EVIDENCE BASED POLICY MAKING IN BANGLADESH

SELECTED CASE STUDIES

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PREFACE

As development thrives and Bangladesh continues its journey from a lower middle income towards an upper middle income country, the policy and institutional reform challenges would grow progressively more complex. It is well known that policy making is a crucial exercise in political economy. It is an art and not a science. It involves judgement, trade-offs and compromises. Yet, policies that are formulated in the framework of informed decision making are more likely to work better than those that are purely politically motivated with insufficient evidence or analysis. Even good political judgements tend to rely on data and evidence.

Bangladesh government has limited analytical capacity. In recent years steps have been taken to overcome this limitation by creating partnership with leading private sector research institutions. Some limited efforts are also underway to build up in-house evidence-based policy making capacity in key line-ministries in coordination with the Cabinet Division. This is indeed an encouraging step and it requires mainstreaming and further strengthening in all line ministries.

The elements that constitute evidence-based policy making itself are open to debate and discussion. As a professional development economist with many years of national and international experience with policy making and working closely with senior policy makers, I take a very liberal, pragmatic and low-cost approach to this concept. Elaborate policy models using rigorous quantitative methods are not likely to work in developing countries like Bangladesh who has insufficient data, limited analytical capabilities, a severe time constraint and short attention span of policy makers. Improved communication with the top policy makers such as the Prime Minister, the Finance Minister and other cabinet members is crucial for successfully conveying the main focus of the proposed policy reform and how this relates to the political economy of Bangladesh. So, the evidence to convince these decision makers' needs to be broad-based and easy to understand and conceptualize in the context of Bangladesh and its development challenges. To the extent possible, it should draw on the good-practice examples in Bangladesh and related countries.

Against this backdrop, this book puts together some examples of how a pragmatic approach to evidence based policy making might look like. This is by no means the only approach, but indeed an effective approach that in my view would lead to better policy making in Bangladesh. The case studies are not accidental. These were prepared in response to the needs of various clients of the Policy Research Institute including the Ministry of Finance, the Planning Commission, the Department for International Development (DFID), the Asian Development Bank, the Bangladesh Financial Express Daily and several private sector clients.

The case studies that I have picked for this book reflect some of the latest policy challenges for Bangladesh. They could be thematically organized under the following three headings:

1. Case studies that support economic growth;

2. Case studies that relate to addressing issues of poverty, vulnerability and income inequality; and

3. Case studies that illustrate policy making for strengthening institutions.

There are 5 case studies under the theme of economic growth. The first study deals with the all-important issue of the investment climate for the private sector. The development experience of Bangladesh since independence shows very clearly the dynamic role of the private sector in supporting the growth of GDP. A leading contributor to that is private

CHAPTER 1

Regulatory Framework for Private Investment

1. OVERVIEW

The regulatory environment for business can have a determining influence on private investment (World Bank 2004). Complex regulations and bureaucratic hurdles tend to increase the transaction costs of doing business and thereby hurt the growth of investment. On the other hand, enabling regulations that protect investor interests and simplify business transactions encourage private investment. In today's globalized world where capital is fairly mobile, weak domestic investment climate riddled with too many regulations and bureaucratic hurdles will not only adversely affect the inflow of foreign investment but can also cause domestic capital flight to more hospitable investment environment.

The development experience of South Asia, especially India, provides an important example of how regulatory burden can overwhelm and choke private investment. While all South Asian economies started their development journey on the wrong footing with over-dose of regulations

(Ahmed 2006), the Indian investment climate for private investment in particular had the dubious distinction of being dominated by the "license raj" (Mishra 2007). Subsequent deregulation drive in India since the 1980s ushered in a sea change in the investment climate for private investment that led to a major private sector led growth experience (Ahmed 2007; Mishra 2007).

2. LESSONS OF BANGLADESH EXPERIENCE

GDP in Bangladesh has grown at a steady pace since independence, climbing from an average of below 4% during 1974-1990 to 6.4 % in 2010-16 (Figure 1.1). In per capita terms, it surged from less than 2% per

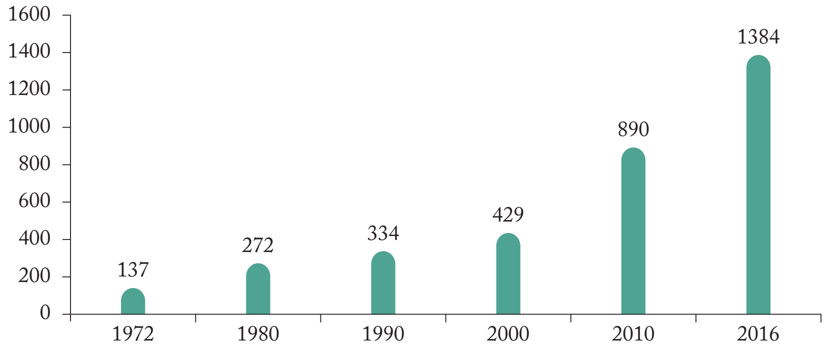
Figure 1.1 Bangladesh 5-year Average GDP Growth Path (percentage per year)

Source: Bangladesh Bureau of Statistics (BBS)

year to 5% over the same period. The acceleration of per capita GDP during 2006-2016 is truly remarkable and it enabled Bangladesh to cross the threshold of Lower Middle-Income Country (LMIC) as defined by the World Bank (Figure 1.2).

Research shows that the accumulation of capital was the most important determinant of growth (Ahmed 2015; World Bank 2012). This is consistent with the growth experiences of East Asia when they started their journey from their low income stage. While there is tremendous scope for improving the contributions of labor force growth, human capital and efficiency of factor use (total factor productivity), the accumulation of capital will continue to drive growth in Bangladesh in the coming years.

Figure 1.2 Per Capita GDP ($)



Source: Bangladesh Bureau of Statistics

The long-term investment trend is shown in Figure 1.3. The investment effort in both public and private sectors started rising from the very low base in the early 1970s, but private investment remained weak well until 1989 hovering on average around 5-6% of GDP. Indeed, in the early years after independence, public investment took lead in boosting the investment rate based on generous availability of official development assistance (ODA). However, the public investment effort moved to a declining path after 2000 as ODA inflows fell and public resource mobilization effort did not gain adequate speed. Indeed, this trend continued until 2009 when the public investment rate fell to a low 4% of GDP, down from a peak of 7.8% in 2000. There has been an important recovery in public investment since 2010, growing to 7.6% of GDP in 2016, but it remains below what is needed to meet the government's development targets of 8% of GDP growth per year and elimination of extreme poverty by 2030.

On the other hand, the private investment effort accelerated after 1989 in response to the initiation of various liberalization measures, especially investment deregulation (Ahmed 2005; Ahmed 2006). Private investment climbed from a low of 6% of GDP in 1989 to 20% of GDP in 2009. In many ways these 20 years transformed Bangladesh from a public investment driven and regulated economy to a private investment-led economy. Unfortunately, however, the private investment momentum has shown signs of stagnation at the 21-22% of GDP rate over the past 5 years.