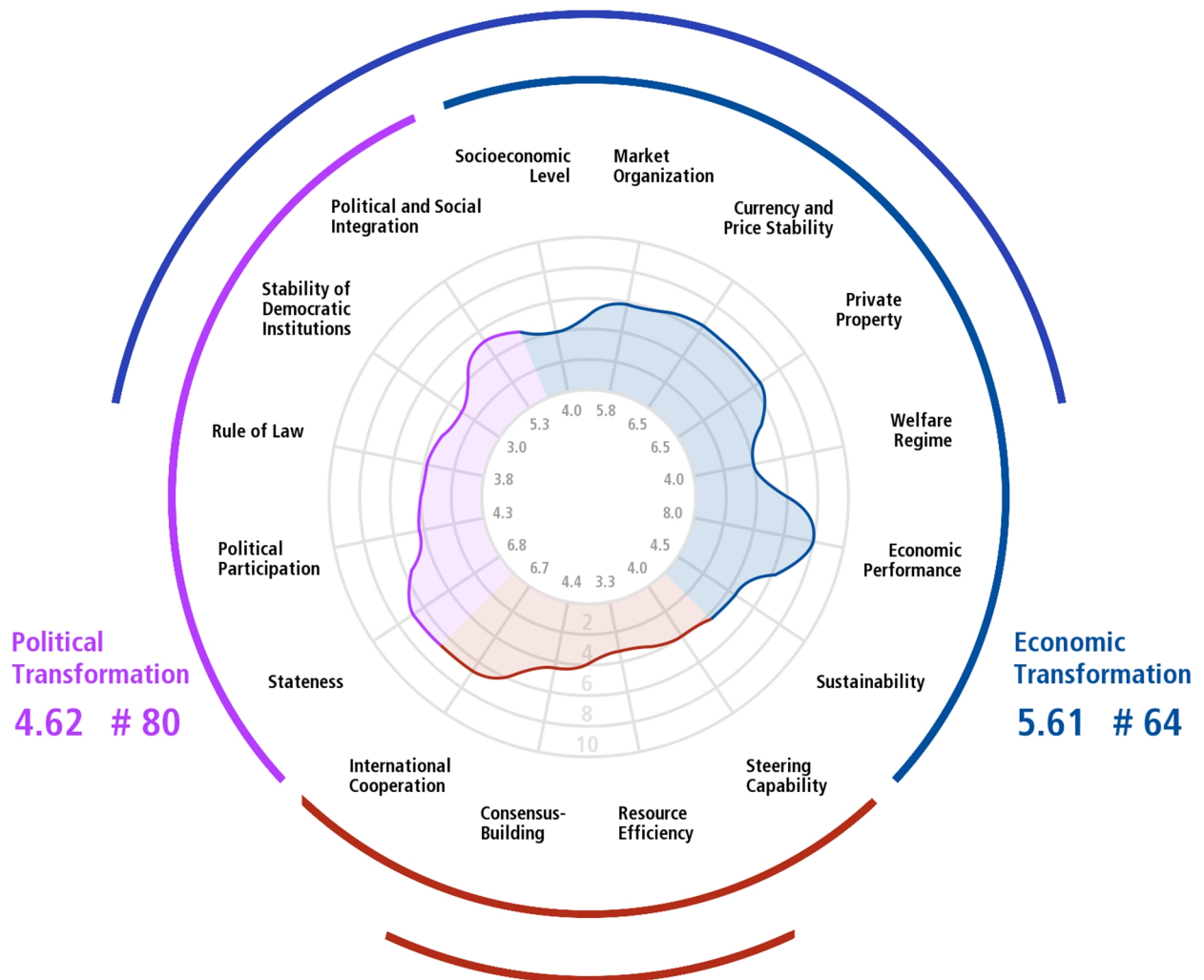


# Bangladesh

## Status Index

**5.11 # 79**

on 1-10 scale out of 129



**Political Transformation**  
**4.62 # 80**

**Economic Transformation**  
**5.61 # 64**

## Governance Index

**4.27 # 84**

on 1-10 scale out of 129

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2018**. It covers the period from February 1, 2015 to January 31, 2017. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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**Key Indicators**

Population	M	<b>163.0</b>	HDI	<b>0.579</b>	GDP p.c., PPP \$	<b>3581</b>
Pop. growth <sup>1</sup>	% p.a.	<b>1.1</b>	HDI rank of 188	<b>139</b>	Gini Index	<b>32.1</b>
Life expectancy	years	<b>72.2</b>	UN Education Index	<b>0.485</b>	Poverty <sup>3</sup>	% <b>59.2</b>
Urban population	%	<b>35.0</b>	Gender inequality <sup>2</sup>	<b>0.520</b>	Aid per capita \$	<b>15.9</b>

Sources (as of October 2017): The World Bank, World Development Indicators 2017 | UNDP, Human Development Report 2016. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

The period under review was plagued with political violence, extra judicial killings and violence perpetrated by the Islamists. The Bangladesh Nationalist Party (BNP) resorted to massive violence across the country. Out of 197 people killed in political violence in 2015, 72 people were burnt alive in arson attacks by the supporters of the main opposition party. After 92 days of boycotts and protests (so-called hartal), the opposition slackened the protest due to lack of popular support and rising anger against violence which was becoming counterproductive. Business suffered heavy losses and export orders were cancelled. According to a survey, the daily loss for the garment industry was BDT 8.4 billion; transport BDT 3 billion; manufacturing sector BDT 1 billion; agriculture BDT 2.9 billion, real estate BDT 2.5 billion; and tourism BDT 2.1 billion. The government has filed numerous cases against the leaders of the BNP and arrested several leaders of the Jamaat Islami. The main opposition leader Begum Khaleda Zia is facing numerous corruption cases. The rivalry between the two leaders is often at the root of dysfunctional democracy in Bangladesh.

There were systematic attacks and silencing of secular bloggers, many of whom were hacked to death. The police remain clueless and were unable to name perpetrators of the crimes while having made numerous arrests. The Gulshan café attack drove home that the problem of radicalism is not confined to poor and madrasa educated citizens, but has reached the rich and educated. Though the government denied the domestic presence of Islamic State (IS), all the attacks between 2015 and 2016 were claimed by IS and al-Qaeda in South Asia (AQIS). The Rapid Action Battalion released data in July confirming that 261 people have gone missing, possibly joining the ranks of militants. Singapore's deportation of 26 Bangladeshi labor migrants for supporting armed jihad ideology indicates that domestic groups were well connected to a network among expatriate Bangladeshis.

The economy performed well with growth rate projected at 7.11%. GDP per capita was \$972.88. Manufacturing was the highest contributor to GDP which stood at BDT 18 billion followed by

agriculture, transport and service industries. Trade deficit stood at \$6.27 billion, down from \$6.96 billion in 2014 to 2015 due to an increase in exports. Flow of remittances in the 2015 to 2016 financial year fell about 2.55% to \$14.93 billion. This is likely to increase as Saudi Arabia lifted a ban on recruitment of Bangladeshi workers.

Private investment was sluggish in 2015 to 2016 but grew by almost 10% in FY 2017. Total debt was 33.9% of GDP. The budget deficit is estimated at 5.0% of GDP in FY 2017. Government revenue may grow with 30.8% of incremental revenue generated through income tax and 28.8% from VAT. Deficit financing may see a reduction. The Economist Intelligence Unit (EIU) findings show that 47% of graduates do not find employment, which is quite alarming. However, according to Bangladesh Bank, 98% of those who enter the job market find employment. There is a problem of underemployment in Bangladesh.

## History and Characteristics of Transformation

Bangladesh became independent in December 1971 after a nine-month war with Pakistan. Since then, Bangladeshi politics has undergone a significant transformation that included prolonged military rule. Bangladesh adopted a secular constitution with four foundational ideologies - secularism, democracy, socialism and Bengali nationalism. Prime Minister Sheikh Mujibur Rahman and the ruling Awami League (AL) adopted the parliamentary form of government and a command economy. However, in the face of massive opposition led by the ultra-left parties, Sheikh Mujibur replaced the parliamentary government with a form of one-party presidential rule, declaring himself the president of the country. The foreign policy of the new state focused on close political and economic relations with India and the Soviet Union.

The military coup of August 1975 and the assassination of Mujibur Rahman resulted in a radical shift at both domestic and international levels. The BNP engineered constitutional changes replacing Bengali nationalism with Bangladeshi nationalism, which emphasized the Muslim identity of its citizen and removed secularism from the constitution. A ban on religious political parties was lifted and General Ziaur Rahman co-opted them to expand his support base. He founded the BNP in 1978 and contested the election and became president. The Jamaat Islami, which opposed the Bengali nationalist movement and actively collaborated with the Pakistani Army during the independence war, re-emerged on the political scene in 1979. However, given tensions within the Army, Zia was assassinated in 1981 in Chittagong. A year later, General Hussain Muhammad Ershad took power. During his rule, Islam became the state religion in Bangladesh and the role of the military in public institutions was strengthened. A popular uprising in December 1990 brought an end to the era of military and military-ruled governance.

The elections of February 1991 brought the BNP back to power under the leadership of Khaleda Zia. In a rare show of agreement between the AL and the BNP, the parliament unanimously amended the constitution and reintroduced parliamentary government in 1991. Power alternated between the BNP and the AL through elections held between 1991 and 2006. In late 2006, the

country was plunged into chaos as the outgoing government and the opposition parties failed to reach agreement on who should be leading the interim government that would oversee the election. AL supporters took to the street. Violence and months of uncertainty finally led to the appointment of a military-backed technocratic caretaker regime in January 2007 which held the election in December 2008. The AL-led alliance emerged victorious with an unprecedented majority in parliament.

The AL, soon after assuming power armed with Supreme Court's decision restored many provisions of the 1972 secular constitution. However, its decision to amend the Care Taker Government (CTG)'s role in overseeing elections was very contentious and engendered a political crisis. As a result, BNP refused to participate in the election and organized a countrywide general strike to pressure the government that resulted in violence. Although the ruling party offered a small concession, inviting the BNP to join the election-time cabinet, the BNP stuck to its demand. Efforts by the envoy of the U.N. Secretary-General to mediate fell short of bridging the gap between the government and the opposition and thereby failed to ensure an inclusive election.

The election, in which opposition did not participate, was held on January 5, 2014. A total of 153 candidates, more than half of the parliamentary seats, ran unopposed – a virtual disenfranchisement of more than half the population. The ruling AL won 233 of 300 seats. Voter turnout was an historic low: 39% according to the Bangladesh Election Commission (BEC), while press reports claim the turnout was about 20%. Three years after the controversial election, the ruling party has consolidated power and has succeeded in marginalizing the BNP who faced severe public condemnation for violence perpetrated by its cadres in 2015 in which 72 innocent people were burnt alive. Several cases were instituted against opposition leaders for instigating violence. Its main ally, the JI is in a weaker political position after several of its leaders were convicted of war crime and hanged. The party's registration with the Election Commission was cancelled in 2013. Many of its cadres went underground to escape government repression. The country was rocked by a number of terror attacks claimed by transnational terrorist organizations such as IS and AQIS. The government denied the existence of these terrorist organizations and blamed the opposition for the attacks. However, after the high-profile attack in a café in an upscale neighborhood in the capital, which cost 29 lives (including five attackers), the government intensified counter terrorism efforts. The election delivered a parliament without an opposition, and the government's heavy-handed measures weakened the opposition BNP.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

## Transformation Status

### I. Political Transformation

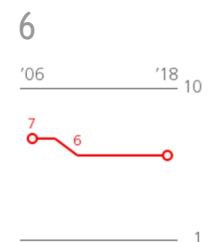
#### 1 | Stateness

The state's monopoly on the use of force is established nationwide in principle, but it is challenged by extremist groups. The state's coercive capacity is used by the government to employ heavy-handed tactics to suppress violence instigated by opposition. From January to December 2016, 195 people were victims of extrajudicial killings. The number was 192 in 2015 and 128 in 2014. These include deaths in custody. The opposition political parties accused the state of perpetrating violence on their party members. Attacks on minorities increased, as did state inaction, giving an impression of state support. Challenge to state monopoly over violence was posed by violent extremist groups who targeted bloggers, 'atheists' and minorities, and staged a large-scale attack on a café in the capital, Dhaka. However, the state's propensity to use violence was much higher when compared to these groups. Crime in general and those against women increased substantially.

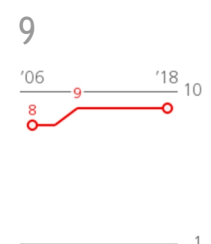
Bangladesh was declared a secular country in the 1972 constitution and Bengali nationalism formed the cornerstone of its identity. The constitution had greater acceptability except for the Chakmas, an indigenous ethnic group, who contested the basis of nationhood. However, after General Ziaur Rahman's military coup, the constitution was amended and 'Bangladeshi' nationalism with emphasis on Islamic identity was introduced. What appears to be a natural progression in the politics of religion, Islam was declared a state religion in 1988 excluding more than 12% of Hindu minorities from the concept of nation-state. The 15th amendment to the constitution, introduced in July 2011, restored the 1972 secular constitution, but Islam remains the state religion. Therefore, the Bangladesh constitution reflects the contradiction that exists within society about the identity of the state. In recent times, militant Islamists are questioning the basis of the nation-state and its identity. They are defining who is a 'Muslim' and hacking to death bloggers and secular activists who they consider atheist. There is no legal bar on access to citizenship on the basis

Question  
Score

Monopoly on the  
use of force



State identity



of ethnicity, national origin, religion and gender, though political affiliation may delay the process of citizenship depending on the ideology of the ruling party.

Political institutions and the legal system in Bangladesh remain largely secular. The constitution does not bar any person from holding office based on gender, race, ethnicity and religion. Bangladesh has inherited the British legal system, but the constitution prevents any law that is contrary to Sunnah. However, there is no separate Shariah bench in the courts. All citizens are governed by personal laws, including divorce and inheritance. However, in the past the religious political parties prevented passage of a law that provides equal inheritance rights to women. Religious groups, like the Hefajat Islami and Islami Shashontantra Andolan, from time to time have demanded implementation of Islamic laws. A number of violent Islamist groups, for example the JMB, the ABT, the AQIS, have emerged that want to enforce their vision of an Islamic state. Despite the controversy between secular and religious groups and organizations, there is a trend towards Islamization of public life – including threats and violence against religious minorities and secular members of civil society.

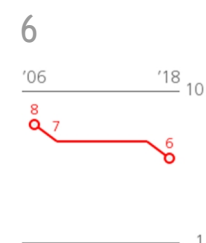
Bangladesh has basic well-defined administrative infrastructure throughout the country even though they are deficient. Bangladesh has an excellent record in providing access to sanitation and drinking water to its people. Bangladesh has around 80% coverage regarding access to drinking water. However, the drinking water in many places fails the water safety standard. According to a World Bank report, arsenic contamination affects 22% of the country's tube wells. Bangladesh is successful in reducing open defecation, from 34 % in 1990 to just 1% of the national population in 2015. The country is taking steps to improve access to sanitation beyond the current 61% who have such access.

## 2 | Political Participation

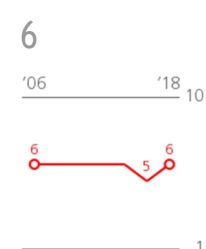
The 2014 Parliamentary election, boycotted by main opposition party Bangladesh Nationalist Party (BNP), saw the Awami League (AL) win 153 seats out of total 300 seats uncontested. The Election Commission remains politicized and free and fair elections under a partisan EC create the fear of electoral malpractice. The abolition of the Care Taker Government, which conducted parliamentary elections since the transition to democracy in 1991 until its abolition in 2011, raised questions about the capacity of the EC to hold free and fair election. In 2014, Upazila (sub-district) elections, in which the BNP fared well, and local council elections held in 2015 and 2016 witnessed rigging and ballot box stuffing.

The first three months of 2015 were marred by violence as the opposition led protests and staged boycotts of public buildings including the parliament, calling for fresh parliamentary elections, which saw more than 100 people killed and as many as 74 burnt alive in arson attacks, bringing condemnation from around the world. The

No interference of religious dogmas



Basic administration



Free and fair elections

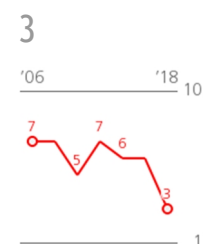


attacks were allegedly organized by the opposition party and its main ally, the Jamaat Islami. The government also resorted to repressive measures arresting more than 15,000 political activists and instituting criminal cases against them. The opposition leader chose to confine herself in the party office to draw national and international attention. However, in the political confrontation the government was a clear winner. Large-scale public aversion to violence led to the political undoing of the BNP. Moreover, the party's inability to mobilize the dissatisfaction of the people to a broad-based political agitation only compounded the problem for the BNP, and the opposition apparently lost the sympathy of the people. The government, which had looked a little shaky in 2014, consolidated power.

In the period under review, Bangladesh conducted a six-phase, partly partisan Union Parishad (UP) election in 4,279 seats of the total 4,500 seats, which were held between March 22 and June 4, 2016. This election witnessed much more violence and loss of life than the previous parliamentary election of January 5, 2014. The UP elections left 126 people dead and thousands injured in poll-related violence – decried as the worst in the history of local bodies' elections. The ruling party faced tough opposition from rival candidates within the party who contested election against the officially nominated candidate. This resulted in 47 deaths – the highest in intra-party rivalry. The Election Commission (EC) whose impartiality was doubted due to the commissioner's overt public allegiance to the ruling party contributed to the politicization of the election process, particularly when he recruited senior members of local administration to conduct elections instead of employing Returning Officers. The ruling party used official machinery to influence the outcome of the elections which except for the chairperson's position were held on non-partisan basis. The local bodies' election is an important political barometer to gauge grassroots-level support for political parties. However, given the massive violence, the capacity of the EC to conduct the election is questioned by the opposition political parties, civil society groups and the media. The District Council elections were held in December 2016 after 16 years. The government previously changed the system from a direct election to an indirect election, meaning only public representatives of the local government bodies were eligible to vote. The new system provided an advantage to the ruling party.

Central leadership of both the ruling Awami League and main opposition, the BNP, exercised firm control over party affair, and the local leaders followed the directions of party high command in exercising their power. Due to the shortcomings of the 2014 national elections and the following 2016 local elections, the official office-holders claim to be democratically elected must be considered contestable. In some areas, the local leadership exercised effective control and as a result, the central political leadership was hesitant to take action against the non-performance of the local leader. The religious political parties intervened to effectively limit the government's action on certain legislation concerning empowerment of women or matters concerning family laws. Attacks on secular bloggers and minorities allegedly

Effective power to govern





by Islamist groups like the Ansarullah Bangla Team (ABT) and IS increased and the government was unable to arrest the perpetrators. In 2015 and 2016, nearly 43 people were killed in terrorist attacks, the number includes the victims of attack on the café on July 1, 2016. Though there was no threat from the military, the government kept the armed forces satisfied by purchasing defense equipment and allowing army welfare agencies to take up various development projects. This allowed the government to exercise authority throughout the country through indirect co-option.

All citizens have the right to form association and join independent political or civic groups. However, the government, in the name of maintaining public order can restrict the activities of the opposition parties and civil society organizations. All the organizations require permission from the police to hold rallies and organize peaceful marches or demonstrations. The government, at times, has denied permission to the organizations opposed to its policies to hold meeting at a particular venue, which may attract public attention, citing non-availability of the venue or denying on security ground. Methods for granting permission for to hold meetings have often been non-transparent. Often the government has used intimidation and harassment to prevent supporters of the opposition and civil society groups from protesting government policy or from joining protest rallies. The police have not allowed the opposition to hold public rallies on a number of occasions and have prevented protests by civil society groups. A civil society group demanding the cancellation of the Ramphal power project on the grounds that it will have adverse environmental impacts, particularly impacting the largest mangrove forest, has not been allowed hold rallies and was attacked by police on several occasions.

The constitution guarantees freedom of speech and expression, however, these rights are observed more in contravention than observation. During the period under review, Shafiq Rehman, an 81year-old editor of a pro-opposition magazine was arrested on the charge of sedition and criminal conspiracy. Mahfuz Anam, the editor of leading English newspaper the Daily Star was slapped with 79 cases – 62 for defamation and 17 for sedition. These cases were filed by ruling party activists throughout the country after he made a public confession expressing regret that he published uncorroborated allegations against the current prime minister during the caretaker government rule in 2007 to 2008. Amardesh editor Mahmudur Rahman was arrested for publishing blasphemous material and exposing the Skype talk between a judge of the International Crime Tribunal (ICT) and a Brussels-based lawyer, and sentenced to three years in prison. A number of mobile telephone companies were instructed by the authorities to stop advertisements in two leading dailies - the Daily Star and the Prothom Alo. The controversial section 57 of the Information and Communication Technology (ICT) Act also criminalizes many aspects of freedom of expression and makes them punishable by a 14-year prison sentence, without the option of bail. What constitutes hurting religious sentiment is extremely ambiguous. Severe restrictions exist and online activities are monitored restricting freedom of speech and expression. Police inaction was justified by Prime Minister Sheikh Hasina who said the

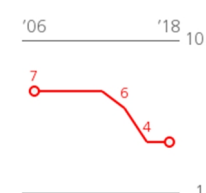
Association /  
assembly rights

5



Freedom of  
expression

4



government cannot protect those bloggers killed by radicals for blasphemous online activities. The bloggers who receive death threats from militants are equally scared to approach police because of section 57 of ICT Act. In November 2015, the government blocked online social media on the plea of national security prior to the hanging of some opposition leaders convicted of war crimes. Most of the media houses tread a delicate line - between protecting business interests and exposing government malfeasance and self-censorship. Differences of opinion with government policy are generally avoided. Newspapers that highlight the opposition point of view feel severely restricted. However, some media houses stood firm and provided space to a plurality of opinions different from government policy.

### 3 | Rule of Law

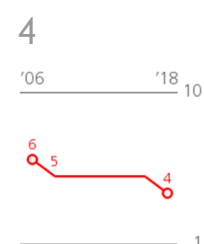
The Bangladesh constitution provides for separation of power. Since the opposition boycotted the 2014 parliamentary election, the legislature functions as an appendage of the ruling party. The Jatiyo party, officially designated as opposition, hardly plays the role of opposition or subjects the government to checks and balance. The chairman of the Jatiyo Party, H.M. Ershad the erstwhile military ruler, is an adviser to the prime minister and three JP parliament members are in the cabinet, which has made the parliament de facto one-party institution. As a result, parliamentary oversight on the functioning of government is completely absent. The judiciary remains beholden to the executive in spite of the separation of power as envisaged in the Supreme Court decision of 2007. At the lower level, the judiciary remains heavily politicized.

The long period of military rule crippled the independence of judiciary. However, after the restoration of democracy in the 1990s the situation remained unchanged rather, judiciary became increasingly amenable to the political government as relations between the two major political parties became hostile based on zero sum game. Recruitment, promotion and postings were decided on political affiliation, and the judiciary exhibited very little inclination to assert its independence as perks were linked to partisan political ideology. In spite of political interference, the power of the Supreme Judicial Council, which was vested with the responsibility to recruit judges, was taken away in 2014 through the 16th Amendment Bill and vested Article 109 with the president, crippling whatever semblance of independence the Bangladesh judiciary possessed. Article 116 covering the promotion, posting and discipline of those employed in judicial services, including magistrates, vested power with the president, who performs the duty in consultation with the Chief Justice of the Supreme Court. However, the prominence of political consideration in these appointments made any consultation with the Supreme Court redundant. The courts therefore refrain from passing judgment that would indict the government. The 16th amendment restored the power of parliament to remove Supreme Court judges for their “misconduct or incapacity.” Though the High Court struck down the 16th

Separation of powers



Independent judiciary



amendment in May 2016, the government, in yet another show of ignorance for the authority and independence of the national judiciary, has yet to restore the independence of the judiciary. Overall, the erosion of judicial independence between 2014 to 2016 fits into a broader trend of “democratic backsliding,” in which representatives elected to protect and govern Bangladesh’s democracy, by their actions, contribute to the erosion and, perhaps, eventual collapse of the democratic system.

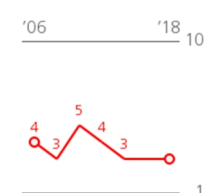
The public office holders are rarely subjected to judicial or parliamentary scrutiny. Transparency International, who publishes corruption index in Bangladesh, is heavily criticized by government functionaries. The Anti-Corruption Commission (ACC) remains the most ineffective body and is not seen as an independent institution that can investigate corruption cases, which is pervasive at all levels of society. Moreover, there was no movement in high profile corruption cases pertaining to the collapse of Rana Plaza, Destiny Group’s role in money laundering and the stock market collapse. Politically motivated corruption cases against the opposition proceed much faster. According to the ACC 2015 annual report, poor conviction rates due to shoddy investigations led to the acquittal of 207 out of 306 corruption convicts. Though the government pushed the Anti-Corruption Commission (Amendment) Bill of 2016 in parliament to provide more teeth to the ACC (allowing the police to investigate graft charges, judicial magistrates to hold trials and placing crimes related to bribery and corruption under the anti-money laundering act of 2012), the situation on ground remained unchanged. There were reports that the police took bribes for releasing people arrested under dubious charges.

The constitution protects the civil rights and provides for redress mechanism to address violation of these rights (Article 27, 31, 32, 33 and 35). However, the process of seeking justice is lengthy and costly for the common man and people are generally not inclined to fight against the state or state machineries responsible for violating civil rights. During the period under review, the government arrested scores of the opposition parties’ leaders, cadres and sympathizers on charges of arson and violence following the blockade organized by the BNP in 2015. In many instances, fabricated cases were lodged against opposition party workers.

Following incidents of terrorism, including hacking and killing of bloggers and secular activists in Bangladesh, the police restored to arbitrary arrests and detentions mainly of the sympathizers of the religious political party, the Jamaat Islami. The impunity and arbitrariness of law enforcement when using Special Power Act of 1974 was evident when 14,000 people were rounded up as the government launched a massive manhunt to track the groups responsible for killing foreigners and secular activists as international pressure mounted. Yet, when the issues of human rights or legal rights of those arrested were raised by civil society groups, the government equated their concerns with terrorist sympathies. There was no judicial oversight and in some cases the arrests were arbitrary and family members were not provided with

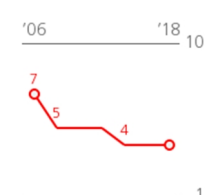
Prosecution of  
office abuse

3



Civil rights

4



any information regarding the whereabouts of the accused. After the audacious Gulshan café attack (by a group of highly educated terrorists belong to affluent background), the government arrested two people held hostage by the terrorists during the café attack, suspecting they were accomplice of the terrorists involved in the café attack. Their arrests were not made public to prevent their family members from seeking legal protection. In fact, using the public outrage after Gulshan cafe attack, the government continued arbitrary arrest in the name of containing terrorism. Nearly three hundred people were killed in cross fire. Rights violation was never a parameter for the police force that is highly politicized. Extra judicial killings and disappearances were justified by the rapid Action Battalion that is now accused of killing people for payment in Narayanganj where some of the officers of RAB were involved in killing seven people for payment. In another case in Narayanganj, a local lawmaker publicly humiliated and threatened a headmaster belonging to the minority community on false accusation, and the government took no action against him.

#### 4 | Stability of Democratic Institutions

Bangladesh has all the trappings of any normal democratic country. However, after the flawed 2014 election, the parliament is essentially controlled by the ruling Awami League. Increasingly, democratic institutions are exhibiting partisan tendencies. Bureaucracy remains highly politicized, causing erosion to the institutional structure and capacity to perform in a professional manner. As a result, friction between various institutions is less and the heavy dependence on the prime minister for policy direction has led to centralization. After the introduction of political parties in the chairman election, politicization on the basis of party lines has seeped deep into the local government system that functions on patronage politics. In some case the internal division within the ruling party at the local level also undermines the capacity of local government to deliver. The independence of Election Commission remains a matter of concern. A study of Parliamentary Standing committees of the 2-6 sessions of the 10th Parliament by Transparency International Bangladesh found that “conflict of interest and ineffectiveness of the committees were contributing to the deficits of accountability of the respective ministries.” Structural impediments are a major issue, but lack of inner party democracy only compounds the matter. As a result, there are frequent clashes between local leaders to exert political control. Politicization of judiciary and bureaucracy does erode the capacity for democratic decision-making.

The roots of support for democratic governance remains strong in Bangladesh at the mass level and in civil society, but the political strategies employed by political actors, both in government and opposition, seem to indicate that elites, despite pro-democratic rhetoric, do have a rather instrumental understanding of democratic procedures and do not accept core democratic principles, such as the separation of powers, restrained power or the democratic principle of legitimate opposition. The military, while under civilian authority, has shown its willingness (i.e. in 2007) to get

Performance of democratic institutions



Commitment to democratic institutions

3

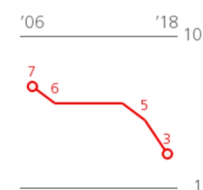
involved in politics as a political player in its own right. On a positive note, though the opposition boycotted the 2014 Parliamentary election, it has participated in the local body elections to keep itself politically relevant and renew its contact at the grass-root level.

## 5 | Political and Social Integration

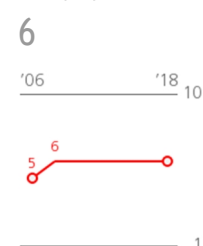
There are four major political parties – Bangladesh Awami League (AL) which is also the ruling party, Bangladesh Nationalist Party (BNP), Bangladesh Jamaat Islami and Jatiyo Party from among about 100 registered political parties who have an electoral presence. The JI was deregistered in 2013. The AL and the BNP are the dominant political parties in Bangladesh broadly representing the center and center-right ideologies, respectively. However, there is hardly any difference in their approach to politics. Both parties are controlled by families of prominent leaders who played key roles in the liberation of Bangladesh. Yet, their bitter rivalry and attempt to monopolize the liberation war in terms of the contribution of respective founding fathers of the two parties divides the polity. The personal rivalry between the two leaders contributes to the dysfunctional democracy in Bangladesh.

Most of the parties are cadre-based political parties and have extensive social presence and hierarchical grassroots organizational structure. The clientelism ensures support to the party leadership and helps implement various policies of the government and generate support whenever the party faces challenge, while preventing the opposition to gain political space. Due to the ongoing war crime trials, the Jamaat Islami is politically weak with scores of its cadres arrested on charges of terrorism. Many have gone underground to escape arrest. The BNP is also not able to mobilize public opinion and many of the senior leaders are disgruntled as the Party Council held in 2016 was seen as favoring leaders close to the party chairperson, Begum Khaleda Zia. There is a sense of frustration within the party due to its inability to mount any effective street agitation against the government.

While the government appears to be strongly entrenched in power and there is political stability, frequent clashes with supporters of opposition parties and factional fights within the party challenges stability at the local level. Major political parties have strong organizational structures at the grass-root level. They manage to mobilize and aggregate interest through various front organizations like student bodies and professional organizations. All the political parties exhibit trend of clientelism that helps the party to keep its support base intact. Political polarization characterized by patron-based politics leads to volatility in voting pattern. Parties like Jamaat Islami have ideological links to its cadres and its vast economic network provides job opportunities to its cadre. Therefore, in spite of facing the most crucial phase in its political life, its cadre base is likely to be intact. Though the major two political



Party system

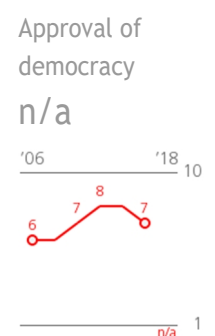
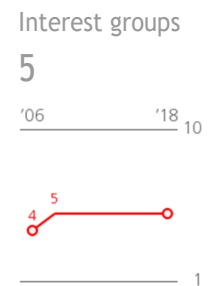


parties – the AL and the BNP – enjoy more than 30% of popular support, voter volatility is observed in nearly one-third of voters who can sway elections.

Traditionally, East Bengal has a relatively well-developed menu of interest groups, partly as a legacy of the colonial period. There are several interest groups that mobilize public opinion in favor of or against government policies. For example, NGOs and civil society organizations work on women’s rights and child welfare, provide legal aid to victims of exploitation, and protect the rights of socio-economically marginalized groups, as well as tribal and minority groups who influence government policies. Similarly, professional bodies and business associations, like the BGMEA, BKMEA, play an important role in furthering their interest. This network of associations is strong and effective in policy intervention. There are several ethnic and religious minority organizations that try to lobby the government. Similarly, the religious political parties have organizations that further the religious agenda of the party. The party-affiliated interest groups promote the interest of political parties, while also perpetuate polarization. However, during the period under review, the associations affiliated with the ruling political party remains strongly organized, whereas association affiliated to the BNP has weakened due to the inability of the leadership to mobilize. The organizations affiliated with religious political parties and the left political parties remain better organized as they have strong ideological underpinnings that binds them and are not based on patron-client relations. Political polarization and the ability of the religious political parties to organize their supporters on ideological lines have undermined the rights of minority groups.

The people of Bangladesh have unwavering support for democracy which remains the most preferred system of governance in Bangladesh. There exists a high degree of aversion to non-democratic forces and, in spite of flaws, the institutional mechanism generates faith in democratic governance. International Republican Institute Survey conducted in 2015 revealed that while 62% of the people felt that the country is moving in the right direction, 64% felt positive about political stability, reflecting the confidence people have in the political system in spite of the flawed election.

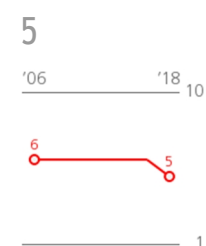
The support for the Awami League appears to be high after the government took several steps to combat terrorism. The economy is growing at more than 6% per annum. According to an opinion poll by Neilson Bangladesh for the International Republican Institute in February 2016, 73% of people feel that the country is “heading in the right direction” up from 62% in June 2015. 58% believed that the country is somewhat political stable. Approval for the government remains high and showed a steady increase compared to 2015. This could be because of economic performance of the government and its ability to project itself as pro-development coupled with its capacity to take strong measures against terrorism which has prevented terrorist strikes after July 2016.



The greatest advantage that Bangladesh has is a near homogenous Bengali population. However, schisms remain along various lines, particularly on the issues of role of religion in politics and national identity. Polarization has intensified since 2013. Advancement of social capital remained retarded as there were organized attacks on minorities. The government's inability to address the attacks on minorities and bloggers created a general hopelessness in the country. Social solidarity remained fragile due to politically motivated attacks, including some orchestrated by factions within the ruling party to score points over their rival. In one incident, the police, in collusion with locals, burnt houses of Santhals. In the last four years, 3,307 houses and businesses belonging to Hindus and 1,104 temples and idols were destroyed.

Several NGOs are active in Bangladesh and provide diverse services while generating social capital. These include organizations working on preventing crime against women, providing micro credit to rural poor, working with fishermen, minorities and contributing to poverty alleviation, creating political and social awareness and encouraging electoral participation. Though the government keeps close watch on NGO activities including the sources of funding, NGOs help government in implementing social policies.

#### Social capital



## II. Economic Transformation

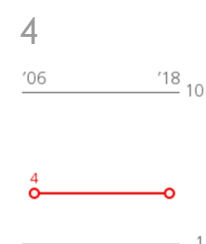
### 6 | Level of Socioeconomic Development

Bangladesh is growing steadily at an average of 6% for the past ten years and has successfully met the Medium Development Goals (MDG). GDP is expected to grow at 7.05% this fiscal year. Though poverty has reduced, inequality has seen a sharp rise. 31.5% of the population continues to live below the poverty line. Poverty headcount ratio for 2015 was estimated at 24.8%. Bangladesh successfully reduced the poverty gap and brought it down to 6.5% against the targeted goal of 8.0%, a significant development. According to Bangladesh Progress Report 2015 published by the Planning Commission, in 2010, incidence of extreme poverty has declined by 47% in urban areas and 26% in rural areas. Proportion of population below minimum level of dietary energy consumption (2,122 kcal) has reduced from 17.2% in 2010 to 16.4% in 2015. In 1991 to 1992, the poorest quintile had 6.52% share of national consumption which fell to 5.22% in 2010 signifying widening income inequality between the rich and the poor. This is not fully reflected in the Gini index, for which the most recent data is 2010 (32.1).

The majority of the work force is employed in agriculture and garment industries. According to Statistical Yearbook 2015, published in September 2016, females continue to lag behind in employment and their participation in the labor force is only

#### Question Score

#### Socioeconomic barriers



33.5% compared to 81.7% male. Moreover, while the Gender Inequality Index has improved since the early 2000s, it still stands at 0.520 (2015), indicating a relatively high level of gender inequality.

Poor were deprived of equal access to education and white-collar jobs. Irregularities in appointments were visible and in many cases, those with political affiliation or willing to pay bribes were employed over meritorious candidate. Extreme poverty often forced people to accept unsafe, poor working conditions, often for long hours. The government introduced a gender sensitive budget in 40 ministries, however, women continue to remain socially marginal and were victims of violence. They faced discrimination at work places and had lower wages.

Bangladesh ranked 90 in the Global Hunger index of 2016. Proportion of undernourished population stood at 16.4%. Whereas prevalence of stunting in children under five stood at 36.4%. Bangladesh ranked 142 out of 188 countries in the 2015 Human Development Report. Human inequality coefficient for Bangladesh is equal to 29.0% pointing to the general discrimination that exists in the country.

Members of minority communities – religious and ethnic groups – have less access to employment and education. As a result, they remained socially and economically marginalized.

Economic indicators		2013	2014	2015	2016
GDP	\$ M	149990.5	172885.5	195078.6	<b>221415.3</b>
GDP growth	%	6.0	6.1	6.6	<b>7.1</b>
Inflation (CPI)	%	7.5	7.0	6.2	<b>5.5</b>
Unemployment	%	4.3	4.2	4.1	<b>4.1</b>
Foreign direct investment	% of GDP	1.7	1.5	1.5	<b>0.9</b>
Export growth	%	2.5	3.2	-2.8	<b>2.2</b>
Import growth	%	1.2	1.2	3.2	<b>-7.1</b>
Current account balance	\$ M	2058.5	755.8	2686.9	-
Public debt	% of GDP	34.5	33.9	33.9	<b>33.0</b>
External debt	\$ M	33994.7	35662.4	38688.5	<b>41125.6</b>
Total debt service	\$ M	1913.7	1977.2	1661.7	<b>1776.3</b>



Economic indicators		2013	2014	2015	2016
Net lending/borrowing	% of GDP	0.1	-0.8	-1.3	-
Tax revenue	% of GDP	9.0	8.6	8.5	-
Government consumption	% of GDP	5.1	5.3	5.4	<b>5.9</b>
Public education spending	% of GDP	2.0	-	-	<b>1.9</b>
Public health spending	% of GDP	0.8	0.8	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.3	1.4	1.5	<b>1.4</b>

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Although foreign private investors are provided protection from expropriation by the state and protection from state acquisition and repatriation of proceeds from sales of shares and profit, Bangladesh underperforms in the Doing Business Index, where it ranked 106 of 127 countries in 2016.

Bangladesh is one of the ten emerging economies of the world growing at 7.11%. Market competition in Bangladesh functions under a weak institutional framework. Bangladesh's financial market is dominated by four major players: money market comprising of banks, micro-finance institutions and non-bank financial institutions, stock market, bond market and insurance market. The call money market ranging from 5.8% to 8.6% during financial year 2015 indicate growth in market activities based on short-term loan. Special repo rate remained high due to availability of liquidity.

Bangladesh Bank which is the central bank, regulate the market and provide space to both public and private sector enterprises to build an inclusive market-based economy. It includes monetary policy, ensuring transparency and accountability of non-government microfinance institutions (NGO-MFIs), and control of currency volatility. The Securities and Exchange Commission (SEC) performs the functions of regulating the capital market intermediaries and issuance of capital and financial instruments by public limited companies. Corruption, poor infrastructure and an energy crisis however plagued the investment scenario in Bangladesh. Until May 2016, power generation capacity was inadequate to meet the demand of the industry, even though it increased to 14,539 MW. Per capita power generation now stands at 371 KW which is inadequate.

Market-based competition

5

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Since 2012, Bangladesh allows currency convertibility. Profits made by foreign investors are fully convertible in the current account. Such facility is not available in the capital account. Government allows foreign investors to fully repatriate capital gains post-tax dividends and there are laws in place to prevent double taxation. No import duty is applicable for export-oriented industry. According to 2016 World Investment Report, Bangladesh witnessed the highest FDI of \$2.23 billion in 2015, which is 44.10% or \$684 million higher compared to \$1.55 billion investment of 2014. Gross FDI inflows during the fiscal year 2015–2016 reached \$2.5 billion.

In June 2012, the parliament passed the Competition Act to prevent companies from abusing dominant positions in the market to determine the price, including acquisition and storage of products to create artificial scarcity and allowing a level playing field. Bangladesh Competition Commission (BCC) which is the authority addressing business malpractice did not have a competition commissioner until 2016. When a commissioner was finally appointed the government provided only BDT 1.1 million (\$137 million at current rate) to maintain the office. The Competition Commission has the power to outlaw anti-competitive agreements and abuse of dominant positioning, but it lacks power to investigate, thus limiting its role.

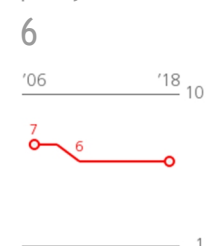
Bangladesh has taken steps to decontrol, deregulate and liberalize trade. Except for few essential service sectors, the government has encouraged foreign and private sector investments. Legal provisions to protect consumers from unfair trade practices are insufficient. In some cases, unscrupulous government officials work with black market actors and hoarders to create artificial scarcity and increase the price of the product. This mostly happens during major festivals where price of essential commodities increases.

Government adopted several policy measures to attract foreign investment. Joint ventures were encouraged and government established Special Economic Zones to encourage foreign investment. It removed trade barriers and quantitative restriction. Ministry of commerce issued a three-year import and export policy order 2015-2018 on February 15, 2016, which prioritized 12 sectors and identified them as the “most potential,” while 14 other sectors are categorized as “special development.” The government held the Bangladesh Investment & Policy Summit 2016 to familiarize investors with various government policies. However, there are restrictions on the export of 17 category items. Bangladesh continues to discourage import of finished products to encourage its export-oriented domestic industries.

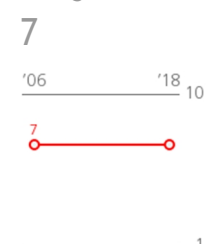
Bangladesh exports in 2016 showed growth. Raw material and machinery constituted 25% of Bangladesh’s total imports which fed the domestic export market. Bangladesh also got GSP concession from 38 countries, including 28 European Union countries.

To encourage foreign trade and attract investment, the existing provision of 10% deduction at source on income from share market by any company or partnership firm has been withdrawn. A tax exemption applicable to ICT companies has been extended

Anti-monopoly  
policy



Liberalization of  
foreign trade



from June 2019 to June 2024. The Securities and Exchange Commission (SEC) provided registration certificate to 156 market intermediary institutions. 10% gain tax on profit from the investment in capital market by foreign institutions and non-resident Bangladeshi has been withdrawn. Foreign firms are allowed to import permissible commercial items with prior permission from the Chief Controller of Import and Export (CCI&E).

Even though Bangladesh's economy is strongly integration into world markets, the weighted mean tariff rate was 11.89% in 2015, according to the World Bank, which is comparatively high for an economy with a liberalized foreign trade regime.

Bangladesh has a reasonably well-structured banking system that contributes to the growth of capital market. Bangladesh Bank projected domestic credit to grow by 14.4 % year on year basis with lending to private sectors is projected at 16.5% and public sector lending growth estimated at 15.9%. Repo and reverse repo rate for 2016 remained unchanged and stood at 6.75 and 4.75 respectively. Since borrowing from foreign sources at low rate of interest remain attractive for private industrial sector, domestic lending did not see any significant growth. Foreign Currency reserve stood at \$30 billion enough to sustain eight months import bill. At the end of 2016 financial year, Bangladesh's current account surplus stood at \$3 billion, an increase from \$2 billion. In 2015, there was 9.7% in growth of export and 6.0% in import even though remittance fell by 2.5%. Financial market remained insufficiently developed due to structural impediments, as well as poor risk management and assessment capability of the banks.

There are four categories of scheduled banks in Bangladesh- state-owned commercial banks (SCBs) which now include BASIC, state-owned development financial institutions (DFIs), private commercial banks (PCBs) and foreign commercial banks (FCBs). For the banks, the main source of funding was deposits, which constituted 76.2%, while capital and reserves were 8.1% in 2014 according to the Bangladesh Bank data.

To prevent risk to the customers, the banks are asked to maintain a Minimum Capital Requirement (MCR) at 10.0% of the Risk Weighted Assets (RWA) or BDT 4 billion, whichever is higher. The data ending June 2015 shows that the gross non-performing loan ratios to total loans for the SCBs, private commercial banks, foreign commercial banks and development finance institutions were recorded as 21.9, 5.7, 8.2 and 25.5% respectively. Regulating the private sectors banks to prevent them from accumulating bad loans was equally weak. As a result, banks were saddled with unrecoverable loans. Personal and political considerations weighed heavily in disbursing loans. According to World Bank index, Bangladesh is placed at the lowest bracket in the category of inadequate credit information of the borrowers that includes inadequate financial statement, putting banks at the risk of incurring non-performing loans (NPL). As a result, banks suffer financial losses as they are unable to recover loans. Many of the borrowers are willful defaulters. The legal process of recovering the NPL is lengthy,

Banking system



forcing the banks to write off the loans. Absence of strong regulatory environment only encourages the defaulters. Not surprisingly, defaulted loans in the banking sector increased from BDT 51,371.22 crore (\$6.4b at current rate) as of December 31, 2015 to BDT 63,375.59 crore (\$7.9b at current rate) as of June 30, 2016. Uncollectible loans increased to BDT 42,321.96 crore (\$5.3b at current rate) as of June 30 while the figure was BDT 41,437.27 crore (\$5.2b at current rate) as of March 31 this year. In September 2016, the NPL constituted 10.34% of total outstanding loans, one of the highest, since June 2014 and big loans occupied 30% of total outstanding loan. The Bangladesh Bank in 2003 introduced guidelines for writing off bad loans that remain unpaid or not-recoverable for more than five years. 25% of the top 1000 borrowers are defaulters according to the central bank.

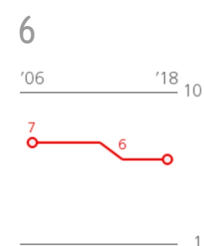
## 8 | Currency and Price Stability

Controlling inflation and an appropriate foreign exchange policy are recognized goals of economic policy, but do not have a sound institutional framework. According to the Bangladesh Bank, inflation gradually fell to 5.92% in June 2016, from 7.28% in July 2014. Food inflation was as high as 8.55% in July 2014, which reduced to 4.90% in June 2016 while nonfood inflation was as low as 5.41 in July 2014, and increased to 7.47% over the same period. The REER appreciated by 27.77% from FY 2006 to FY 2014. Though nominal currency stability is maintained by the central bank, inflation contributed to the fluctuation of currency market. A study (June 2013 to May 2015) instituted by Bangladesh Bank reveals that Bangladesh suffered in its export competitiveness due to appreciation of REER contributed by capital inflow and inflation.

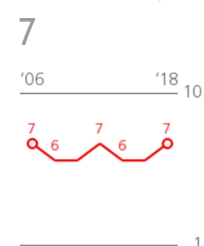
During the review period, the government's fiscal and debt policies generally promote macroeconomic stability, but, as in previous years, lacked institutional safeguards and were prone to short-term policy changes.

The current account balance for the period under review showed slight decline. It was \$1336 (revised) in July 2015 to November 2016 but registered a decline in the provisional data accumulated for the same period in 2016 to 2017. For example: capital account registered a decline from \$150m to \$82m while financial account registered an increase from \$1187 to \$2901. Government borrowing from domestic sources for the 2016 to 2017 financial year is estimated at BDT 14,666 crore. Public debt from domestic sources for FY 2016 to 2017 is 57%, whereas external debt is pegged at 43%. Public debt as a percentage of GDP for FY 2015-16 was 33.9%; domestic debt stood at 19.2% and external debt at 14.7% for the same period. The latter is likely to rise as government pays high interest on these borrowings. IMF data for the 2014 to 2015 financial year puts total public sector and public sector-guaranteed external nominal debt at \$26 billion or 13% of GDP or 77% of exports of goods and services. Public sector domestic debt stood at 20% of GDP or 208% of

Anti-inflation /  
forex policy



Macrostability



central government revenues, including grants. Tax revenue as a percentage of GDP was 9% and non-tax revenue was 1.3% of GDP. With 2 million taxpayers in a country of more than 160 million people, government tax revenue was only 9.8% of GDP in the 2015 fiscal year. The monetary and external sectors each registered growth during the period under review. Money supply registered a 15% growth.

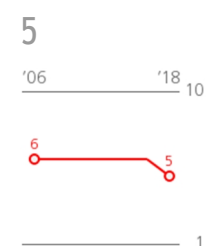
The Bangladesh Bank has always stepped in and injected foreign currencies to stabilize the foreign currency market. At present foreign currency reserve stands at \$30 billion indicating good economic health of the country. Bangladesh faces a huge budget deficit of BDT 972.50 billion in the BDT 13.4 trillion national budget of this year. The budget deficit was 4.2% of GDP in the 2014 to 2015 budget, financed mostly by domestic borrowing.

## 9 | Private Property

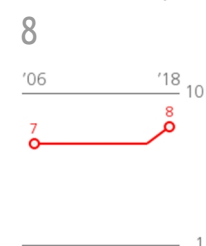
Article 42(1) of Bangladesh constitution guarantees right to property as one of the fundamental rights which stipulates every citizen right to acquire, hold, transfer or otherwise dispose of property. Private property inheritance is governed by the customary and personal law of each community. Government is considering a new land acquisition policy by amending the acquisition and requisition of public property ordinance of 1982, to allow three times more compensation for acquiring land for public purpose. It intends to make a difference between “public interest” and public purpose which was ambiguous in the previous law. Providing compensation was problematic as ownership in some cases could not be proven. Bangladesh scores 20 in the World Property Rights Index, which is the third lowest score, indicating the state’s inability to protect private property from encroachment. The Hindu minorities are often targets of forced encroachment and often forced to sell their land for lower price. Females are also discriminated against in the inheritance law. Similarly, in Chittagong Hill Tract conflict relating to ownership of land has often led to violence. According to the Doing Business 2016 Report, registering property in Bangladesh required eight procedures, takes 244 days and costs 6.4% of the property value. Bangladesh ranks 186 out of 190 countries.

Bangladesh established Privatization Board in 1993, Privatization Commission in 2000 and introduced a new privatization policy in 2007. Accordingly, 74 state-owned enterprises (SOEs) were privatized in 2009. The government has now decided to abolish the Board of Investment (BoI) and Privatization Commission, and has now established Bangladesh Investment Development Authority (BIDA). This was to ensure efficiency and single window clearance for private investment both domestic and foreign, including joint ventures. Privatization process in Bangladesh is in accordance with market principles. Government wants the private sector to play a pivotal role in the country’s industrialization while confining public companies to essential service and strategic industries. Tax holiday has been extended to June 30,

### Property rights



### Private enterprise



2019, from the existing June 30, 2015, for companies investing in the industrial and infrastructure sectors. Corporate tax has been reduced for non-listed companies from 37.5% to 35%. Minimum tax of 0.30% is imposed on companies' turnover, irrespective of their losses or profits. The government has announced the Industrial Policy Act of 2016. An investor is now allowed to wind up an investment and repatriate net proceeds after securing proper authorization from the Bangladesh Bank. If foreign investors reinvest their divested dividend or earned profit, it is treated as a new investment. Besides, 2.2% of the budget has been allocated for public private partnership (PPP),

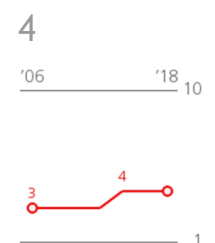
Bangladesh Public-Private Partnership (PPP) Act (2015) has been enacted to add momentum to project implementation. Government has approved the establishment of 46 economic zones to facilitate investment. Energy is another sector where there is international collaboration between state owned companies and private companies. A PPP Unit under the Ministry of Finance has been established. As per the World Bank report, Bangladesh ranks 122 out of 190 countries in the starting business index. Starting a business there requires nine procedures, takes 19.5 days and costs 13.8% of income per capita for men.

## 10 | Welfare Regime

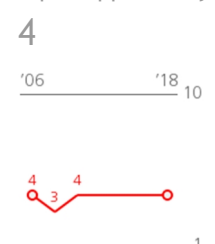
The government tried to invigorate social safety net by announcing a number of measures for the uplifting of vulnerable groups in need of state support through social protection programs, disability allowances, old age allowances, allowances for widow, oppressed and destitute; special allowance for transgender and allowances for Beder and other backward communities under the National Social Security Strategy (NSSS) by transferring funds directly to the beneficiaries. This year, the government proposes to spend 5.6% of the budget on health and family welfare. 28.3% of the total outlay has been allocated to social infrastructure sector, of which 25.2% is for the human resource (education, health and other related sectors). Overall social safety net spending for the current year stands at nearly 2.2% of GDP, which is approximately 13% of total budgetary allocations. Life expectancy at birth for the male is 73.2 years and for female is 71 years. According to 2015 Gender Gap Index, 2015, Bangladesh tops the list of countries in South Asia that has bridged gender gap.

The constitution provides equal opportunity for both men and women. Yet, women remain socially deprived due to societal and other structural impediments that influence their choice of profession. In 2015, enrollment rate for girls surpassed the boys. The ratio was 1: 1.14 in secondary school level. In the same year, enrollment ratio of girls in primary schools reached 50.88% and 47.56% at the higher secondary level of which 56.7% completed their primary education compared to 51.7% for the boys. For the past few years, Bangladesh has performed well in social sector.

Social safety nets



Equal opportunity



Allocation for women as percentage of total budget stood at 27.25 in FY 2017-2016, which is 4.73% of GDP.

Female enrollment in primary and secondary education is higher than male but there is a high dropout rates for the females. According to the Global Gender Gap report published in 2016, only 5% of women are in the position of legislators, senior official and manager compared to men who holds 95% of these positions. The wage variation between men and women is high and women received a lower salary for the same work. However, in the South Asian region Bangladesh topped the list of countries in bridging the gender gap. Rate of completion of primary education of female students was 98.31% in 2015. Female literacy rate in 2013 is 50.2 compared to 56.9% for male in the age group of 11-45 years. The women representation in various white-collar jobs remains abysmally poor. Bangladesh Labor Force Survey conducted in 2010 indicates only at 36% of women are participating in the labor force compared to 82.5% men. The inequality that impedes participation of women and access to education is structural. The ethnic and religious minorities do not enjoy the same access to employment due to societal bias.

## 11 | Economic Performance

Compared to most other South Asian economics, economic performance is quite strong. Bangladesh experienced GDP growth rate of 7% in the period under review. Per capita income is expected to increase to \$1,466 in 2016. Budget deficit stood at 5% of the GDP. Agriculture sector posted a growth of 2.6, industry 10.1 and service sector 6.7% compared to 2014 and 2015. Point to point inflation rate also declined to 5.6% from 6.3% in 2015. Between July and April 2016, export earnings increased to \$27.6 billion, from \$25.3 billion for same period in FY2014-2015. In FY 2015 to 2016 current account balance registered a surplus of \$2.9 billion reflecting a favorable balance of payment situation. According to Bangladesh Bank foreign exchange reserve increased to \$32 billion in December 2016 from \$27 billion in December 2015. Remittance declined to \$958 million in December 2016 compared to \$131.2 million in December 2015 due to the situation in the Middle East. Provisional Data available for 2015 shows that debt as percentage of GDP is estimated at 12.1 compared to 14.1 in 2014. Net foreign direct investment inflow for January-September 2016 was \$1303.7 million compared to \$1694.9 million in 2015.

Output strength



## 12 | Sustainability

Bangladesh is a climatically vulnerable country and has taken various steps to address the environmental issues concerning its industrialization policy. Two of the main exports of Bangladesh are ready-made garment industry and the leather industry, which are highly polluting. The National Sustainable Development Strategy 2010-2021

(NSDS) aims to balance economic, social and environmental requirements of development. The government plans to generate 10% power from renewable source by 2020. It has two pilot wind-power plants at Muhuri Dam (0.9 MW) in Feni and Kutubdia Island (1.0 MW) in Cox's Bazaar. It is commissioning a hydro-electric project in its bid to access clean energy. However, the government is paying little attention to the effects of a number of mega projects. The coal fired electric plant project in Rampal, and the proposed Rooppur Nuclear plants are examples of such environmental disregard to facilitate mega projects. The country is contemplating a 15% carbon tax. In 2015, the government decided to impose a 1% tax on industries that have not set up effluent treatment plants (ETPs) to purify wastewater. According to Climate Public Expenditure and Institutional Review (CPEIR) instituted by General Economics Division of Planning Commission, the government spends around 6% to 7% of its annual (development and non-development) budget on climate sensitive activity and 14% of the Union Parishads and Pourashavas' budgets are sensitive to climate change.

Article 17 of the Bangladesh constitution guarantees free and compulsory education to all children. Access to education has improved significantly, but the quality of education in the government-run education institutions is poor. Private education institutions, run as private business ventures, are very expensive and beyond the means of regular citizens.

Many of the teachers in public universities work part-time in private universities. This affects the quality of teaching in the state-run education institutions. In spite of the 2010 education policy and Education Act of 2016, which banned admission test for class one students and made private coaching and tuition illegal in a bid to improve quality of education in education institutions, coaching and private tuition institutions have become the norm, often seen as panacea for good education.

The Annual Primary School Census conducted by the Directorate of Primary Education of 2015 report reveals that the Gross Enrollment Rate (GER) is 109.2%, which for boys is 105% and girls 113.4% and Net Enrollment Rate (NER), is 97.9% of which boys are 97.1% and girls 98.8% in 2015. Access to education in remote areas remains poor. Government introduced Primary Education Development Program III to educate students belonging to minority ethnic groups in their native languages and to develop textbooks in five ethnic group languages. According to

Environmental policy

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Education policy / R&D

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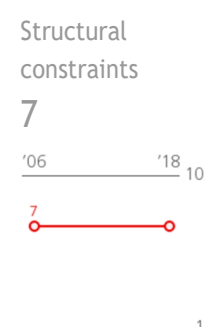
Education Household Survey, around 17% children aged six to 10 years are out of school and the dropout rate in 2015 was 20.4%. Moreover, the ratio of teacher to student is lopsided. Minimum standard student-teacher ratio (STR) in Bangladesh is 46 students for 1 teacher. While 77% of schools meet the definition of an “effective” classroom standard, in newly nationalized government primary schools this dropped from 59% to 47%. In 2015, 88.7% of primary school teachers had a professional qualification up from 83% in 2010. Share of the education budget, as a proportion of the total budget, decreased to 11.6% in FY2016 constituting only 1.9% of the GDP, one of the lowest in South Asia. It ranked 155 out of 161 countries in the world according to the ranking based on education spending. Spending on research and development is negligible.

Private universities in Bangladesh were initiated after the institution of the Private University Act 1992. At present, there are 92 private universities that are functioning under the UGC of Bangladesh and only 37 public universities.

## Governance

### I. Level of Difficulty

Bangladesh spectacularly performed in achieving the MDG goals, but poverty continues to be a major problem. According to World Bank 2015 report, GDP per capita stood at \$850 and purchasing power parity was \$3560. A skilled labor force remained a major problem. Poor infrastructure is a main hurdle to steer the economy and to optimize the state's capacity. According to the 7th plan, Bangladesh requires estimated \$410 billion to finance infrastructure. Decongesting traffic in Dhaka and also arterial roads that connect the country's main commercial hubs remain a challenge and undermines the state's capacity to govern. Participation in the labor force increased, but 2010 labor Force Survey statistics of BBS showed that participation for population aged 15 and above in the labor force for men was 39.5 and women was 17.2, mostly employed in the rural areas. Quality of the labor force was poor. In terms of occupation, the highest growth rate was observed for sales workers (42.57%) followed by administrative and managerial occupation (36.83%). According to the BBS data, 87.5% of the employed population are in the informal sector and the rest 12.5% were in the formal sector. In 1995, girl's enrollment rate was 46.9%, it significantly increased to 53% in 2015. That girl's enrollment rate is higher than boys at Madrasa level, which is 54%. In technical education, the enrollment rate for girls is only 24%. Equality in access to education and women participation in skilled and professional work force helps the state move towards equitable governance, as gender parity constitute an important parameter. Bangladesh's geographic location is an important fact which links the country to its immediate neighborhood and helps its emergence as a transport hub. Unfortunately, the inadequate infrastructure does not help in speedy transportation. In 2011, the government established Bangladesh Infrastructure Finance Fund Limited (BIFFL), which is a government-owned non-banking financial institution, to provide long term financing to critical infrastructure with a capital base with BDT 19.40 billion. Bangladesh is part of several regional infrastructure projects that include SAARC MVA, BBIN MVA, BIMSTEC, Asian Highway and Railway network and BCIM corridor.

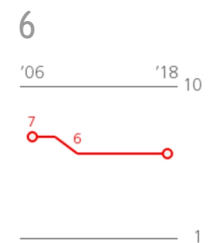


Bangladesh has a tradition of civil society activism which is extremely vocal that contributes to democratic vibrancy. Several ‘self-help’ groups are active on issues pertaining to governance, culture and gender parity. Many of the large NGOs working on development issues have participated in generating awareness about various policies of the government and its likely impact and mobilized public opinion against any law considered discriminatory. In the recent past, civil society groups rallied public opinion against terrorism, religious fundamentalism and have been at the forefront in generating public opinion against attacks on minorities. The civil society activism also helps in educating and mobilizing public opinion in an organized manner. There appears to be around 250,000 civil society organizations, however, only 50,000 are presumably active.

On October 5, 2016, the parliament passed the Foreign Donations (Voluntary Activities) Regulation Act, which the cabinet had approved in June 2014 to check the source of foreign funds to various NGOs and objectives of these funding. This act is purported to check anti-state activities and terror finance, however in the name of regulating the NGOs, the act includes that any statement by civil society bodies which is “malicious” or “derogatory” against the constitution and constitutional bodies of Bangladesh is a punishable offence and could lead to the cancellation of the NGOs’ registration by the NGO bureau overseeing registration. This strangles civil society movements and restricts any criticism of the government. The law is not clear on what constitutes “malicious” or “derogatory.” Many civil society organizations, which includes environmental activists, some affiliated to opposition parties and Transparency international Bangladesh, have often been at the forefront of criticizing the government. Both Odhikar and Ain o Salish Kendra have often been targeted over their reports exposing human rights abuse in Bangladesh. In spite of government action, civil society in Bangladesh is vibrant and does not bow down to government pressure and heavy-handed tactics.

Social, ethnic and religious conflicts are mostly latent in Bangladesh and have flared only when exploited for political purpose. Bangladesh politics has remained confrontational and political leaders exhibit zero sum approaches towards their political opponents, including denying them the permission to hold rallies. Party ideology compartmentalize the society and frequent clashes among supporters of different political parties has become a norm. Since access to economic benefits and privileges comes through political affiliation violence is perpetuated to establish control over resources. In some places, religious cleavages are exploited to perpetuate influence, and planned attacks by groups with connections to the government are conducted to make political points or grab properties. The attack on Hindu minorities and destruction of their property in Nasirnagar, the humiliation of Hindu teacher in Narayanganj by a member of parliament, the use of derogatory words against the Hindu community by a minister and an attack on Buddhists in Ramu in 2013 are cases in point.

#### Civil society traditions



#### Conflict intensity



In the past radical Islamist group, the Hefajat Islami, mobilized a large group, mostly madrasa students, to organize massive demonstration to press for a 3-point obscurantist program. However, in the period under review there was no such large-scale mobilization. Yet, the government was cautious to take any measures that may anger the Islamists. The extremist terrorist groups also try to impose their version of religion by selectively killing secular bloggers, minorities, pirs and Shi'ite without much success. Ethnic cleavages were ostensibly clear in Chittagong Hill tract where the ethnic Chakmas are fighting for their land rights which is often encroached upon by Muslim land grabbers in collusion with the administration. Police colluded with the locals on attacks on Santhals in November 2016 in an eviction drive. Religious and ethnic cleavages are exploited to deny a group's access to state resources and very often to establish hegemony.

## II. Governance Performance

### 14 | Steering Capability

The steering capacity of the state could not be optimized due to partisan politics, one-upmanship and widespread corruption. There was no consensus on how to fight the growing menace of religious extremism and terrorism. Space for opposition remained limited and mostly steered by civil society.

Economic development, high growth rate, infrastructure development and fulfilling social development goals remain top priorities for the government. However, electoral calculation colored the government's approach to political reforms which most crucially include the constitution of an independent Election Commission. The Chief Election Commissioner (CEC) and members of the Election Commission have been selected through a government appointed search committee; but the opposition alleged that it was charade.

Economic reforms were oriented at improving the functioning of the market. It was only after the Bangladesh Bank heist that cyber security was strengthened. The government continues to make politically motivated appointments to various state institutions. Appointment of political persons to the state-owned financial institutions has had disastrous consequences with banks incurring large amount of bad loans. According to one report, in 2015, 40% of the directors in the state-owned financial institutions enjoyed political blessings. Electoral calculation dominates the government's approach to institutional reform that would contribute towards strengthening democracy and governance. Regulatory-based assessment is almost absent and only confined to economic policies.

Question  
Score

Prioritization

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There are no structural or institutional hurdles for the government to formulate and implement policies. The absence of opposition in parliament has made the government the sole determiner of strategic priorities based on furthering its political interest. With upcoming parliamentary elections in 2019, electoral considerations dominate, including fighting the homegrown, ideologically motivated terrorism and dealing with radicalism. Police lack training and motivation to fight terrorism. Though the government denied the presence of IS to avoid international pressure, Bangladesh faces the new problem of youth radicalization. The government used the terror threat to arrest members of the opposition and accused the BNP-JI alliance for fomenting terrorism.

The AL want to maintain the political status quo and is not interested in initiating electoral reforms.

There is very little innovation in policy-making as electoral gains dominate thinking. The rent seeking elements in the bureaucracy always try to please their political boss, favoring the status quo. Corruption in public office is very high.

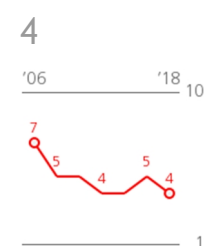
The government refuses to learn from past experience, for example writing off bad loans has become a norm. Yet no measures are taken to scrutinize the mortgaged asset while sanctioning loans. As a result, banks frequently incur losses. Similarly, the government is not serious in implementing policies. For example, in spite of the new education policy in 2010, coaching institutes are mushrooming and private tutoring has become an alternative to classroom teaching. Many professionals and those teaching in public university provide consultancy services.

## 15 | Resource Efficiency

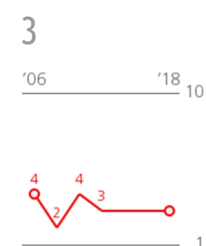
Efficient utilization of resources remains modest due to rampant corruption, lack of accountability and rent seeking bureaucracy. Promotions and appointments are based on political consideration. Politicization of recruitment in universities and schools affects the standard of education in Bangladesh. Those who fall from political grace are appointed as Officers in Special Duty (OSD) and are not given any responsibility. For example, in January 2016, five senior bureaucrats holding the rank of additional secretary were made OSDs at the public administration ministry.

Bangladesh debt remains manageable and risks remain low as the state enjoys a current account surplus. The Bangladesh Comptroller and Auditor General audits the government's account. However, the budget deficit remains a major challenge and is likely to rise to BDT 51.95b (\$648 million at current rate) in the next financial year. Budget implementation has been less efficient, though deviation from actual budget is less.

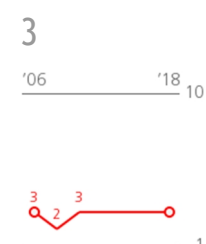
### Implementation



### Policy learning



### Efficient use of assets



Bangladesh has local self-government at district and village level. These structures are not financially independent and depend on the government for financing. The Union Parishad can levy taxes on 28 sectors but, in practice, taxes only five to six sectors and depends on the government grant for aid. There is hardly any initiative by the government to reform public administration which runs on a patronage-based system.

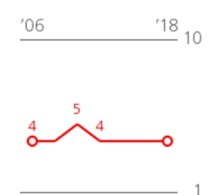
Policy coordination is accomplished through various departments that act as nodal agencies. As the government has packed the bureaucracy with politically sympathetic bureaucrats, implementing its policy is not difficult. However, competitive political interest within the ruling party delays policy implementation, particularly in cases where more than one ministry is involved. Immediate political benefits rather than long-term interest drives the policy. While only 4% of member of parliament had business interest in 1954, the number increased to 13% in 1973 and further to 63% in 2008, reflecting how policy measures are taken to enhance their business interest rather than the country's long-term interest. The domination of industrialists and businessmen in parliament hijacks governance priorities through their quest to seek rent. Massive bribes are paid by people seeking a nomination by political parties to run in an election, and sometimes businesses provide fund to parties during election campaigns.

Widespread corruption in public life is an unfortunate reality in Bangladesh. The Comptroller & Auditor General (CAG) audits government expenditures but rarely requests that the government explain large-scale spending or points to irregularities in expenditure. A sense of impunity is widespread as the anti-corruption commission has never convicted any high-profile politicians or businessmen. Most of the corruption cases are politically motivated and public faith in the ACC is absent. The ruling party has no regard for transparency. Party financing is one of the grayest areas where unaccounted money is deposited. There is no audit or regulatory mechanism in place to scrutinize sources of party funding. Access to relevant information pertaining to governance is absent. Though the Bangladesh government has a right to information act in place, it is not an instrument to gather information as there are no legal or regulatory mechanisms to compel the government to part with relevant information. The Election Commission has made declaration of asset mandatory for the candidates standing in elections. In 2013, 48 candidates who have served in important ministerial positions saw an average 58.2% rise in income.

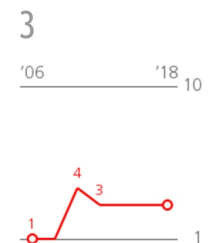
## 16 | Consensus-Building

Mainstream political parties differ in their views on how to consolidate democracy in Bangladesh. There is no consensus on whether the Election Commission needs to be strengthened or a caretaker government needs to be reintroduced to oversee elections. Due to deep mistrust and suspicion it has become virtually impossible to establish an

Policy coordination  
4



Anti-corruption policy  
3



Consensus on goals  
5

institution that would conduct free and fair election. Yet, there is a growing segment of radical (often Islamist) political actors, who are openly challenging the principles of the democratic system. In addition, while the rhetoric of political parties such as BNP and Awami League seems to signal a consensus on the goal of a stable democracy, this is often not reflected in their political behavior.

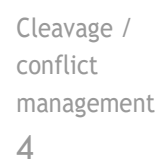
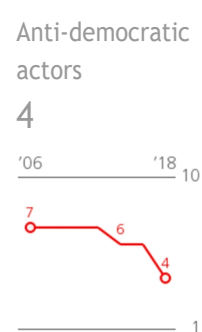
There exists a consensus on market economy and necessary reforms required to enhance the performance of the market economy. The dominance of business interests in parliament ensures the government adopts policies that liberalize the market economy.

The absence of opposition has rendered the Bangladesh parliament a rubber stamp, representing only one party and its allies. The main opposition party, which was unsuccessful in dislodging the government, is almost confined to indoor politics with several of its leaders facing criminal charges. Loyalty to party leaders is rewarded more than merit and credentials. Lack of inner party democracy within the parties cripples the voice of dissent. As a result, they remain less responsive to the demand of the people.

Militant groups and radical elements like the Jamaatul Mujaheen Bangladesh (JMB), Ansarullah Bangla Team (ABT), Harkat ul Jihad ul islam (HuJI), al-Qaeda in Indian Subcontinent (AQIS) and Hizbut Tahir (HT) intend to stage an Islamic revolution and capture state power. They view Western democracy as an external imposition which is not suitable for Muslim countries in general, and Bangladesh in particular. Their views are deeply rooted in ideology and they reject democracy. Co-opting them is not a possibility.

However, the government, opposition and civil society members support reforms to marginalize these groups and see liberal democracy that recognizes plurality as the only option. Some civil society organizations believe that removing Islam as state religion is a pre-requisite to deny extremist groups political space. A religious political party that emphasizes religious value has roughly 10% of votes, but it is not a veto actor. All the parties lack inner party democracy and personal loyalty to party leadership is invariably rewarded. The senior leaders play second fiddle to the party president/chairman. The lack of inner party democracy within the parties has a long-term impact on the process of democratization. The military remains a very influential actor though it does not have any inclination to take over power at present.

Bangladesh lacks institutional mechanism to address conflict. The weak judicial structure and corrupt police do not encourage public faith in the justice system. Nearly 20 years after signing a peace accord, the CHT witnesses violence which the government portrays as a law and order problem rather than a political problem. The polarization resulting from the killing of bloggers and secular activists remained unaddressed as the government tried to appease the Islamists in the name of protecting religious sentiment of the people. The government also pays lip service to



the protection of minorities. The broad consensus that government sought after the Gulshan cafe attack excluded the main opposition party. The political leadership tried to exploit cleavages rather than bridging the gap. It used the polarization to attack the opposition.

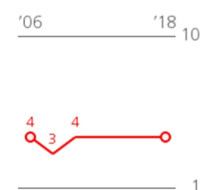
In spite of the government’s accusations that civil society groups exacerbate conflict and acts as a puppet of opposition, it allowed civil society to function. It co-opted some civil society groups in its fight against terrorism and took action against certain NGOs that raised the issues of human rights violation by the administration. The government has passed a new law in November 2016 to cancel the registration of NGOs if they try to malign the government.

The government consults various NGOs for implementing its development and gender budget. Some NGOs helped the government in achieving the MDG goals. The NGOs also work among the extremely poor and marginal groups and contribute to education, training and imparting skill, and protecting the labor force from exploitation. From time to time, these groups provide inputs to the government through their reporting.

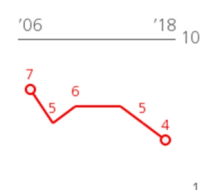
The government took steps to institute the International Crimes Tribunal (ICT) to try those who committed war crimes and crimes against humanity during the Independence War in 1971. In the period under review, a number of JI and BNP leaders were convicted and executed including former ministers – Ali Ahsan Mojahedi, Salauhuddin Qadeer Chowdhury and Motiur Rahman Nizami. Both BNP and the JI oppose the trial. While JI denies that any of its leaders committed war crime and alleges that the trial is a political vendetta, BNP questions the judicial process and collection of evidence. The trial, though popular, has remained controversial. However, it has also assuaged those victims who got justice after 45 years of independence. The deep-seated culture of acrimony between the two major parties and the practice of vengeance make political reconciliation highly unlikely in the short term.

### 17 | International Cooperation

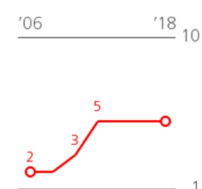
The political leadership assiduously built international support especially after the controversial election in 2014. Though some of the Western countries did not approve of the election, they supported the government’s development efforts and enhanced counter-terror cooperation to build the state’s capacity to fight terrorism. The EU-Bangladesh joint commission held in 2015 extended support to strengthening governance and human rights, and funded economic and development cooperation. It forged close ties with India, Japan, the United States and China and partnered with them to build infrastructure as Bangladesh positions itself as an international transit hub. After the Padma Bridge controversy when the World Bank withdrew funding



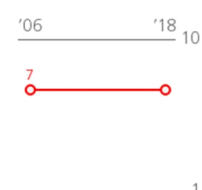
Civil society participation  
4



Reconciliation  
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Effective use of support  
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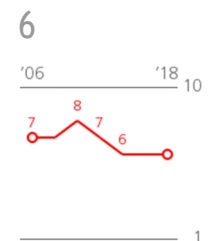
citing corruption, the government managed to arrange alternative funding. Building ports, roads and rail networks and connecting Bangladesh beyond its border remained priorities for the government.

As mentioned in the BTI 2016 country report, especially the United States, the EU, the United Nations and China, have repeatedly called upon the ruling AL to engage in dialogue with the opposition to ensure an inclusive election – without much success so far. While the western nations condemned the violence and reaffirmed their criticisms of the BNP for condoning violence as a political tool and its alliance with the JJ, they have also urged the government to address the political impasse through negotiations and expressed concerns regarding the human rights situation. In February 2015, the U.N. Secretary-General expressed concerns about the violence. A three-member delegation of the Sub-committee on Human Rights of the European Parliament visited Dhaka, met the prime minister and the opposition leaders, and urged “an immediate end to the increasing violence and echoed calls from the international community and Bangladeshi civil society to solve the political crisis.”

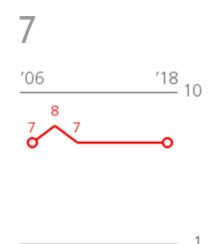
Bangladesh was supported by multilateral lending agencies to fulfill its development priorities. Gross FDI inflows during fiscal year 2015-2016 reached \$ 2.5 billion and net FDI flow was \$200 billion. In 2016, the IMF completed the fifth and sixth reviews of Bangladesh’s economic program under a three-year arrangement supported by the Extended Credit Facility (ECF) and disbursed about \$258.3 million to Bangladesh. The IMF asked Bangladesh to steadfastly implement the new value-added tax (VAT) that would simplify tax administration and lower taxpayers’ compliance costs. The government is consistent and coherent in upholding international commitments. ADB is funding several infrastructure projects in Bangladesh. Since independence, the International Development Association (IDA) has provided Bangladesh \$16 billion in support for policy reforms and projects. It is supporting Bangladesh in implementing primary education goals and establishing health infrastructure, regional waterway transport projects and several other projects. Japan is funding Dhaka Mass Rapid Transit, Jamuna Rail Bridge, Cross-Border Road Network, Matarbarhi Coal Fired Power Plant, Energy Efficiency and Conservation Promotion Financing and Disaster Risk Management Enhancement. This shows that Bangladesh has won investor confidence and is able to serve its debt commitments.

The government has taken several initiatives with neighboring countries to improve bilateral ties. Bangladesh agreed to extradite one of the ULFA commanders, Anup Chetia, after serving a jail sentence in Bangladesh. Similarly, India handed over Nur Mohammad who was behind the killing of seven people in Narayanganj. The two countries signed an agreement to establish a coal-fired plant in Ramphal Maitree as a 50:50 joint venture in 2016. Prime Minister Modi visited Bangladesh in 2015, and 22 bilateral documents were concluded. India announced a new LoC of \$2 billion during Modi’s visit to Bangladesh in June 2015 which will be invested in roads, railways, power, shipping, SEZs, health and medical care and technical education. Both the

#### Credibility



#### Regional cooperation



countries ratified the long pending Boundary Agreement. India agreed to provide an additional 500 megawatts (MW) of power through the existing Bahrampur-Bherampur interconnection. The two countries are cooperating in sharing intelligence, training of personnel and have introduced coordinated border patrols. Connectivity between the two countries has increased. There are regular bus services between Kolkata-Dhaka, Shillong-Dhaka and Agartala-Kolkata via Dhaka. The unresolved Teesta issue casts a dark shadow on India-Bangladesh relations.

Bangladesh has also signed the Bhutan, Bangladesh, Nepal and India Motor Vehicle agreement (BBIN-MVA) that would facilitate seamless connectivity between these states.

The U.S. Secretary of State visited Bangladesh in 2016 to strengthen bilateral cooperation that had suffered a setback due to the Mohammad Yunus controversy. The two countries have significant counter-terror cooperation.

Bangladesh's relationship with Myanmar has suffered due to the Rohingya issue. Bangladesh was under tremendous international pressure to accept refugees fleeing Myanmar due to persecution. Kyaw Tin, Myanmar's deputy minister of foreign affairs and special envoy of Myanmar's leader Aung San Suu Kyi, visited Dhaka to defuse the crisis. Bangladesh and China cemented their relationship when Chinese President Xi Jinping visited Dhaka – a first after 30 years, and announced \$24 billion loan which includes a 1,320 MW power plant. China has been Bangladesh's largest trading partner and provides military hardware to the Bangladesh army. Recently Bangladesh acquired two submarines from China.

Bangladesh's relations with Pakistan have deteriorated over the issue of the war crimes trial. Pakistan's National Assembly and the Punjab provincial Assembly passed a resolution condemning Dhaka for hanging Jamaat leaders and S.Q Chowdhury, who had helped the Pakistan Army. Both countries expelled each other's diplomatic staff marking the lowest phase in bilateral relations.

Prime Minister Sheikh Hasina attended the BIMSTEC summit in Goa last year. Given the India-Pakistan conflict, SAARC has remained dormant, as a result, many are toying with the idea of reviving BIMSTEC as a regional cooperation mechanism to strengthen cooperation in the eastern part of Asia and make the region prosperous.

## Strategic Outlook

To hold an inclusive election in late-2018 (or early 2019), the government needs to engage in a dialogue with the main opposition party, the BNP. The decision not to participate in the 2014 election was the political undoing of the BNP, which struggles to keep the morale of its party cadres high – particularly after many were arrested and jailed. However, carrying out a broad-based election ensuring the participation of political parties and considered free and fair is going to be a major challenge. The BNP, eager to participate in the election after years in the political wilderness, suggested a 13-point proposal for strengthening the Election Commission which includes amending the RPO, vesting magisterial power with EC officials, appointing election observers, delimitating constituencies and updating the voter list. President Abdul Hamid instituted a six-member search committee for the reconstitution of the election commission after holding dialogue with major political parties. The Election Commission has been reconstituted after the previous Commissioner's term was completed. The EC will have to demonstrate its neutrality. The next election would be significant in the political transformation of the country as the current government would complete 10 years in office. A free and fair election will strengthen people's faith in electoral politics, a crucial factor in democratic governance, which was shattered during 2014's non-inclusive election. A lack of political legitimacy led the government to carry out policies in an arbitrary manner. In order to push economic development, establish people's faith in political institutions and ensure that extra-constitutional elements do not take advantage of a political stalemate, the AL has to ensure a free and fair election. The European Union and other countries are already engaging the political parties to ensure that there is no repetition of 2014.