COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN BANGLADESH

Unleashing the Private Sector to Sustain Development Success

EXECUTIVE SUMMARY

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WORLD BANK GROUP
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EXECUTIVE SUMMARY

This Country Private Sector Diagnostic (CPSD) assesses opportunities and requirements for expanding the private sector's contribution to sustainable economic growth in Bangladesh. It evaluates the chief constraints to realizing private sector potential and identifies strategic entry points for private investment. The CPSD will be used to craft the IFC Country Strategy and the World Bank Group's new Country Partnership Framework with the government of Bangladesh, paving the way for joint programming to create markets and unlock private sector potential. This executive summary starts by briefly setting out the development context, highlighting opportunities for the future, and discussing the main constraints hindering the private sector from addressing Bangladesh's development challenges and then sets out recommendations for reform priorities.

Bangladesh at an Inflection Point: Development Success, New Ambitions, and Persistent Challenges

Bangladesh has been one of the biggest development success stories of recent decades. Despite high poverty levels at the moment of independence in 1971, Bangladesh is on course to graduate from the United Nations least-developed countries list in 2026. Annual gross domestic product (GDP) growth has accelerated in every decade, reaching over 8 percent in 2019. At the same time, the rate of extreme poverty has fallen from 43.5 percent in 1991 to just 14.3 percent in 2016, an extraordinary rate of progress in social development. Child mortality has fallen by nearly 90 percent since 1990, life expectancy has increased from 58 to 72 years, and secondary school enrollment for girls has increased from just 14 percent in 1990 to nearly 80 percent today.

Sustained growth has been made possible by prudent government policy choices, along with the successful development of the ready-made garment (RMG) sector and the strong inflow of remittances. First-order policy reforms introduced by the government of Bangladesh in the 1980s and 1990s and solid macroeconomic management—which ensured a prudent fiscal approach, a competitive exchange rate, and low inflation, along with investments in basic health, education, and infrastructure—unleashed a response from the private sector, which leveraged the country's comparative advantage in low-cost labor to exploit global market opportunities. Exports of RMG, which alone created more than 4 million jobs, along with remittances from Bangladeshis working abroad, have been the key growth engines of Bangladesh's economy. Private investment overall grew from close to 15 percent of GDP in 2000 to more than 23 percent by 2019.

Bangladesh has nonetheless reached the limit of its current development model. Moving to the next stage of development will require a new round of reforms to strengthen and modernize the private sector, which faces an economic policy environment that increasingly undermines its potential to drive diversified, export-led growth. The government of Bangladesh's *Perspective Plan 2021–41* sets the objective of becoming an upper-middle-income country by 2031, along with reaching full employment and eliminating extreme poverty. Nearly half the population is vulnerable to falling back into poverty. It is therefore critical to boost development of a broad-based private sector that can grow, export, and create quality jobs at scale. Bangladesh's private sector faces one of the most burdensome business environments in the world. The financial sector lacks the capacity to efficiently channel domestic savings into productive investment because of an elevated ratio of nonperforming loans (NPLs) and weak capital buffers, underscored by inadequate corporate governance, weak supervision, and a lack of breadth. High import tariffs and the discretionary use of regulations protect well-established businesses and sectors at the expense of the rest, and this impedes innovation. Limited progress in opening the infrastructure sector for competitive private participation—with the exception of power generation—holds back investment and modernization. As a result, Bangladesh's private sector has not moved beyond its initial success and is becoming increasingly concentrated and inward looking, seeking to maximize rents from existing markets instead of embracing openness and competitiveness.

Large investments are needed to overcome development gaps and continue growth (figure ES.1). Despite improvements, human capital gaps reduce the productivity of Bangladesh's future workforce by more than half, according to the World Bank Human Capital Index. Meanwhile, half the country lacks sufficient access to health care.

FIGURE ES.1 A SUMMARY OF KEY DEVELOPMENT GAPS

POVERTY

24% POOR below national poverty line

50% VULNERABLE to falling back into poverty

US$1,800 GDP PER CAPITA remains low

JOBS

2.5 MILLION JOBS to be created per year in the next decade

40% OF LABOR FORCE in subsistence agriculture

91% OF NONAGRICULTURAL JOBS are informal

74% FEMALE YOUTH IS UNEMPLOYED compared to 54% for males

COMPETITIVENESS

85% OF EXPORTS are basic RMG

50% PRODUCTIVITY LOSS due to human capital gaps

11th BOTTOM PERCENTILE Doing Business

5-48% OF PRODUCTION COSTS attributed to logistics

0.5% of GDP lost due to power disruptions

ACCESS TO BASIC SERVICES

70% OF URBAN POPULATION lives in informal housing

~1/2 OF URBAN POPULATION lacks access to drinking water & basic sanitation

45% OF POPULATION lacks sufficient access to healthcare services

7% OF YOUTH are illiterate

35 MILLION PEOPLE lack access to financial services

CLIMATE & SUSTAINABILITY

9th MOST VULNERABLE to climate change effects

75% OF LAND AREA affected by floods in extreme years

#20 MILLION PEOPLE urban population increase by 2030

~1/3 OF ELECTRICITY generated by heavy oil fuel-based plans or inefficient open cycle gas turbine plants

~2 BILLION LITERS of untreated sewerage & industrial wastewater dumped every day

Sources: Farole and others 2017; Hill and Genoni 2019; World Bank Human Capital Index; World Development Indicators.

Note: GDP = gross domestic product; RMG = ready-made garments; WB = World Bank.

Although infrastructure has improved, large investments are needed to manage the rapid urbanization that increasingly hampers the quality of life and drains productivity; to strengthen rural connectivity for the expansion of economic opportunity to all parts of the country; and to mitigate the impacts of climate change, which represents a large and growing threat to Bangladesh's development trajectory. The government of Bangladesh estimates that it will need to increase investment to 35 percent of GDP (an additional US$10 billion per year from current levels) and that public spending on health and education—currently among the lowest in the world—will need to rise sharply. These development gaps will need to be addressed at a time when Bangladesh's traditional growth model—leveraging low-cost labor in international markets—faces multiple threats, such as wage pressure, technological change, environmental and social compliance, and eroding trade preferences.

COVID-19 Amplifies the Challenges Facing Bangladesh and Its Private Sector

Although Bangladesh has managed the pandemic relatively well, the economic fallout was significant. The pandemic has hit RMG exports, the main source of foreign exchange. More than US$3 billion worth of existing RMG export orders were cancelled during the first months of the pandemic, and new orders in June 2020 were down 45 percent from the previous year. Many cancelled orders have been reinstated since then, supporting export recovery. Official remittances also surged in 2020 and were reportedly driven by a shift in flows from informal to formal channels facilitated by tax incentives. Facing enormous pressure to address the public health crisis and to mitigate the impact on poor and vulnerable people, the government of Bangladesh's initial COVID-19 economic response program has cost about US$11.6 billion, equivalent to 3.7 percent of FY20 GDP. The World Bank projects that, after moderating to estimated 2.4 percent in fiscal year (FY) 2020, GDP growth will accelerate to a range between 2.6 and 5.6 percent in FY21 and 5–6 percent in FY22–FY23, well below 8 percent per year in FY18 and FY19.[1] The pace of the recovery is highly uncertain and depends on the severity of the second wave of the pandemic, which unfolded in April 2021, the country's vaccination campaign, and the strength of the of the global economy.

The pandemic may destabilize the financial sector, which entered the pandemic with elevated level of stressed assets and low capital buffers. Despite accelerating economic growth, credit provision to the private sector declined to its lowest level in more than a decade even before the COVID-19 crisis began. This resulted, at least partly, from insufficient bank capitalization, unresolved nonperforming loans (NPLs), and the government's imposition of an interest rate cap. The COVID-19 crisis has exposed even the better-managed private banks to risk, whereas expanding regulatory forbearance and a large increase in subsidized lending exacerbate governance shortfalls, which may contribute to lower profitability and weaker asset quality.

Bangladesh's post–COVID-19 recovery will force a reimagining of the country's developmental model, accentuating the importance of the private sector and making the reform agenda even more urgent. In the short term, deficits and government debt are likely to rise from moderate levels, and the government will almost certainly be

1 The real GDP growth estimate for FY20 and projections for FY21–FY23 are based on the World Bank Spring Economic Focus (March 2021).

forced to shift its spending priorities. In the medium term, the COVID-19 crisis will probably hasten structural changes in the manufacturing sector, which may limit the scale of its recovery. With weaker demand from migrant-receiving countries such as the oil-producing Gulf states, remittances growth is expected to be moderate. Finding new sources of revenue and growth, therefore, will be an urgent priority. In this context, the private sector, which already accounts for more than 70 percent of all investment in Bangladesh, will need to play a central role. Facilitating rapid economic recovery, returning growth to above 8 percent, and closing the growing infrastructure investment gap will require a financial sector and a macroeconomic and regulatory environment that can support significant further expansion of private investment in infrastructure, in services, and in diversified, competitive sectors.

Looking to the Future: A Diversified, Increasingly Sophisticated, and Resilient Private Sector

Development success stories highlight the importance of having a diversified and sophisticated private sector to sustain development progress, which will become even more relevant in the post–COVID-19 recovery phase when public resources will be prioritized in the social sectors. In the absence of natural resource riches, the path to becoming an upper-middle-income country runs through increasing the value added in existing sectors and diversifying to create new ones. The experience of Bangladesh's aspirational peers demonstrates the importance of unleashing a diversified private sector at precisely the development stage where Bangladesh is today. As Malaysia and Turkey have done in the recent past, Vietnam has undertaken policy reform to reorient domestic high performers to focus on global markets, promote foreign direct investment (FDI), upgrade the quality of local production, and strengthen small- and medium-enterprise (SME) supply chains. Turkey's achievements in the 1990s and 2000s, which brought it to the cusp of high-income status, provide a noteworthy example for Bangladesh. Following the 2001 crisis, comprehensive financial and commercial reforms facilitated private sector job creation in services and manufacturing along with the rapid modernization of agriculture. A number of measures helped push leading domestic conglomerates to become major global players across a range of sectors, including the adoption of a more free-floating exchange-rate regime and the full liberalization of trade and investment (which included the abolition of trade licenses and the elimination of subsidies), supported by effective commercial diplomacy and public-private investment in transport, logistics, and energy infrastructure.

The CPSD highlights opportunities for Bangladesh to take concrete steps toward future change. This entails increasingly sophisticated, innovative, and diversified manufacturing and agribusiness sectors, as well as an emerging value-added services sector supported by modern infrastructure. This vision of the medium-term future for the Bangladeshi economy could include the following:

- **A modernized RMG sector** could surpass the US$50 billion export target and become increasingly characterized by market diversification, greater inflows of FDI and technology transfers, production of higher-value products, progress on design and branding, and the development of upstream and downstream industries to help offset job losses resulting from automation, restructuring, and COVID-19 impacts in RMG global value chains (GVCs).

- **Growing, diversified non-RMG manufacturing sectors** reaching at least US$10 billion in exports in the medium term and taking advantage of rapidly expanding domestic markets. Large opportunities exist in sectors such as footwear, leather, and electrical goods, which could leverage the same instruments available to RMG, such as bonded warehouses and access to innovative trade finance. A more sophisticated plastics sector could create backward links to RMG and respond to critical needs for plastic recycling and circularity. Further development of the pharmaceuticals sector, including backward linkages with active pharmaceutical ingredients and production of biosimilars, could signify the increasing sophistication of the industry and enable the scaling-up of exports of affordable quality medicines.
- **A more dynamic, diversified, and sustainable agribusiness sector** that takes advantage of rapidly expanding domestic and export demand by scaling up the production of high-value-added products such as horticulture, animal protein, and dairy, as well as aquaculture where Bangladesh has a strong comparative advantage This opportunity would be supported by rising on-farm productivity, development of competitive value chains, a robust agri-logistics network, and a strong regulatory environment that includes reliable food safety standards.
- **A more stable, efficient, and diverse financial sector** that offers competitively priced financing and a broad range of instruments to support the short-term, long-term, and venture capital needs of the private sector. This would include targeted financial access to SMEs and women-owned businesses; well-developed markets for corporate equity and bonds; access to foreign capital; a diverse range of products for markets like project finance, green finance, and housing finance; and a dynamic financial technology ecosystem.
- **A modern transport and logistics secto**r supported by an integrated multimodal master plan, three or four well-functioning modern ports, an efficient trade facilitation environment, supported by domestic and foreign private investment in infrastructure and services. This would facilitate export expansion and diversification.
- **A recalibrated energy sector** that builds on successful private investment in generation to further increase power supply from cheap, clean energy sources and strengthen transmission and distribution capacity. This would drive the shift toward a cleaner energy mix while improving cost-effectiveness and reliability.
- **An expanded, inclusive, and well-managed health care system.** This could leverage private sector participation to expand access to high-quality, integrated health care provision and specialized treatment, supported by disruptive technologies such as telemedicine and e-pharma.

Unleashing the Potential of the Private Sector: Growing the "Missing Middle," Promoting Export Diversification and Expanding FDI

Bangladesh's private sector has expanded rapidly, although in a segmented manner with a distinct "missing middle" that struggles to grow. The number of firms in Bangladesh has more than doubled in the past decade to nearly 8 million. Ninety-eight percent of these are microenterprises, but the other 2 percent account for 35 percent of all nonagricultural jobs, a large proportion of which exist in firms with more than 500 workers. In between, there is a "missing middle." Small and medium enterprises fail to grow, and Bangladesh currently lacks a strong cohort of dynamic, young firms. Key constraints facing the private sector—notably a lack of access to finance and land, plus excessive regulation—hit SMEs considerably harder than microenterprises, which operate "below the radar," and large firms, which have capital and relationships that enable them to find workarounds. This is particularly prominent in the manufacturing sector, in which weak productivity growth (less than 2 percent annual growth since 2000) is linked to poor performance of mid-sized firms, and rates of technology adoption are low across firm size categories and subsectors.

Exports have been at the heart of Bangladesh's past success, but diversification must now become an imperative, especially in the post–COVID-19 world. Since 2000, Bangladesh's exports have grown at a rate more than twice the global average, and its export share of GDP has tripled, but exports remain highly concentrated. RMG, along with textiles, accounts for more than 90 percent of goods exports. This is about five times more concentration than in export-driven economies such as China, Thailand, and Vietnam. Moreover, exports are not only concentrated in the RMG trade, they are also concentrated within it—that is, they are reliant on a small set of exporters producing a narrow range of products going to a few main markets. Such extreme concentration makes Bangladesh vulnerable to shocks. Such a shock occurred in the initial phases of the COVID-19 pandemic, during which RMG exports collapsed virtually overnight, threatening millions of jobs. Overcoming these vulnerabilities requires diversifying the export base while also upgrading to higher-value-added activities in RMG.

Taking greater advantage of foreign investment will be critical to supporting export diversification, upgrading domestic supply chains, and closing infrastructure gaps. Over the past two decades, FDI flows into Bangladesh averaged less than 1 percent of GDP, and at 6 percent of GDP, the stock of FDI is far below the low-income-country average of 25 percent. FDI brings not only links to GVCs but also technology and knowledge to help upgrade standards and productivity in domestic supply chains, a key channel for SME growth. Moreover, given Bangladesh's large infrastructure needs, the increasingly constrained financing capacity of its government, and the shortage of long-term financing from the domestic financial sector, foreign investment can help bridge the financing gap and foster deeper integration into the global economy.

Addressing Constraints to the Private Sector: Significant Structural Reforms and Investments Are Needed

Bangladesh's private sector faces one of the world's most burdensome business environments, underpinned by a regulatory governance regime that is unpredictable, nontransparent, and discretionary. Over the past five years, Bangladesh was consistently placed in the bottom 10th percentile of the World Bank Group's Doing Business report. One reason is that Bangladesh is the second-worst country in the world for contract enforcement. It takes on average four years to seize collateral from distressed debtors with a recovery rate of just 20 cents on the dollar. Similarly, resolving a contract dispute through the courts takes almost four years, with costs eating up two-thirds of the value of the claim. For getting electricity, registering property, and trading across borders, Bangladesh is also in the bottom 10th percentile of the Doing Business rankings. This performance can be explained partly by the many outdated laws governing economic issues like foreign exchange, land, and company formation—laws that predate independence. In addition, regulatory rules often overlap or contradict one another, whereas administrative processes are opaque and poorly enforced, resulting in a high degree of discretion in the regulatory process. These regulatory weaknesses have pervasive effects across the private sector, undermining corporate governance, blocking market entry, stifling growth, preventing the emergence of SME supply chains, and hindering investment in new technologies, new sectors, and new firms.

The trade and investment policy regime creates an anti-export bias and undermines domestic competitiveness. Despite tariff reductions over the past 25 years, average tariffs in Bangladesh are still twice the South Asia average and three times that of export-oriented Asian peers. Para-tariffs such as regulatory and supplementary duties, which have risen since 2000, double the average tariff rate and sharply increase the protection of domestic sectors like transportation, textiles and RMG, footwear, and agribusiness. As a result, domestic producers lack incentives to reduce costs, innovate, and internationalize. Moreover, inflated costs of imports mean that producers may be unable to access the highest-quality and most cost-effective inputs, lowering their competitiveness. Investment promotion policies also feature a domestic bias. Although investment promotion institutions are being strengthened and the investment policy regime contains few statutory restrictions, FDI in key growth sectors like financial services, telecommunications, transport, and infrastructure is often blocked by requirements for permission from line ministries. Moreover, sectoral equity caps, approval prerequisites, and mandatory public listing on entry are imposed in various sectors, and foreign companies report significantly greater harassment by tax authorities. Whereas many development success stories, including the Republic of Korea and Turkey, have protected domestic industries in the past, their development success has hinged on second-generation reforms that have driven export orientation by liberalizing trade and focusing on a search for new markets.

Increasing vulnerability of the banking sector contributes to declining private sector investment and threatens macroeconomic stability. Although Bangladesh has many high-performing private banks, rising NPLs and deteriorating capital adequacy are cause for concern. As of early 2020, NPLs account for 10.4 percent of outstanding loans, with NPLs in state-owned banks accounting for well over 20 percent. There has been a wave of defaults by influential firms, along with loan rescheduling and restructuring. The actual size of bad loans may be significantly higher than the officially recognized figure (IMF 2019). The high level of stressed assets limits the ability of banks to engage in new lending: private credit growth has fallen sharply from 17 percent of GDP in FY18 to below 10 percent in FY20. Vulnerability of the banking sector may be further aggravated by the decision to impose interest caps and by the effects of the COVID-19 crisis, including additional forbearance measures adopted by the Bangladesh Bank. Addressing the problem of NPLs will require strengthening governance in the sector, including dealing with "willful defaulters" and putting in place a modern resolution framework for managing distressed assets, along with a modernized insolvency framework.

Underdeveloped domestic markets for long-term capital and restrictions on foreign currency borrowing hamper investment and outbound FDI. Heavy dependence on short term-deposits (roughly 75 percent are for less than one year) creates asset-liability mismatches that limit the ability of commercial banks to lend over long terms. Moreover, this leaves businesses that seek long-term capital few alternatives because local equity and bond markets are still nascent. In this context, foreign currency borrowing could help close gaps in long-term financing, but Bangladesh's foreign exchange policy regime—governed by the 1947 Foreign Exchange Regulation Act (FERA)—places legal and administrative restrictions that virtually preclude foreign borrowing. Restrictions not only limit access to finance but also hinder foreign investors from repatriating capital and domestic businesses from investing abroad. Foreign borrowing amounted to less than 1.5 percent of gross national income in Bangladesh in 2019 compared with 9 percent in India, 11.4 percent in Thailand, and 12.6 percent in Vietnam. Whereas FERA plays a role in protecting foreign exchange, partial liberalization of the exchange control regime is needed to support a modern trade and investment environment.

On top of policy barriers, the private sector faces an onerous trade infrastructure and trade facilitation environment. Bangladesh stands at the bottom 6th percentile for trading across borders in the 2020 *Doing Business* report covering 190 countries and is ranked 123rd out of 136 countries in the most recent *Global Enabling Trade Report*—by far the worst in South Asia. The logistics system is characterized by congestion (roads and ports), lack of reliability (ports), red tape (facilitation payments), limited sophistication (weak intermodal connectivity, limited use of information and communication technology, inadequately qualified personnel), and informality across logistics services providers (Herrera Dappe and others 2019). Border and documentary compliance take on average 315 hours for exporting and 360 hours for importing, around three times as long as in Vietnam. Whereas physical investments in infrastructure and technology are needed to keep pace with growing demand (such as in ports), weak sector governance is the underlying factor driving poor performance, and it includes (a) an outdated, complex regulatory landscape combined with weak enforcement; (b) the lack of an integrated policy framework and a fragmentation in sectoral governance; and (c) dominant public sector management characterized by inadequate implementation and the impeding of efficiency improvements and sector modernization that result from the inadequate financial capacity of state-owned enterprises. Ongoing reforms such as the enactment of a new customs act, the adoption of risk management, and the development of a national single window may significantly improve the trade facilitation environment.

Land scarcity and costly development amplified by a weak land administration system severely restricts greenfield investment and domestic expansion. With extreme population density, tidal inundation, rapid urbanization, farmland depletion, and a history of land grabbing, the cost of developable land and of land development in Bangladesh is among the highest in the world. Foreign greenfield investors and medium and large local investors often cannot secure a sufficiently large plot of serviced land at a reasonable price, and few SMEs can afford new land or facilities for expansion. Meanwhile, it typically takes more than 400 days to register land ownership in Dhaka and another eight months or more for developers to get land-use clearance certificates and necessary approvals. The weaknesses and opacity in the land administration system present significant room for discretionary practices, making land access dependent on influence. In order to stimulate industrialization and promote industrial clusters, Bangladesh plans to massively expand its use of public and private economic zones that encourage increased private sector participation and FDI involvement. Its recent approval of more than 35 zones and its strong courting of investors during the pandemic testify to the government's commitment. Although many hurdles remain, the soliciting of more than US$20 billion in domestic and private investment proposals for the zones as of August 2020 (including from international investors such as Sumitomo and Honda) suggests that the zones offer significant potential.

The persistent challenge to ensure a reliable and cost-effective electricity supply calls for a greater focus on clean energy imports and strengthened transmission and distribution systems. Despite Bangladesh's efforts to quadruple energy-generating capacity between 2009 and 2020, transmission capacity has not kept pace, contributing to a low utilization of power generation capacity. Reliance on so-called rental plants that use expensive, heavy fuel oil–based (HFO) generators raises questions over financial and environmental sustainability. As the effects of COVID-19 relax the pressure for massive expansion of generating capacity in the short term, the government of Bangladesh may take the opportunity to recalibrate its energy sector strategy, emphasizing efficiency improvements in existing power plants, decommissioning expensive HFO generators, strengthening transmission and distribution (T&D) systems, and rebalancing the energy mix toward a cheaper, low-carbon power supply that focuses particularly on clean energy imports. This could be supported through continued improvements in policy frameworks and infrastructure for cross-border energy trade, an increase in various forms of private participation in T&D infrastructure, and an optimization of the subsidy regime at the retail and producer levels (retail tariffs are below production cost; natural gas prices are below cost). In the medium to long term, reforms of public utilities that increase operational efficiency and, by extension, increase financial sustainability and the creditworthiness of utilities as off-takers should be a critical part of sector strategy in Bangladesh.

Finally, a more assertive expansion of digital infrastructure will be critical for meeting the needs of the modern economy, particularly in the COVID-19 context. Despite significant progress over the past decade, large capital investments are needed to build up high-quality digital infrastructure, including fiber-optic backbone infrastructure, 4G capacity expansion, and telecom towers. To extend connectivity and meet data usage growth as users transition from 2G and 3G to 4G, Bangladesh will also need a combination of efficient spectrum management, a deployment of small cells for improved indoor connectivity, a deployment of additional towers, and both passive and active infrastructure sharing. To facilitate these developments, the government needs to reduce regulatory risks for the private sector by eliminating discretion and undue influence in the issuance of licenses, the imposition of fees, and the introduction of ad hoc rules. It will be particularly important to establish a constructive dialogue between public and private sector stakeholders to ensure that there is a common understanding between policy makers and market participants, and that the effect of the policy changes on the industry is adequately accessed and communicated.

Unleashing Private Sector Growth for Development: Policy Recommendations

Bangladesh urgently needs to engage in a new round of reforms to strengthen and modernize the private sector in order to reach its full potential for broad-based investment and service delivery. Bangladesh is at a critical inflection point in its development path. Despite its success to date, the current growth model is reaching its limits, accelerated by the COVID-19 crisis. Recent successful experiences in developing countries show that moving to the upper-middle-income stage requires an absolute commitment to delivering the export-led growth path through an economic policy environment that supports a competitive, diversified, and outward-oriented private sector.

Within the comprehensive program of reforms that are needed, three priority areas stand out. Table ES.1 provides an overview of the three key reform areas based on the analysis presented in the CPSD. For each, the table highlights a set of high-priority reforms, distinguishing between short-term actions ("low-hanging fruit") and more difficult but ultimately critical structural reforms ("game changers"). Appendix A of the report contains the full set of reform recommendations. Removing the main constraints to the private sector will not be possible without addressing the "game changers." The high-priority recommendations include (a) creating a level playing field for business, with a focus on facilitating exports and investment; (b) restructuring and modernizing the financial sector; and (c) removing infrastructure constraints through regulatory reform and private participation. It is important to note that this CPSD focuses on a set of selected, high-priority constraints. Even beyond the full set of reforms covered in Appendix A, additional reforms in education, water, housing, business services, and other areas are needed to support specific sectors or the private sector more broadly.

A significant, comprehensive strengthening of governance will be the prerequisite to delivering these reforms. Moving to the next stage of development requires changing the way the government approaches its role relative to the private sector. This role needs to shift away from present relationship-based approaches that rely on discretion and that perpetuate gaps between insiders and outsiders toward a system-based facilitating and regulating role supported by transparent, predictable, modern institutions and an efficient, capable bureaucracy. Again, the experience of successful East Asian economies shows the path forward for Bangladesh in committing to a comprehensive reform program underpinned by improved governance and institutional modernization.

TABLE ES.1 KEY PRIORITY CONSTRAINTS AND POLICY REFORM RECOMMENDATIONS FROM THE CPSD

Policy Interventions		covid-19 Response		
"Game changers"	**"Low-hanging fruit"**	**(1)**	**(2)**	**(3)**
Reform Priority I: Create a level playing field for businesses and focus on facilitating exports and investment				
• Introduce a new ***Companies Act*** to modernize the processes of starting and running a business. • Overhaul the ***1947 Foreign Exchange Act*** to ease access to foreign capital for trade and investment. • Implement ***tariff rationalization*** for inputs in key export sectors, focusing on the ***removal of supplementary duties.*** • Fully implement the ***Customs Modernization Strategic Action Plan 2019–22.***	• Fully operationalize the ***One-Stop Service*** created by the Bangladesh Investment Development Agency. • Amend ***external commercial borrowing guidelines*** to shift from "blanket" to risk-based approval and introduce market-based ceiling by including the LIBOR. • Streamline processes and expand the ***bonded warehouse regime*** for non-RMG sectors. • Make the ***National Trade and Transport Facilitation Committee*** effective and operational. • Strengthen domestic ***testing and certification*** capacity.	✓	✓	✓
Reform Priority II: Restructure and modernize the financial sector				
• Establish an ***independent banking commission*** to review stability issues (NPLs, capital adequacy, liquidity, interest rate ceilings on bank credit) and adopt a ***reform road map*** in line with international standards. • Comprehensively address NPLs by introducing full ***asset quality review; NPL resolution and insolvency frameworks; a well-governed asset management company; and corporate governance standards.*** • Strengthen ***Bangladesh Securities and Exchange Commission (BSEC) capacity and oversight,*** including by introducing streamlined ***guidelines for corporate bond issuance and increased disclosure requirements for listed companies.***	• Amend the ***Money Loan Courts Ac***t to minimize lengthy stay orders and allow ***out-of-court workouts***. • Adopt the ***Secured Transaction Bil***l and establish a ***movable collateral registry.*** • Introduce ***regulatory frameworks for Fintech*** and guidelines for ***interoperability*** between mobile financial services, agent banking, and banks. • Revise ***private equity and venture capital rules and introduce a regulation for private provident funds***.		✓	✓

Policy Interventions		covid-19 Response		
"Game changers"	**"Low-hanging fruit"**	**(1)**	**(2)**	**(3)**
Reform Priority III: Remove infrastructure impediments through regulatory reform and private participation				
Transport • Develop and implement an ***integrated multimodal transport and logistics master plan.*** • ***Separate port oversight and operation*** and open port development to ***private participation*** and FDI. • Relax ***restrictions on foreign ownership in logistics.***	• Increase ***demurrage fees*** and allow more products for ***clearance in off-docks*** to decongest Chittagong port. • Establish and enforce ***performance criteria*** for port and logistics service providers.		✓	✓
Energy • Adopt a ***power sector master plan*** based on sound demand projections, least-cost power supply, and a special focus on imports. • Maintain active dialogue with neighbor countries on ***cross-border energy trade*** to further ***align regulations*** and mobilize required ***investment from various sources in cross-border transmission***. • Prepare to move to a ***cost-reflective tariff structure and gradually corporatize public utilities.***	• Develop and enact a ***private sector power transmission policy*** and implement a ***pilot PPP*** in the transmission and distribution sector. • Prepare an ***exit strategy from emergency power.*** • Ensure ***competitive procurement of all sources of power generation.***		✓ ✓	✓ ✓
Digital Infrastructure • Ensure the de facto ***independence of the Bangladesh Telecommunication Regulatory Commission*** by eliminating discretionary directives. • Introduce a ***formal platform for public-private dialogu***e to improve communication between the policy makers and market participants.	• Revisit the ***spectrum allocation framework.*** • Ensure that ***regulations for infrastructure sharing support market mechanisms,*** including free choice of providers, equal access to existing infrastructure, and operators' right-of-way to build their own towers and lay cables.	✓	✓	✓
Industrial Land • Adopt the ***National Master Plan for the economic zones program*** with phased land development. • ***Develop the market for climate-resilient infrastructure*** through PPPs in economic zones.				

Note: FDI = foreign direct investment; fintech = financial technology; LIBOR = London interbank offered rate; NPLs = nonperforming loans; PPPs = public-private partnerships; RMG = ready-made garments.
Key to COVID-19 response: (1) Minimizing destruction; (2) Restructuring and recovery; (3) Creating markets.

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