the default rate is higher in relationship-based microenterprise lending than in group-based lending. Moreover, since the average size of microenterprise loans is much higher than in group-based loans, even a low default rate in the former loan causes a bigger liquidity constraint for MFIs. On the other hand, net returns are higher for microenterprise loans as these loans generally have low administrative and supervision costs. Thus, there is a dilemma, and the need for MFIs is to strike the right balance between the two types of loans and minimise the risks of microenterprise loan defaults. Additionally, while meeting the demands of these clientele groups comprising the "missing middle" is undoubtedly important, supporting excluded vulnerable and extreme poor households is also critical toward fulfilling MFIs' social mission.

Over the years, the interplay of both external and internal factors has motivated MFIs to develop innovative financial products and services to expand outreach and create internal capacities for delivering better microfinance services in Bangladesh. The government's policy and institutional reforms have also facilitated the development of innovative delivery techniques and appropriate products. Since its establishment under the Microcredit Regulatory Authority Act 2006, the Microcredit Regulatory Authority (MRA) has been working toward creating policy, regulatory, and institutional frameworks for the integrated development of the microfinance sector, which is both socially beneficial and profitable. In addition to traditional microfinance products, a wide variety of financial products and services is now available that are more accessible to the poor, better suit their cash flow challenges, and help address future spending needs.

The presence of a wide network of MFIs and other financial service providers (FSPs) has also created significant opportunities for increasing access to financial services in Bangladesh. Obviously, the gaps that presently exist in universal financial inclusion provide both a challenge and an opportunity to ensure effective access to and use of financial products and services by all residents of Bangladesh.

In fact, the double bottom line of fulfilling the social mission and providing financial services in a profitable and sustainable manner has been guiding the new generation activities of MFIs in Bangladesh. The MFIs are adopting more effective and innovative business models to ensure financial viability, supported by innovative loan collection techniques and monitoring and supervision methods.

In short, the operational characteristics of the microfinance market in Bangladesh show that: (i) around 58 percent of extreme poor households still do not have access to the microfinance market; (ii) around 53 percent of moderate poor do not access financial services of MFIs; (iii) female-headed households have lower access to microfinance services; and (iv) there seems to exist a recent trend of rising flows of credit to non-poor households who are graduating members and lateral entrants belonging to CMEs.

Considering these realities, three aspects of the financial operations of MFIs need attention in the coming years: (i) explore innovative and sustainable measures to ease binding financial constraints to provide financial services to target populations/business groups; (ii) develop appropriate financial products/services (including housing, business scaling-up and enterprise development, technology adoption, and emergency loan products) to meet the needs of different groups of excluded poor households/CMEs; and (iii) ensure more efficient and cost-effective MFI operations through the adoption of digital and modern technologies and resolve the asymmetric information problem of excluded households/enterprises.

In addition, capacity building of MFIs needs to be prioritised to meet the demands of different segments of targeted populations by addressing problems like lack of skilled and trained staff, inaccessibility to haor, hilly, and remote areas, limited access to technology and information, inadequate information flows to excluded households/enterprises, and limited financial education to manage financial resources more productively and efficiently.

Despite significant positive achievements, the challenge for MFIs is their high transaction costs needed to support a large number of small transactions, which are unique features of their operations. To overcome the challenge, the adoption of digital technology is a major enabler, which is proven, scalable, secure, cost-effective, and likely to be sustainable. Although MFIs still remain unchallenged in serving the poor and low-income segments, the urgent need is to dream for a digital future.

MFIs need to search for a roadmap towards that future, to grow and expand their mission to issues like supporting climate adaptation and mitigation efforts as well as in Bangladesh. The key is to learn how MFIs can leverage technology to grow their business, deliver value to their customers, and embark on a digital future. Although Bangladesh still has a long way to go to take full advantage of digital finance, the country is moving rapidly to build the required ecosystems and remove the barriers through creating an enabling policy and regulatory environment.

Economic sustainilibity requires increasing FDI

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MD MEHDI HASAN KHAN *and* **MD KAMRUL HASAN**

Conceptually, Foreign Direct Investment (FDI) refers to the direct investment of equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident of one economy having control or a significant degree of influence over the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of ordinary shares or voting stock is the criterion for determining the existence of a direct investment relationship. FDI aims at three broad categories: natural resource-based, manufacturing, and labour-intensive manufacturing. Natural resource-based activities include petroleum, minerals, and agricultural production, which tend to be large and capital-intensive. Manufacturing services include processed food, apparel, steel, chemicals, transportation, communication, electricity, business services, and finance. On the other hand, labour-intensive manufacturing is based on export to world markets, including apparel, electronics, textiles, footwear, and toys, which are highly dependent on cheap labour (Perkins & Redlet).

Since the independence of Bangladesh, the inflow of FDI, in absolute terms, remained minimal until 1995. The growth curve was relatively flat during this period due to a lack of major structural policy reforms, clear guidelines, and innovation, which failed to attract significant FDI. According to the United Nations Conference on Trade and Development (UNCTAD) World Investment Report (1994-2023), FDI inflow stood at $139 million in 1997, increasing to $280 million by 2000. In 2004, the figure reached $460 million, marking a period of positive growth. Between 2004 and 2008, FDI inflows showed a noticeable and consistent upward trend, culminating in $1,086 million in 2008. Maintaining this momentum, Bangladesh recorded $2,235 million in 2015, which further increased by $1,149 million over the next seven years. For the first time, FDI inflow crossed $3,613 million in 2018, the highest amount recorded in a single year. However, this growth trajectory slowed during the subsequent years of 2019, 2020, and 2021. In 2022, FDI inflow stood at $3,480 million. Overall, it is evident that the Bangladeshi economy took 37 years to achieve an annual FDI inflow of over $1 billion.

A peer analysis of the percentage of FDI inflow to GDP ratio among five Asian countries over the last 40 years, from 1983 to 2023, reveals significant insights. From 1983 to 1999, the FDI-to-GDP ratio in Bangladesh was less than 0.50 percent, reflecting minimal foreign investment inflow. In 2000, the ratio reached 0.50 percent, and, with some variability, it increased to 1.17 percent in 2005 and further to 1.45 percent in 2008. Between 2010 and 2015, the ratio remained stable at over 1 percent. However, from 2016 to 2023, it chronologically declined, standing at just 0.32 percent in 2023. Over the 40-year period, Bangladesh has never achieved an FDI-to-GDP ratio of 2 percent. In comparison, Sri Lanka surpassed 1.39 percent in 1992 and maintained this level for a few years before experiencing a decline over the next eight years. The ratio rebounded to 1.26 percent in 2005, peaking at 2.85 percent in 2010, and remained consistently above 1 percent for a decade. For Pakistan, the ratio reached 1.19 percent in 1995, fluctuating thereafter, and recorded its highest value of 3.04 percent in 2007, maintaining balance until 2010. However, for the last decade, Pakistan's FDI-to-GDP ratio has been below 1 percent. From Bangladesh's perspective, both Sri Lanka and Pakistan demonstrate relatively better performance in FDI-to-GDP ratios.

Indonesia's performance showed early progress, exceeding 1 percent in the early 1990s and accelerating to 2.72 percent in 1996. However, the ratio deteriorated to less than 1 percent for the next seven consecutive years. It then surged to its highest level of 2.92 percent in 2005 and maintained consistency at over 1.5 percent for nearly one and a half decades. Malaysia has been a significant hub for attracting FDI. In 1983, the country recorded an FDI-to-GDP ratio of 4.15 percent, the highest among its five peer countries at the time. Notably, in 1992, this ratio peaked at 8.72 percent and maintained a stable outlook above 4 percent until 2000. Since then, Malaysia has demonstrated consistent efficiency with robust FDI figures relative to GDP. Among the peer countries, India has the largest GDP in absolute terms. From 1992, India's FDI-to-GDP ratio showed an upward trend, surpassing 1.06 percent within a decade. This momentum continued, reaching a peak of 3.62 percent in 2008, and has remained relatively stable at around 2 percent in subsequent years. Overall, in terms of FDI efficiency,

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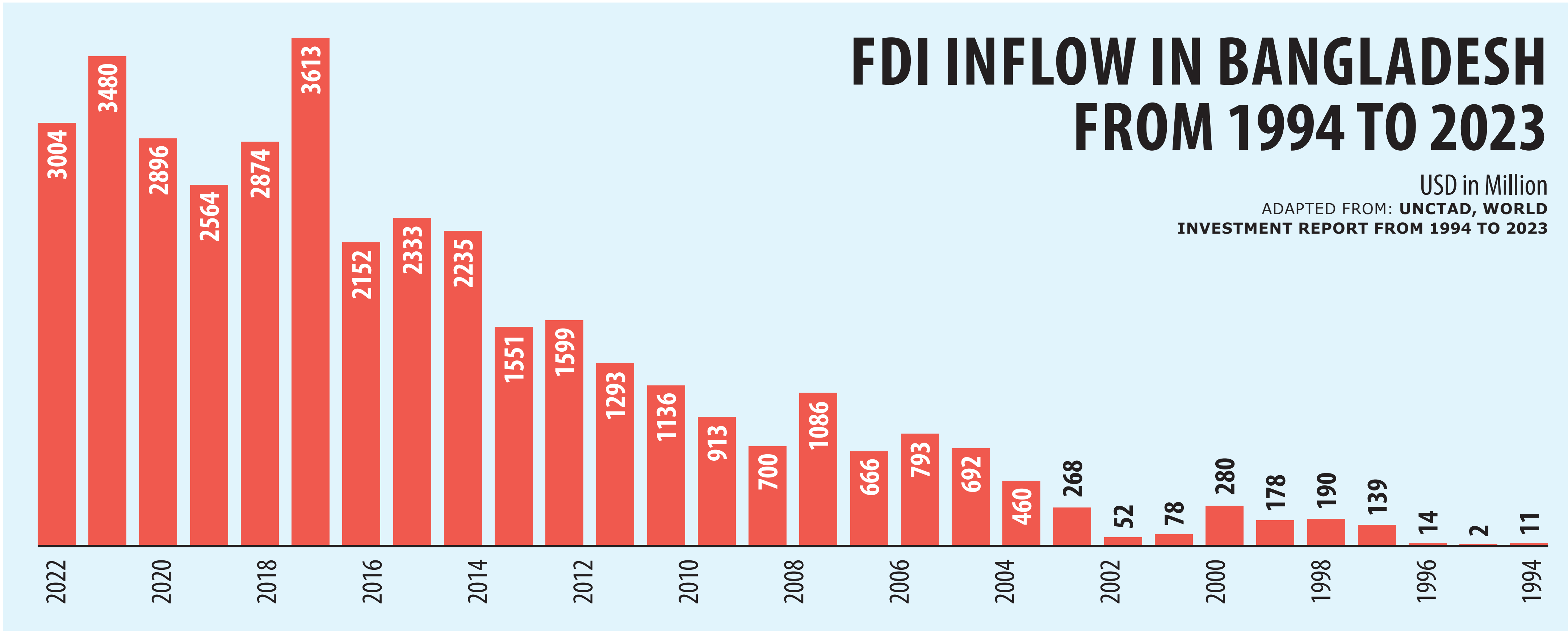
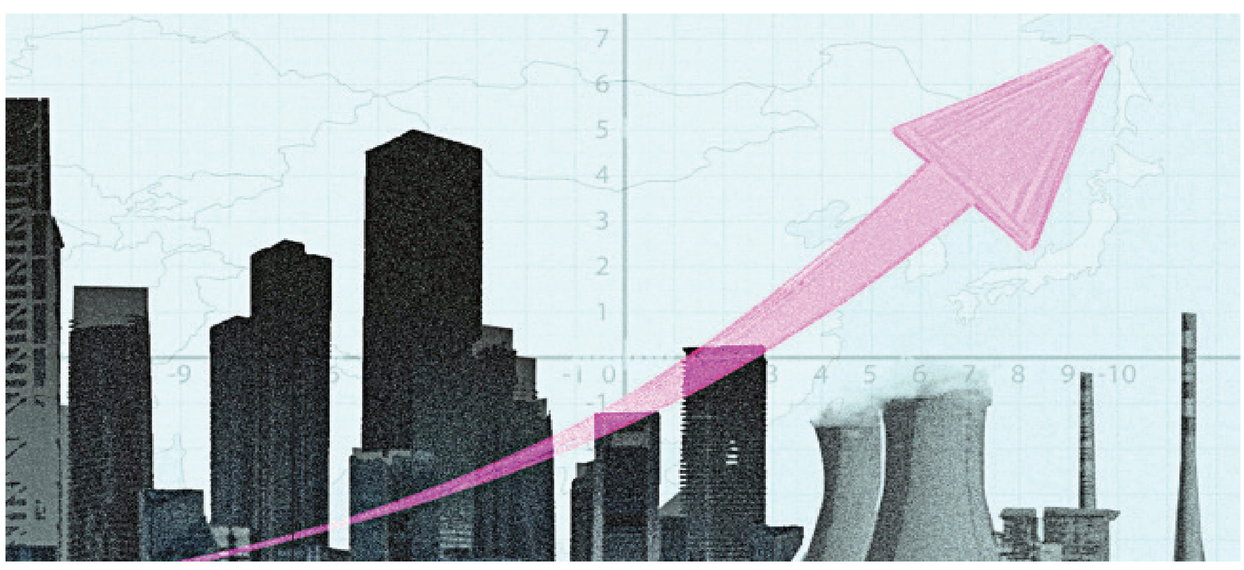
- Foreign Direct Investment refers to cross-border equity investments where an investor holds at least 10 percent of a foreign enterprise, categorised into natural resource-based, manufacturing, and labour-intensive manufacturing sectors.
- Since its independence, Bangladesh's FDI inflow remained minimal until 1995, but it gradually increased, peaking at $3,613 million in 2018, although the growth slowed in subsequent years.
- Bangladesh's FDI-to-GDP ratio has remained relatively low, never surpassing 2 percent, whereas countries like India, Malaysia, and Indonesia have performed better in attracting FDI.
- Issues such as poor Ease of Doing Business rankings, political instability, bureaucratic red tape, and corruption have hindered Bangladesh's ability to attract significant foreign investment.
- To boost FDI, Bangladesh needs comprehensive policy reforms, better infrastructure, improved regulatory frameworks, streamlined administrative procedures, economic diplomacy, and stronger country branding.

Economic sustainilibity requires increasing FDI

The World Bank has been publishing the EDB report since 2006, which highlights Bangladesh's deteriorating ranking compared to other countries. In 2006, Bangladesh had an optimistic outlook and was ranked 65th among its peer countries.





VISUAL: REHNUMA PROSHOON

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Bangladesh, Pakistan, and Sri Lanka fall within a less efficient curve, whereas India, Malaysia, and Indonesia are positioned on the efficient frontier.

One of the notable hurdles behind unsatisfactory FDI is the Ease of Doing Business (EDB) indicators for foreigners. The ranking of economies includes starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency.

The World Bank has been publishing the EDB report since 2006, which highlights Bangladesh's deteriorating ranking compared to other countries. In 2006, Bangladesh had an optimistic outlook and was ranked 65th among its peer countries. However, the ranking steadily declined, reaching 119th in 2010. In 2011, there was a slight improvement, with the country ranked 107th, but the situation worsened again, dropping to 130th in 2014. Notably, in 2015, the ranking deteriorated significantly to 173rd, maintaining a stable yet poor position until 2019. In 2020, the ranking slightly improved, reaching 168th. Overall, Bangladesh remains categorised as below average for ease of doing business.

Bangladesh has faced setbacks in attracting FDI, and the situation continues to persist. To boost FDI inflows, the country must improve its EDB indicators, as foreign investors often prioritise these metrics to assess a country's business environment. Unfortunately, Bangladesh

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Economic sustainilibity requires increasing FDI

By and large, FDI is a crucial mechanism for addressing the foreign currency crisis. While Bangladesh has made progress in attracting FDI in absolute terms over the past few years, the FDI-to-GDP ratio remains unsatisfactory compared to peer countries in South and Southeast Asia. To improve this situation, Bangladesh requires a paradigm shift through comprehensive policy overhauls and the establishment of political stability to boost investor confidence.

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still lags significantly behind other Asian countries in this regard. Another critical factor is investor confidence, which depends on a stable political atmosphere and investment-friendly rules and regulations. These aspects have been adversely affected in the past and continue to pose challenges. Political instability, in particular, has been a significant barrier to FDI since the country's independence.

Additionally, bribery and bureaucratic red tape are other pressing issues that need urgent attention. At every stage of file processing, investors reportedly face demands for substantial bribes from public servants, a frequent complaint among foreign investors. Red tape, characterised by sluggish administrative procedures and unnecessary delays in file processing, often occurs without major justification and is instead attributed to trivial reasons. These two issues coexist, perpetuating inefficiency and inertia within the administrative system.

The driving force for boosting FDI is country branding. Bangladesh urgently needs to establish a strong country brand, and in this regard, the Bangladesh Investment Development Authority (BIDA) should take on the role of Chief Communication Officer (CCO) to represent the country to the rest of the world. Another crucial aspect for advancing business-friendly policies is the ease of regulatory frameworks. Broad deregulations can serve as a win-win strategy to attract investment by streamlining VAT and tax regulations, simplifying new business or joint venture (JV) registration processes, and implementing straightforward administrative rules.

Access to physical infrastructure facilities, especially ports, communication networks, customs, the National Board of Revenue (NBR), and respective secretariat departments, must be ensured without obstacles. In this regard, all government departments related to foreign investors should introduce a One-Stop Service (OSS), which must be coordinated by BIDA with strong oversight. Furthermore, foreign investors should be authorised to transfer their organisation's profits to the host country in foreign currency. Alternatively, options should be provided to reinvest, retain, or venture into new businesses using the generated profits. Enabling profit transfers will significantly boost investor confidence.

Economic diplomacy should be accelerated through the Ministry of Foreign Affairs (MoFA) to promote bilateral trade and investment, as it plays a significant role in fostering cooperation. It involves utilising diplomatic skills combined with economic tools to advance a country's economic, political, and investment interests. Economic diplomacy operates at three levels: bilateral, regional, and multilateral, with bilateral economic diplomacy playing a particularly vital role in shaping economic relations.

Furthermore, strengthening relationships with ideologically aligned countries of the GCC, particularly Saudi Arabia, Qatar, the UAE, Oman, and Kuwait, should be prioritised to attract FDI. Since its independence, Bangladesh has maintained friendly ties with these countries, and these relationships need to be further reinforced for future partnerships. Areas of focus should include the exchange of Islamic culture and heritage, trade and investment, strategic collaboration, and the transfer of technical expertise.

By and large, FDI is a crucial mechanism for addressing the foreign currency crisis. While Bangladesh has made progress in attracting FDI in absolute terms over the past few years, the FDI-to-GDP ratio remains unsatisfactory compared to peer countries in South and Southeast Asia. To improve this situation, Bangladesh requires a paradigm shift through comprehensive policy overhauls and the establishment of political stability to boost investor confidence. Additionally, strong coordination among key institutions such as BIDA, Bangladesh Bank, the Ministry of Finance, the NBR, ports, and customs is essential for restoring and enhancing trust. Economic diplomacy led by the MoFA through bilateral, regional, and multilateral cooperation is also a driving factor in fostering partnerships. Lastly, effective country branding through government initiatives will add significant value in attracting FDI opportunities.

ILLUSTRATION: SALMAN SAKIB SHAHRYAR

A 10-point plan for capital market development

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MIZANUR RAHMAN

Bangladesh's capital market has long been entrapped in a vicious cycle of underdevelopment. The fact that the annual stock market turnover is less than 5 percent of GDP is a glaring indicator of this. The problems include prohibitive illiquidity of the market, the absence of bond and derivative markets, inefficient regulatory oversight, lack of corporate transparency and good governance, a fragile financial sector burdened with mounting non-performing assets, a worsening balance of payments (BOP) crisis and exchange rate volatility, and an environment of weak protection for investors.

While some problems are macroeconomic and more related to the central bank, others are relevant to the capital market regulator and are believed to be at the core of capital market underdevelopment in Bangladesh. In this short note, I will briefly explain a 10-point plan for capital market development in Bangladesh.

1) The Bangladesh Securities and Exchange Commission (BSEC), as the primary capital market regulator, must commit to ensuring free market arbitrage. This means that the regulator shall never impose price controls (neither floors nor caps), thereby restricting free and fair trading in securities in any organised stock exchange.

Free market arbitrage is a precondition for an efficient capital market. We observed that the regulator, in the face of market volatility, imposed artificial price control measures, directly impeding free arbitrage in securities. Every time such price controls were implemented, they caused long-term market illiquidity and harmed the interests of investors and capital market intermediaries. Such anti-market measures were often politically motivated and instigated by various misguided government agencies.

2) The BSEC must rewrite the public issue rules, particularly ensuring a prudential framework for the public issue of equities, debt securities, quasi-debt securities, and financial derivatives. The public issue rules should require no fixed pricing of securities at face values, no opaque private placements without the exchange of fair considerations, and a minimum of 25 percent float. Any issue of debt securities should also undergo the standard process of public subscription, fair pricing, active trading on stock exchanges, and mandatory redemption at the end of tenors.

The approval process must be based on a few verifiable and highly relevant financial metrics. These include turnover, earnings before interest, taxes, depreciation, and amortisation (EBITDA), earnings before interest and taxes (EBIT), net profit after taxes (NPAT), cash flow from operations, free cash flows, and a history of capital structure prior to the IPO application. No securities should be allowed to be listed unless the issuer company is complying with basic corporate governance regulations concerning the independence and integrity of corporate boards and board committees.

The Bangladesh Securities and Exchange Commission, as the primary capital market regulator, must commit to ensuring free market arbitrage.

PHOTO: STAR

The functioning of the audit committee and the nomination and remuneration committee (NRC) is weak and unregulated. The extent of family control must be reduced in the board of directors of any company listed with stock exchanges. The accounting and reporting of related party transactions is an area requiring enhanced oversight. The regulator should commit to discovering the fair value of securities to be listed with the stock exchanges. Unless and until entrepreneurs are guaranteed a fair valuation of their corporations, no well-governed business enterprise will voluntarily choose to be listed with the stock exchanges and be subject to enhanced compliance costs. The role of stock exchanges should be primary in the process of listing securities. And the role of the regulator should be solely regulatory, not operational.

3) The capital market in Bangladesh is incomplete and underdeveloped. It is mostly an equity-based market with no secondary market for trading in corporate bonds and financial derivatives. An amendment to securities laws is required to allow for on-market share buybacks and executive compensation schemes in stocks and warrants, subject to prudential regulation and real-time disclosure. On-market share buyback regulation will act as an automatic stabiliser for the capital market.

- The Bangladesh Securities and Exchange Commission must rewrite the public issue rules, particularly ensuring a prudential framework for the public issue of equities, debt securities, quasi-debt securities, and financial derivatives.
- A prudential regulatory framework is imperative so that mergers and acquisitions (M&A) of companies can be implemented based on market pricing or fair valuation, supported by verifiable inputs.
- It is imperative that the board of directors of stock exchanges comprise independent people with relevant skills and competencies.
- A tax policy revision is necessary so that corporate tax rates for listed companies are always 10 percentage points lower than those for unlisted companies.

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A 10-point plan for capital market development

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Executive compensation based on stock options and warrants will mitigate agency conflicts.

It is simply said that after 53 years of independence, the securities regulator and stock exchanges have yet failed to introduce basic options for trading on the stock exchanges. A DSE-30 index option and standard option contracts can be introduced with reference to the blue-chip stocks listed with the stock exchanges. A number of top brokers can be entrusted with the job of market-making for this purpose. The fear that investors will be exposed to risky leveraged positions in options is unwarranted. Instead, this new market segment in option contracts will significantly improve market dynamics, price discovery, and market liquidity.

4) A prudential regulatory framework is imperative so that mergers and acquisitions (M&A) of companies can be implemented based on market pricing or fair valuation, supported by verifiable inputs. Any listed company should be open for acquisition by another company, either for strategic reasons or to gain an advantage in ongoing markets. Of course, an M&A should be subject to competition rules, compliance with exchange regulations, other securities laws, and ultimately the approval of the courts. A substantial acquisition of shares of a listed company by any foreign entity (or entities under their control) should be subject to instantaneous disclosure and certain other conditions.

The institutional role of brokers to tap retail investors in the primary market must be expanded.

5) The role of institutional investors, including brokers, merchant bankers, and asset management companies, is dysfunctional in the active capital management of companies. Trading rules need to be redefined so that institutional investors can easily acquire (or exit from) substantial shareholdings in listed companies. The institutional role of brokers to tap retail investors in the primary market must be expanded. The objective is to push corporations away from banks and towards the capital market for long-term financing.

The performance of the asset management industry is frustrating for investors. The return from fixed-income instruments such as government securities and term deposits with banks and financial institutions has consistently exceeded long-term returns from mutual funds and other collective investment schemes in Bangladesh. This problem is genuine and a barrier to attracting high-net-worth individuals and institutional investors to the capital market.

6) Enquire, investigate, and prosecute material market manipulations and financial crimes across listed companies, broker companies, merchant banks, asset management companies, and stock exchanges in order to protect the interests of investors. The potential costs of manipulative stock trading must outweigh the potential benefits. The external auditing of financial statements of listed securities is effectively very little regulated. While the Financial Reporting Council (FRC) needs to enforce prudential standards for improving auditing practices, BSEC is obliged to enforce securities laws against material audit failures for listed securities.

7) A high-level inter-regulatory coordination mechanism is necessary so that the capital market regulator can enforce differential reporting and governance regulations for listed companies and capital market intermediaries. Specifically, Bangladesh Bank is the primary regulator of banks and financial institutions, and many of their accounting, financial reporting, and government disclosures are non-standard and conflict with IFRSs and global best practices.

We have observed that the Bangladesh Bank and BSEC have fundamental divergence in their regulatory frameworks regarding financial and governance reporting.

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A 10-point plan for capital market development

The performance of the asset management industry is frustrating for investors.

PHOTO: REUTERS

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This divergence is detrimental to transparency and accountability in the financial sector. An agreement is needed that listing with a stock exchange shall be subject to differential regulations. A high-level inter-regulatory coordination framework should work to reconcile regulatory differences.

8) Two stock exchanges currently operate in Bangladesh. Their boards of directors, after the demutualisation of the exchanges, have not met market expectations. Critics often complain that the majority of independent non-executive directors lack relevant knowledge about finance, accounting, and capital markets. It is imperative that the board of directors of stock exchanges comprise independent people with relevant skills and competencies. The current stock exchange boards are often dysfunctional due to their irrelevance for the oversight of stock exchanges. The existing board and administrative regulations of stock exchanges are substandard and need to be amended.

9) A real-time platform for corporate reporting and market disclosure is long overdue for seamless corporate regulatory filing by listed companies, brokers, asset management companies, merchant bankers, and other capital market intermediaries. A centralised Extensible Business Reporting Language (XBRL) Bangladesh, a not-for-profit but fiscally sustainable company, may revolutionise regulatory filings of capital market intermediaries. Such a technology platform will substantially reduce manual processing of paperwork across regulatory agencies. An XBRL platform may evolve into a centralised corporate information system where hundreds of thousands of business enterprises file their corporate information online to be seamlessly retrieved by different regulatory authorities according to their differential reporting regulations.

10) A tax policy revision is necessary so that corporate tax rates for listed companies are always 10 percentage points lower than those for unlisted companies. The option to be listed with stock exchanges involves rising compliance costs, and companies need to be compensated by tax savings. The corporate tax regime is biased against listing with stock exchanges. The actual tax burden of an unlisted company is believed to be substantially lower than that of a listed company.

One explanation for this widening divergence is the presumptive and discretionary nature of taxation of corporate turnover and profits by tax authorities. Corporate taxation is often done without reliable books of accounts or proper accounting and auditing of financial statements. The corporate tax code in Bangladesh significantly diverges from accounting recognition and measurement principles as stipulated by the International Financial Reporting Standards (IFRSs).

VISUAL: STAR

Trump 2.0 and Bangladesh: Navigating a turbulent global trade landscape

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VISUAL: COLLECTED

MOHAMMAD ABDUR RAZZAQUE

- Trump 2.0 could herald a history-repeating moment akin to the 1930 Smoot-Hawley Tariff Act, which raised US import tariffs on approximately 900 products from an average of 38 percent to over 60 percent, provoking retaliation from more than 25 trading partners, crippling global trade, and deepening the recession in global economies.
- Beyond tariffs, the weakening of multilateralism, exacerbated by President Trump's focus on bilateralism and criticism of the multilateral trading system under the WTO, poses significant challenges to global trade norms.
- If new Trump tariffs are imposed on China and numerous other countries as feared, some estimates suggest the global economy could shrink by 0.8-1.3 percent, and global trade by three percent.
- The challenges posed by Bangladesh's impending LDC graduation, currently scheduled for November 2026, are likely to be exacerbated by the high tariffs and weakened multilateralism associated with Trump's policies, as the erosion of preferential trade benefits coincides with an increasingly protectionist global environment.
- While Bangladesh holds significant potential to attract shifting investments, its current investment climate—characterised by administrative inefficiencies and malpractices, inadequate infrastructure, and policy uncertainties—remains insufficiently conducive, risking the possibility that emerging opportunities may bypass the country unless substantial reforms are undertaken.

One might be forgiven for thinking that the turbulence unleashed by Donald Trump's trade policies during his first term as president of the United States was overhyped—especially since Bangladesh's export contraction between July 2019 and February 2020, in the aftermath of the US-China trade war that saw tariffs imposed on some $550 billion of Chinese goods and $185 billion of US goods, was soon eclipsed by the unparalleled economic disruptions brought about by the Covid pandemic. Yet, Trump 2.0 could herald a history-repeating moment akin to the 1930 Smoot-Hawley Tariff Act, which raised US import tariffs on approximately 900 products from an average of 38 percent to over 60 percent, provoking retaliation from more than 25 trading partners, crippling global trade, and deepening the recession in global economies.

As proposed, President Trump's second term may witness US tariffs escalating to an unprecedented 60 percent on imports from China—a country with which the US has maintained a bilateral trade volume exceeding $700 billion—an action that will undoubtedly reshape their economic relations, disrupt global supply chains, and inflate manufacturing costs worldwide. Furthermore, the administration's plans include imposing tariffs of 25 percent on imports from Canada and Mexico, the United States' closest trading partners, alongside a sweeping 10 to 20 percent uniform tariff on imports from all other nations, signalling a comprehensive departure from the norms of liberalised trade. Such an unparalleled escalation in tariffs will reverberate across the global economy, igniting trade conflicts, destabilising markets, and compelling nations to reassess long-standing trade alliances in an era where China's rise challenges US supremacy, triggering an intensification of economic nationalism as a response.

Asia, accounting for 60 percent of global growth, would be hit hard by a trade war between the United States and China.

GLOBAL TURMOIL: WIDER RAMIFICATIONS FOR BANGLADESH

Beyond tariffs, the weakening of multilateralism, exacerbated by President Trump's focus on bilateralism and criticism of the multilateral trading system under the WTO, poses significant challenges to global trade norms. With the rules-based multilateral framework increasingly undermined by geoeconomic strategies, non-power economies like Bangladesh face heightened uncertainty in accessing predictable and preferential trade systems to enter international markets as well as resolve disputes.

Bangladesh's challenges and opportunities arising from President Trump's second term will depend on the resultant outcomes endured by the global economy. While many consider hiking tariffs to be just threats or negotiating tools for achieving foreign policy objectives that might not actually be implemented, the first term of his presidency did demonstrate proactive actions, particularly against China, setting new norms of US trade policy that continued to be pursued by the Biden administration. If new Trump tariffs are imposed on China and numerous other countries as feared, some estimates suggest the global economy could shrink by 0.8-1.3 percent, and global trade by three percent. Asia, accounting for 60 percent of global growth, would be hit hard by a trade war between the United States and China.

If uniform tariff rates are imposed on all suppliers to the US, Bangladesh's exporters may retain their relative competitiveness, but the overall impact is expected to be negative due to reduced trade flows as tariffs raise prices and dampen demand. On the other hand, if significantly higher tariffs are levied on China only, Bangladesh could benefit from trade diversion as global buyers seek alternative suppliers.

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VISUAL: **SHAIKH SULTANA JAHAN BADHON**

Trump 2.0 and Bangladesh: Navigating a turbulent global trade landscape

Attracting investment from China presents a delicate balancing act for Bangladesh, as such moves are often construed as aligning with growing Chinese influence, a development that could provoke apprehension not only from the United States but also from the other regional geopolitical power, India.

▲ **Bangladesh's challenges and opportunities arising from President Trump's second term will depend on the resultant outcomes endured by the global economy.**

PHOTO: **REUTERS**

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However, these potential gains may be subdued or entirely offset if widespread trade wars lead to a reduction in global income and spending.

Furthermore, as many economists argue, Trump tariffs raise production costs and consumer prices in the US, exacerbating inflationary pressures. Evidence from post-Covid stabilisation measures in developed countries suggests that, in periods of high inflation, consumers disproportionately cut back on discretionary spending, particularly on clothing and footwear.

▲ VISUAL: **COLLECTED**

With over 90 percent of Bangladesh's exports concentrated in these sectors, such trends could pose significant challenges for the country's export earnings.

It is also worth pointing out that if the US, as the world's largest economy, takes recourse to high tariffs, other countries' currencies could depreciate due to reduced export revenues, weaker foreign exchange inflows, and a shift in investor sentiment towards the US dollar as a safe haven. The risk of competitive devaluation among key trading partners could exert substantial pressure on Bangladesh's currency, exacerbating its foreign exchange vulnerabilities and undermining export competitiveness in the highly price-sensitive apparel sector. Combined with the prevailing inflationary pressures and weak foreign reserves, trade policies under the Trump administration could further complicate Bangladesh's ongoing macroeconomic stabilisation efforts.

The challenges posed by Bangladesh's impending LDC graduation, currently scheduled for November 2026, are likely to be exacerbated by the high tariffs and weakened multilateralism associated with Trump's policies, as the erosion of preferential trade benefits coincides with an increasingly protectionist global environment. The weakening of the multilateral system under the WTO could restrict avenues for a graduating country to seek or negotiate favourable terms and challenge arbitrary trade measures, leaving Bangladesh particularly vulnerable to the shifting norms dictated by dominant geopolitical players.

COSTS OF DEEPENED GEOPOLITICAL FRAGMENTATION FOR INNOCENT BYSTANDERS

President Trump's reinforced trade and economic policies are further rooted in the shifting global economic order. The intensifying geopolitical competition between the United States and China is fundamentally driven by the recognition that, for the first time, China has emerged as both an economic and strategic competitor—a distinction that sets it apart from previous challengers such as Russia, which remained primarily a strategic rival, or Japan, whose competition was largely economic. While the US seeks to safeguard its preeminent role in global trade and security, China's extraordinary economic rise, coupled with its expanding geopolitical influence through initiatives like the Belt and Road Initiative (BRI), represents a direct and multifaceted challenge to US hegemony. This evolving dynamic has prompted the adoption of unilateral measures, including tariffs and technology restrictions, many of which were pioneered during Trump's first term, in direct contradiction to established global rules. The multilateral framework of the WTO, long intended to be rules-based and ensure predictability in global trade, now faces profound threats as geoeconomic strategies increasingly overshadow cooperative norms. With Trump 2.0 charting a new trajectory, US powerplay risks further undermining, if not dismantling, the foundational principles of multilateralism, cementing a legacy of US nationalist policies that threaten to redefine global trade governance and fragment the international trading system.

Evidence from IMF research suggests that geoeconomic fragmentation, by raising trade costs and greater geopolitical polarisation, generally leads to lower trade and incomes. However, emerging markets and developing economies (EMDEs) tend to see the largest impacts: real per-capita income losses for the median EMDE in Asia are 80 percent larger, and for the median EMDE in Africa, 120 percent larger, than for the median advanced economy. This suggests that the costs of trade fragmentation could fall disproportionately on countries that can afford it the least.

OPPORTUNITIES IN GEOPOLITICAL MINEFIELDS

The redefinition of global supply chains, driven by intensifying US-China geopolitical tensions, presents Bangladesh with a strategic opportunity to attract investments relocating from China as firms seek to diversify production bases. Additionally, the rise of restricted trade measures in the West could foster increased intra-Asian trade in sectors such as manufacturing and technology, creating new avenues for regional economic integration. Platforms like the Regional Comprehensive Economic Partnership (RCEP) offer Bangladesh a valuable framework to deepen regional ties and expand market access, particularly in a shifting global landscape.

Bangladesh's competitive labour costs, relatively young workforce, and established manufacturing base enhance its attractiveness as a destination for reshored investments. Multinational corporations, aiming to mitigate risks associated with concentrated supply chains, are likely to explore alternative production hubs, and Bangladesh is well-positioned to seize this moment. To fully realise these opportunities, however, the country must prioritise targeted policy interventions that improve infrastructure, streamline regulatory processes, and secure advantageous trade agreements.

While Bangladesh holds significant potential to attract shifting investments, its current investment climate—characterised by administrative inefficiencies and malpractices, inadequate infrastructure, and policy uncertainties—remains insufficiently conducive, risking the possibility that emerging opportunities may bypass the country unless substantial reforms are undertaken. Furthermore, the ongoing macroeconomic challenges, particularly the low level of foreign reserves, exacerbate concerns among potential foreign investors, who may perceive heightened risks related to profit repatriation and currency stability, thereby diminishing Bangladesh's competitiveness as an investment destination.

Attracting investment from China presents a delicate balancing act for Bangladesh, as such moves are often construed as aligning with growing Chinese influence, a development that could provoke apprehension not only from the United States but also from the other regional geopolitical power, India. The implications of such perceptions are far from hypothetical—Trump himself suggested imposing duties on automobiles manufactured in Mexico with Chinese investments if exported to the US. Moreover, in an era where global trade rules are increasingly flouted and multilateralism weakened, non-power economies like Bangladesh may find themselves subjected to arbitrary norms and standards dictated by dominant geopolitical players. This precarious landscape could amplify scrutiny over longstanding concerns such as labour practices in Bangladesh, potentially leading to the withdrawal of trade privileges and/or the imposition of restrictions under the guise of geopolitical manoeuvring.

ADAPTING TO UNCERTAINTY IN GLOBAL TRADE

Navigating the uncertain global landscape under Trump's presidency demands proactive strategies that prioritise mature and effective diplomatic engagements, as fostering constructive relationships with key trade and geopolitical actors becomes more critical than ever. This also requires an integrated approach involving policymakers, businesses, and other relevant stakeholders to prepare for a global trade and investment regime characterised by unpredictability and power asymmetries. Yet, even in such volatile circumstances, there is no substitute for enhancing external competitiveness and improving the domestic investment climate. A competitive export sector, coupled with an investor-friendly environment, not only mitigates vulnerabilities from shifting trade dynamics but also positions Bangladesh to seize emerging opportunities, ensuring resilience in the face of global uncertainties.

BANGLADESH IN 2030

Leapfrogging into the startup future

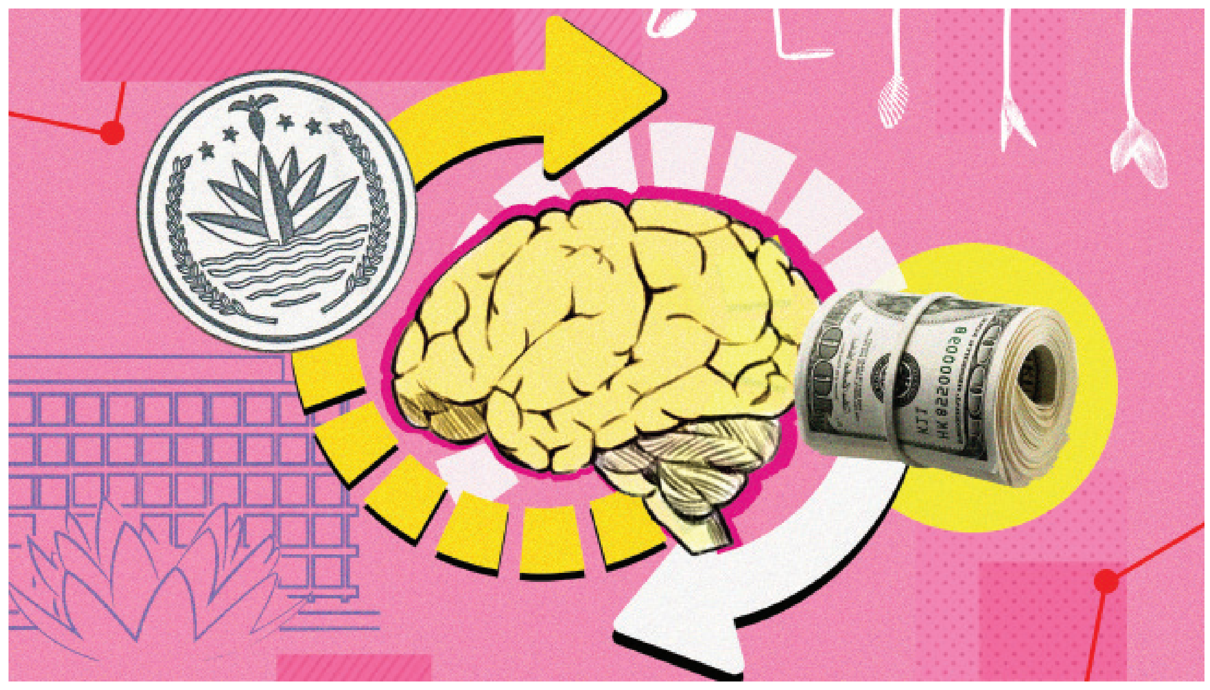
ADNAN IMTIAZ HALIM

Adnan Imtiaz Halim *is founder and CEO of Sheba Platform Limited.*

Imagine this: Bangladesh in 2030 is not just a country, but a shining example of what people can achieve together. Innovation, hard work, and hope have transformed our nation. The streets of Dhaka are cleaner and smarter, with systems run by artificial intelligence. Small businesses grow rapidly, using e-commerce to reach the world. Clean energy lights up homes, and self-driving vehicles transport goods from villages to cities.

Let us discover how Bangladesh can become a global leader through startups, technology, and inclusivity. Below is a roadmap to building a brighter future for all.

It's 2025, and Bangladesh is at an exciting turning point. The world is changing quickly with new technologies, ideas, and brave entrepreneurs. In 2024, when Donald Trump was re-elected, his focus on advancing artificial intelligence and empowering tech startups inspired many nations to rethink their strategies. Trump's policies promoted innovation in leading tech companies, showcasing how technology could shape a nation's future. While debates unfolded in the West, countries like China, India, and Indonesia continued building stronger startup ecosystems. Today, China leads in artificial intelligence, India has created over $100 dollar companies, and Indonesia is the startup leader of Southeast Asia. Bangladesh now faces the same big question: Will we wait and watch, or will we build our future through startups?



VISUAL: **ANWER SOHEL**

FIVE KEY AREAS TO FOCUS ON

- Policies that help startups grow
- Using Artificial Intelligence (AI) for growth
- Building Dhaka valley: A unique startup ecosystem
- Solving real problems and empowering everyone
- Five ambitious targets for 2030

We must act wisely and move fast. Like in a game of chess, we need the right moves to win. Just like Doctor Strange, who had to choose the one victorious path out of 14 million probabilities, Bangladesh must identify and act on the best strategies for success. Here's how Bangladesh can lead the way with startups by 2030.

1) POLICIES THAT HELP STARTUPS GROW

We need innovative and straightforward policies that directly support innovation to achieve our ambitious targets. For example, India made it easy for startups to register, offered tax benefits, and created funds to help new businesses. Bangladesh needs to:

Be the facilitator, not the regulator: Focus on enabling growth through rewards and incentives for solving significant national problems, as the government did for the RMG sector, India did for UPI, and America did for EVs. Reduce unnecessary regulatory hurdles.

Make registration easy: Develop a one-stop business portal for startups and SMEs to quickly register and comply with regulations. Allow startups to register in foreign countries like Singapore, enabling them to access global markets and investment opportunities. Encourage local and non-resident Bangladeshi (NRB) angels and investors to invest in those startups globally, fostering a truly international ecosystem.

Tax benefits for startups and SMEs: Offer affordable, friendly tax policies to encourage more businesses to enter the tax net. Plan for a decade-long strategy rather than yearly collection targets. Introduce incentives to encourage cashless transactions, promote the use of modern apps, and connect these private systems to a national data lake for greater efficiency and transparency. With supportive policies, bypassing the system will become unnecessary.

Government-backed funds: Launch a fund to attract billions in foreign investment and support high-potential startups. Provide tax benefits to investors who fund startups and SMEs, and create easy exit options to encourage more participation from local and foreign investors.

With these policies, Bangladesh can become one of the top 30 countries in the Ease of Doing Business ranking.

2) USING ARTIFICIAL INTELLIGENCE (AI) FOR GROWTH

AI is essential for driving innovation and meeting our 2030 goals. It helps companies grow faster and deliver better results. For example, AI helps Alibaba understand customers, powers fintech solutions in India, and streamlines logistics in Indonesia. Bangladesh must:

Adopt AI across sectors: Enable startups and SMEs to leverage AI for customer insights, operational efficiency, and global competitiveness. Use AI to empower people—like wearing Ironman's suit with a virtual assistant like JARVIS—providing tools to solve problems and innovate.

AI in fintech: Use AI to provide small business or personal loans and promote a cashless economy with digital payment systems. Build a strong credit bureau system that integrates AI to establish reliable social scoring for individuals and businesses, fostering trust and financial inclusion.

AI for logistics: Streamline supply chains and improve cross-border trade for SMEs using AI-powered solutions.

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Bangladesh in 2030: Leapfrogging into the startup future

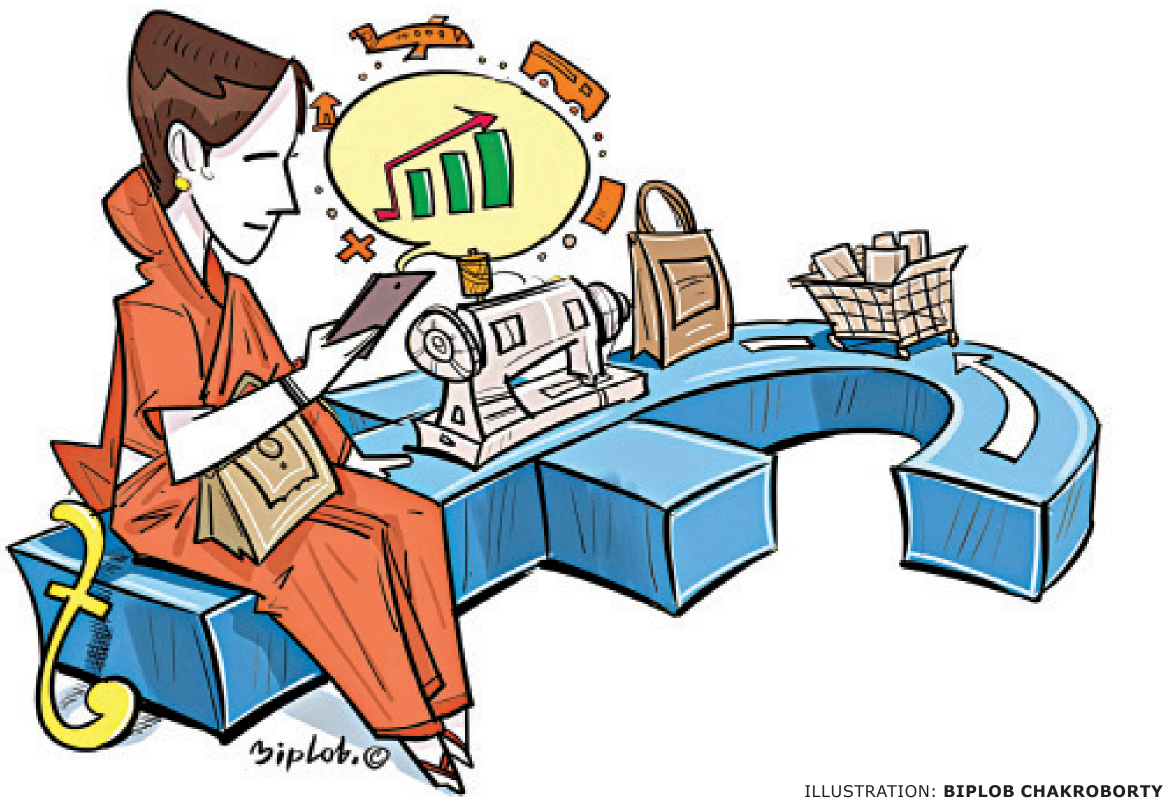

ILLUSTRATION: **BIPLOB CHAKROBORTY**

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Government subsidies and incentives for AI adoption: Provide subsidies to encourage the use of AI across industries, especially in areas that boost GDP growth or solve national problems. Reward innovative solutions that address critical issues such as improving GDP, increasing remittance, or saving public funds.

Convert population into global assets: Encourage startups to transform Bangladesh's 200 million people into a globally skilled workforce, earning more for the nation.

AI in public systems: Deploy AI to repair and enhance education, healthcare, and traffic management systems, building a strong and values-driven nation.

Adopting AI with focused efforts will make Bangladesh a global leader in technology and innovation. We don't need to reinvent concepts like $E=MC^2$—let's build on proven strategies and adapt them to solve our unique challenges effectively.

3) BUILDING DHAKA VALLEY: A UNIQUE STARTUP ECOSYSTEM

To achieve our ambitious targets, we need an ecosystem tailored to Bangladesh. Lessons from Indonesia's Gojek and India's Paytm offer valuable insights. Key actions include:

Corporate partnerships: Encourage companies like Walton and BSRM to invest in and mentor startups, fostering innovation.

Platform-based models: Build platforms addressing local needs, such as rural connectivity, logistics, global technology exports, and SME enablement.

Export-driven growth: Support startups and SMEs in creating products for South Asia, Africa, and beyond.

Dhaka Valley can drive regional and global innovation, setting new benchmarks for the world.

4) SOLVING REAL PROBLEMS AND EMPOWERING EVERYONE

Startups and SMEs must focus on addressing challenges unique to Bangladesh while uplifting all sectors of society to achieve our 2030 vision. For example:

Improving supply chains: Develop systems to connect rural producers with urban markets and global buyers, driving efficiency and growth.

Affordable e-commerce platforms: Create cost-effective solutions to help startups and SMEs scale operations, supporting cross-border sales and global competitiveness. Integrate offline and online channels into omnichannel businesses to create more sales opportunities for SMEs.

Train a skilled workforce: Teach coding, e-commerce, and AI to prepare individuals for global remote jobs, turning Bangladesh's population into a global asset.

Support women entrepreneurs: Provide funding and mentorship for women-led ventures, fostering equality and inclusion in economic growth.

Boost rural and global opportunities: Build hubs to connect rural producers to markets and expand remittance through skilled workforce exports, targeting an additional $30 billion annually.

By addressing these critical issues and empowering every segment of society with tailor-made solutions, Bangladesh can create a stronger, more resilient economy and enhance its global footprint. We don't need to reinvent the wheel—let's adapt proven strategies to our unique challenges effectively.

5) FIVE AMBITIOUS TARGETS FOR 2030

To achieve our vision for Bangladesh, we need to focus on these five ambitious targets:

SME contribution to GDP: Ensure that SMEs contribute 30 percent of GDP by 2030 and aim for 50 percent by 2050, making them a cornerstone of the economy.

Attracting investment: Secure billions of dollars in foreign investment into startups, creating jobs and boosting innovation.

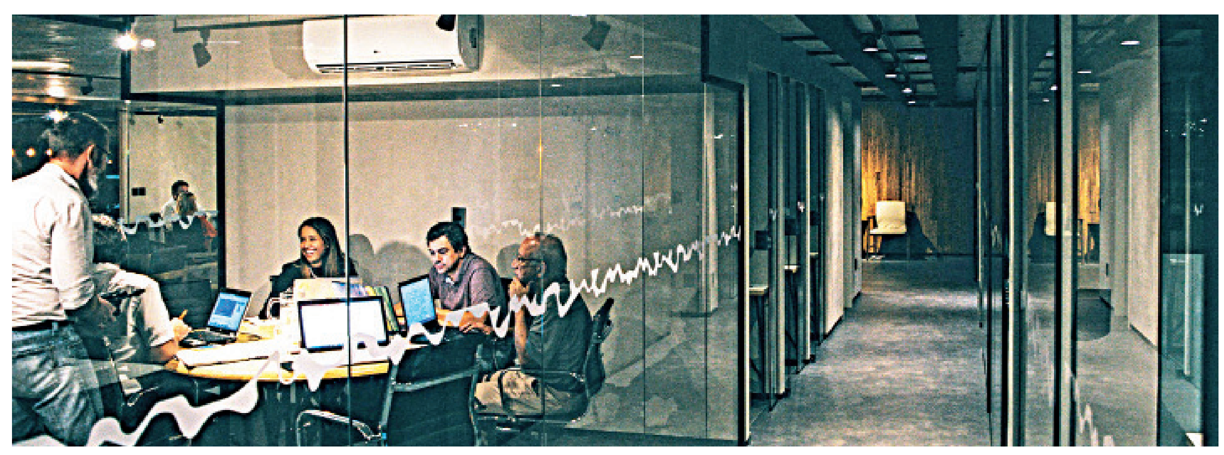
Cashless economy: Transition to a 70 percent cashless Bangladesh, leaving only 30 percent of transactions in cash, enhancing transparency and efficiency.

Global opportunities for SMEs and people: Enable more earning sources by supporting cross-border sales for qualified SMEs, expanding Bangladesh's technology footprint globally, increasing the supply of skilled professionals for remote and global jobs, and adding an additional $30 billion in annual remittance through enhanced opportunities.

Ease of Doing Business ranking: Create a single business portal with affordable, friendly tax policies that bring more individuals and businesses under the tax net. Aim to elevate Bangladesh to one of the top 30 countries in the Ease of Doing Business ranking.

CONCLUSION

Bangladesh in 2030 is not just a dream—it can be real if we act today. Will we wait and grow slowly, or will we leap ahead with startups and innovation? By learning from the best, solving real problems, and helping all people, we can create a strong and modern economy.



Bangladesh's tech revolution presents a unique opportunity for progress and transformation. PHOTO: **UNSPLASH**

Sustainable finance strategies for OUR ECONOMIC FUTURE

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BIJON ISLAM

Bangladesh has grown consistently over a decade to reach close to half a trillion dollars in GDP and is expected to graduate to middle-income status by the end of the decade. However, despite improvements in GDP per capita, Bangladesh is experiencing increased inequality, climate change risks, a shaky financial sector riddled with non-performing assets, and inadequate infrastructure, whether in logistics, affordable housing, education, or health.

Unfortunately, traditional financing models have resulted in these critical sectors being underfunded, impeding sustainable and economic growth. To solve these problems, we all need to come together (read: more public-private partnerships) as an ecosystem. This is where innovative and sustainable finance (ISF) can expedite inclusive economic growth. When used correctly, ISF can unlock new sources of capital while aligning incentives with social and environmental impact. So, what are the ways ISF can actually work?

One way ISF can be leveraged is by providing catalytic capital to initiatives that do not have enough funding to take off. Essentially, this instrument creates a blend of different types of financing to de-risk investments for commercial capital. Let us now look at concrete examples of how this works.

CREDIT GUARANTEE AND/OR FIRST-LOSS CAPITAL

Investors and businesses may back out of initiatives that generate significant public good, such as those in education or health, due to higher risk profiles and longer payback periods. By providing a partial or full credit guarantee or covering first loss (i.e., if the project is unsuccessful, the principal invested will be covered), the riskiness of the venture is reduced. Typically used by development banks, this instrument, when applied effectively, can unlock much-needed funding for healthcare services, clean energy, and climate infrastructure.

PERFORMANCE PAYMENTS AND OUTCOME-BASED FINANCING

Mission-driven businesses generate measurable positive impact. Properly managed impact metrics can be utilised to access development capital. In this model, the investor—be it a development organisation, a corporate foundation, or an impact investor—and the investee (the mission-driven business) agree on a set of target KPIs that demonstrate positive outcomes for a specific population. Based on achieving these KPIs, the business receives payments. This de-risks investments for the business and ensures that payments from the development organisation are contingent on actual results—no cure, no money.

VISUAL: **SHAIKH SULTANA JAHAN BADHON**

- Bangladesh's economic growth faces challenges like inequality and inadequate infrastructure, making innovative and sustainable finance (ISF) crucial for inclusive development.
- ISF tools like credit guarantees, performance payments, and sustainability bonds can unlock capital and de-risk investments in critical sectors such as health, education, and clean energy.
- To effectively leverage ISF, Bangladesh needs to implement multi-stakeholder collaborations, establish clear data transparency frameworks, and incentivise businesses with targeted mechanisms.
- Despite its potential, ISF faces challenges related to complex design, governance, and measuring impact, requiring careful implementation and monitoring.
- By using ISF strategically, Bangladesh can transition to a middle-income economy while ensuring that growth is sustainable and inclusive for all citizens.

If the KPIs are designed correctly, they can drive meaningful impact. For example, instead of tying funding to farmer training, it could be linked to increases in farmer income and productivity. This approach can be applied across various sectors, including agriculture, education, health, financial inclusion, and affordable housing. It can also be used to incentivise innovative solutions from startups by providing them with seed capital and de-risking investments for their investors to some extent.

SUSTAINABILITY BONDS

Sustainability bonds (SBs) come in many forms, such as orange bonds (popularised by IIX, Singapore), green and climate bonds (linked to greening, circularity, and decarbonisation), and blue bonds (linked to ocean and biodiversity sustainability). These bonds attract capital from investors with the promise of impact (often tied to ESG and/or SDG goals) and a fixed return over a specified period. Unlike outcome-based financing, where the investor takes a risk on an individual venture, sustainability bonds benefit from diversification at the portfolio level.

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Bangladesh still suffers from inadequate infrastructure, whether in logistics or other areas. PHOTO: RAJIB RAIHAN

Sustainable finance strategies for our economic future

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benefit from diversification at the portfolio level.

These bonds can be issued by the government, giving them a sovereign-level credit rating, but they have also been used by financial institutions and development organisations. SBs can fund critical services such as education, finance, health, and agriculture, as well as support the greening and decarbonisation of major manufacturing industries. In Bangladesh, the most immediate target would be the garments and textiles sector. Properly designed, SBs can generate significant social, environmental, and community benefits.

However, ISF is not without its challenges. One major issue is the design complexity of such instruments and the resources required for compliance, reporting, and governance. For example, first-loss capital or credit guarantees require excellent forecasting models to predict default rates, and setting up governance systems can be costly. Similarly, while outcome-based financing ties funding to success, it also requires robust data collection and impact measurement, which can be expensive and difficult to implement. Sustainability bonds have often faced scepticism due to "impact washing" and, in some cases, have not matched market returns given their risk profile.

THE WAY FORWARD FOR ISF IN BANGLADESH

To fully leverage the benefits of innovative and sustainable finance in the short run, Bangladesh can take three key steps:

1) Develop incentive mechanisms such as tax breaks for businesses in specific sectors and/or risk-sharing mechanisms for sustainability bonds and catalytic capital.

2) Conduct pilot ISF projects in critical sectors using a multi-stakeholder approach, involving investors, banks, financial institutions, startups, and both the private and public sectors.

3) Establish strong data transparency and measurement frameworks to attract the right innovators and investors, particularly for performance and outcome-based financing models.

When implemented correctly, ISF can help Bangladesh not only transition to a middle-income economy but, more importantly, become an inclusive middle-income country.