



Country Partnership Strategy

September 2016

Bangladesh
2016–2020

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 31 August 2016)

| | | |
|---------------|---|-----------|
| Currency unit | – | Taka (Tk) |
| Tk1.00 | = | \$0.013 |
| \$1.00 | = | Tk78.40 |

ABBREVIATIONS

| | | |
|-------|---|---|
| ADB | – | Asian Development Bank |
| CPS | – | country partnership strategy |
| GDP | – | gross domestic product |
| PPP | – | public–private partnership |
| SASEC | – | South Asia Subregional Economic Cooperation |
| SEZ | – | special economic zone |
| SMEs | – | small and medium-sized enterprises |

NOTES

- (i) “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2016 ends on 30 June 2016.
- (ii) In this report, "\$" refers to US dollars.

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COUNTRY AT A GLANCE

| Economic^a | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|-------------|-------------|---------------|-------------|--------------|
| GDP (\$ billion, current) | 128.7 | 133.4 | 150.0 | 172.9 | 195.2 |
| GDP per capita (\$, current) | 860.0 | 880.0 | 976.0 | 1110.0 | 1236.0 |
| GDP growth (% , in constant prices) | 6.5 | 6.5 | 6.0 | 6.1 | 6.6 |
| Agriculture | 4.5 | 3.0 | 2.5 | 4.4 | 3.3 |
| Industry | 9.0 | 9.4 | 9.6 | 8.2 | 9.7 |
| Services | 6.2 | 6.6 | 5.5 | 5.6 | 5.8 |
| Gross domestic investment (% of GDP) | 27.4 | 28.3 | 28.4 | 28.6 | 28.9 |
| Gross domestic saving (% of GDP) | 20.6 | 21.2 | 22.0 | 22.1 | 22.2 |
| Consumer price index (annual % change) | 10.9 | 8.7 | 6.8 | 7.4 | 6.4 |
| Liquidity (M2) (annual % change) | 21.3 | 17.4 | 16.7 | 16.1 | 12.4 |
| Overall fiscal deficit (excl. grants) (% of GDP) | (3.9) | (3.6) | (3.8) | (3.6) | (3.9) |
| Merchandise trade balance (% of GDP) | (7.7) | (7.0) | (4.7) | (3.9) | (5.1) |
| Current account balance (% of GDP) | (1.3) | (0.3) | 1.6 | 0.8 | (0.8) |
| External debt service (% of exports of goods and services) | 3.7 | 3.6 | 3.8 | 3.9 | 3.2 |
| External debt (% of GDP) | 17.2 | 16.6 | 14.9 | 14.1 | 12.2 |
| Poverty and Social | 1990 | | Latest | Year | |
| Population (million) | 109.6 | | 159.9 | [2016] | |
| Population growth (annual % change) | 1.9 | | 1.3 | [2016] | |
| Maternal mortality ratio (per 100,000 live births) | 550.0 | | 176.0 | [2015] | |
| Infant mortality rate (below 1 year/per 1,000 live births) | 100.0 | | 29.0 | [2015] | |
| Life expectancy at birth (years) | 56.0 | | 70.9 | [2015] | |
| Adult literacy (%) | 37.0 | | 64.6 | [2015] | |
| Primary school gross enrollment (%) | 56.0 | | 108.6 | [2013] | |
| Child malnutrition (% below 5 years old) | 61.5 | | 32.6 | [2014] | |
| Population below poverty line (%) | 56.6 | [FY1992] | 23.6 | [2016] | |
| Population with access to safe water (%) | 68.0 | | 87.0 | [2015] | |
| Population with access to sanitation (%) | 34.0 | | 61.0 | [2015] | |
| Environment | 1990 | | Latest | Year | |
| Carbon dioxide emissions (million tons) | 15.5 | | 57.1 | [2011] | |
| Carbon dioxide emissions per capita (tons) | 0.1 | | 0.4 | [2011] | |
| Forest area (million hectares) | ... | | 2.6 | [2013] | |
| Urban population (% of total population) | 14.0 | | 26.9 | [2012] | |
| ADB Portfolio (active loans, as of 31 December 2015)^b | | | | | Total |
| Total number of loans | | | | | |
| Sovereign | | | | | 63 |
| Non-sovereign | | | | | 2 |
| Net loan amount (\$ million) ^c | | | | | |
| Sovereign | | | | | 6,143.9 |
| Non-sovereign | | | | | 87.1 |
| Disbursements | | | | | |
| Disbursed amount (\$ million, cumulative) ^d | | | | | |
| Sovereign | | | | | 2,383.4 |
| Non-sovereign | | | | | 75.5 |
| Percentage disbursed (disbursed amount/net loan amount) | | | | | |
| Sovereign | | | | | 39% |
| Non-sovereign | | | | | 87% |

... = not available, () = negative, [] = latest year for which data are available, ADB = Asian Development Bank, ADF = Asian Development Fund, GDP = gross domestic product, M2 = broad money, OCR = ordinary capital resources.

^a Fiscal year.

^b This table covers ADF and OCR financing for projects and programs, including policy-based lending.

^c Approved amount net of cumulative cancellations.

^d Cumulative disbursements from date of effectivity.

Sources: Bangladesh Bureau of Statistics; Bangladesh Bank; Ministry of Finance; and ADB staff estimates.

I. COUNTRY PARTNERSHIP STRATEGY SNAPSHOT

1. **Key development challenges.** Bangladesh has achieved sustained growth of 6.3% per year since FY2007. Poverty has halved since 2000,¹ meeting an important Millennium Development Goal target. The gender gap has narrowed, and the country has made progress in providing access to health and basic social services. The major challenges facing Bangladesh now include: (i) accelerating the annual rate of growth to 7% and above to move closer to upper middle-income status, (ii) diversifying the economic base and creating new sources of growth, (iii) making growth more inclusive and reducing poverty by creating jobs and supporting rural development, (iv) increasing transparency and accountability by addressing institutional and policy weaknesses, and (v) reducing vulnerabilities to environmental degradation and climate change.

2. **ADB strategic objectives and priorities.** The Asian Development Bank (ADB) will adopt a broad-based approach in order to respond flexibly to the needs and demand of the country over the country partnership strategy (CPS) period (2016–2020). ADB will support: (i) easing infrastructure constraints in key sectors, such as energy, transport, and urban development; (ii) creating conditions for greater private sector participation to attract investment; (iii) enhancing the productivity, and skills of the workforce; (iv) increasing the productivity of agriculture and creating gainful rural employment opportunities outside agriculture; (v) helping Bangladesh take advantage of its location as regional transport and trade hub; (vi) managing environmental and climate change-related vulnerabilities; and (vii) addressing institutional capacity constraints and improving governance. Individual interventions in each area will be based on careful consideration of the core strengths of ADB, and the role of other development partners.

3. **Alignment with government's development plans.** ADB assistance is strongly aligned with the government's Vision 2021 and its Seventh Five-Year Plan, which lays out a roadmap for higher, sustainable and inclusive growth.² ADB engagement complements the strategies of other development partners by taking a sectorwide approach and pursuing common policy dialogues. CPS priorities also reflect recommendations from the previous CPS, South Asia Subregional Economic Cooperation (SASEC) Operational Plan 2016-2025, and ADB's corporate strategy under the Strategy 2020 midterm review.³

4. **ADB's value addition and use of scarce resources.** Bangladesh's rapidly growing economy will require higher levels of public and private investment during 2016–2020. ADB will increase its lending operations to \$8.0 billion, from \$5.0 billion during 2011–2015. ADB will intensify its efforts to expand private sector operations that require a local presence. The effort will continue to leverage a high level of cofinancing.⁴ ADB assistance will increasingly focus on

¹ Poverty dropped to 23.6% in 2016 based on the national poverty line (corresponding to a calorie intake of 2,122 kilocalories per capita per day).

² Government of Bangladesh, Planning Commission, Ministry of Planning. 2012. *Perspective Plan of Bangladesh 2010-2021: Making vision 2021 a reality*. Dhaka. Vision 2021 defines the social and economic progress the country aspires to achieve by 2021. The targets of the country's five-year plans (including Government of Bangladesh, Planning Commission, Ministry of Planning. 2011. *Sixth Five-Year Plan: 2011–2015*. Dhaka; and Government of Bangladesh, Planning Commission, Ministry of Planning. 2015. *Seventh Five Year Plan FY2016-FY2020: Accelerating Growth, Empowering Citizens*. Dhaka) are aligned under Vision 2021.

³ ADB. 2011. *Country Partnership Strategy: Bangladesh, 2011–2015*. Manila; ADB. 2016. *South Asia Subregional Economic Cooperation Operational Plan 2016-2025 (Draft)*. Manila; ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

⁴ Cofinancing amounted to 75% of the total public sector lending during the period of the country partnership strategy 2011-2015.

areas rather than sectors—for instance, development of regional growth centers will be a priority, which combines multi-sector infrastructure facilities with access to regional and global production networks. In this regard, ADB will continue to help build sub-regional transport and trade links between Bangladesh and neighboring countries to deepen regional integration.

II. COUNTRY DEVELOPMENT CONTEXT

5. **Positive development momentum.** Following 10 years of sound and sustained growth, Bangladesh reached lower-middle income status in July 2015.⁵ Employment generation was encouraging—the manufacturing sector, especially manufacture of ready-made garments, absorbed low-skilled, mostly female workers. Remittances and stable food production helped poor households cope with economic uncertainties. With its young, rapidly growing population, Bangladesh has the potential to become a major exporter of labor-intensive products. The progress achieved in health and education is helping increase the productivity and competitiveness of the young labor force. The country also has the advantage of being located between South and Southeast Asia, providing good prospects of becoming a regional trading hub.

6. **Macroeconomic stability.** Bangladesh has successfully maintained macroeconomic stability. Gross domestic product (GDP) grew consistently at 6% and above during FY2011–FY2015. Exports and remittances have been major sources of growth, while domestic consumption is becoming a major contributor. During FY2011–FY2015, inflation declined from 10.9% to 6.4%, while the fiscal deficit was kept below 5%. Foreign exchange reserves grew from \$11 billion in FY2011 to \$25 billion in FY2015 (a 6.2-month import cover), and external debt declined from 17.2% to 12.2% of GDP during the same period. Low revenue mobilization (about 10% of GDP) is a major concern. The implementation of a new tax law starting FY2018 is a key milestone.⁶

7. **Pace of structural transformation.** Bangladesh has gradually shifted the basis of its economy from agriculture to manufacturing and services. During the prior CPS period (2011–2015), the share of industry in GDP increased from 26% to 28%, agriculture declined from 18% to 16%, while services remained at 56%. Garments make up about 82% of exports. Expansion of the export base into leather goods, processed foods, pharmaceuticals, light engineering, shipbuilding, and services is promising but has yet to be fully developed.

8. **Private sector development.** A recent country diagnostic study emphasized the need for rapid industrial development and improved competitiveness for higher growth.⁷ Increased private sector participation is much needed but remains a challenge. Private investment stayed stagnant (at about 22% of GDP) during FY2011–FY2015. Foreign direct investment, at about 1% of GDP, is extremely low for a rapidly growing economy. To accelerate private sector development requires improving the legal framework for land use and ownership, providing quality infrastructure services, addressing market distortions caused by subsidies, increasing private sector capacity, and improving the country's business environment. Improving education quality and skills development is also necessary to meet demands of an expanding private sector.

⁵ Based on the gross national income per capita of \$1,080.

⁶ The new law enhances the value-added tax scheme with expansion of the base, incentives, and automation of the tax administration.

⁷ ADB. 2016. *Bangladesh: Consolidating Export-Led Growth – Country Diagnostic Study*. Manila.

9. **Inadequate infrastructure.** Addressing infrastructure deficiencies remains a top priority. Bangladesh ranks 123rd (out of 140 countries) in the quality of infrastructure, behind India, Pakistan, and Sri Lanka.⁸ The inadequate energy supply is a major binding constraint to creating economic opportunities. The current gap between the supply and demand for electricity is 1,500–2,000 megawatts, leading to frequent load shedding and underutilization of industrial capacity. Transport depends heavily on road transport, with little integration among various transport modes. Poor transport infrastructure raises costs, reduces competitiveness, and is a major barrier to expanding intra-regional trade. Population growth in urban areas has been more than double national population growth, and cities are heavily congested with an acute shortage of urban services. Without adequate energy, transport, and utility infrastructure, urban centers lose productivity and competitiveness.

10. **Regional transport and trade links.** Bangladesh's strategic location can enable it to emerge as a hub, and thereby build effective economic linkages with India, landlocked Nepal and Bhutan, Southeast Asia, and the People's Republic of China (through Myanmar). Regional cooperation and integration are embedded in Bangladesh's successive five-year development plans, with a focus on: (i) strengthening the cost- and time-competitiveness of exports, (ii) promoting the regional energy trade, (iii) developing functional transit systems, and (iv) implementing trade policy reforms. Bangladesh's active participation in the SASEC program, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, the South Asian Association for Regional Cooperation, and, more recently, the Bangladesh–China–India–Myanmar Forum for Regional Cooperation has been helping build connectivity with neighboring countries, and the rest of Asia. ADB has supported regional cooperation and integration projects in Bangladesh through the SASEC program.

11. **Gender equality.** Bangladesh has made significant progress in several areas critical to gender equality. The country is on track to meet Sustainable Development Goal 4 (quality education for all), with net enrolment rates of 98.8% for girls and 96.6 % for boys in 2014.⁹ The maternal mortality ratio was estimated to be 176 maternal deaths per 100,000 live births in 2015.¹⁰ Bangladesh has performed well with respect to human development.¹¹ But areas of concern remain. Women have lower rates of labor force participation, higher unemployment rates, and much higher underemployment rates than do men. Employed women remain more concentrated in agriculture, forestry and fishing than men (53.5% of women compared with 41.7% of men are in agriculture),¹² suggesting that women's access to sectors offering a greater return on their labor is more limited. Less access to technical and vocational training is also suggested by the gender disparities in enrolment (27.43% of TVET students are female, and proportions are particularly low in the public sector) (footnote 9). Women continue to have more limited access than men to vital productive resources including land, housing, and technology.

12. **Poverty reduction.** Freeing the country from poverty and inequality remains a major though separate challenge. Currently, 12.9% of the population is in extreme poverty.¹³ Bangladesh is ranked 142nd out of 188 countries in the 2015 Human Development Report

⁸ World Economic Forum. 2015. *The Global Competitiveness Report 2015–2016*. Geneva.

⁹ *Seventh Five-Year Plan* (footnote 2, above), p. 135.

¹⁰ United Nations Development Programme. 2016. Millennium Development Goals Indicators Database (<http://mdqs.un.org/unsd/mdg/>) (Accessed on 20 August 2016).

¹¹ United Nations Development Programme. 2015. *Human Development Report, 2015*. New York.

¹² Bangladesh Bureau of Statistics. 2015. *Labor Force Survey 2013*. Dhaka (p. 54).

¹³ The extreme poor have been defined in the Ministry of Planning, Bangladesh Bureau of Statistics. 2010. *Report of the Household Income and Expenditure Survey 2010*. Dhaka, as those whose actual food intake is equal or less than 1,805 kilocalories per-capita per day.

(footnote 11). Unless specific actions are taken, extreme poverty in parts of the country and inequality between regions will likely remain, even as the country's economy continues to grow. Effective implementation of the government's social protection strategy is needed to elevate people out of extreme poverty.¹⁴ Priorities include housing and basic services—including primary health care—for the poor, and disaster risk management to reduce vulnerability and build resilience to extreme weather conditions.

13. **Environmental sustainability.** The country faces serious climate change challenges because of its location in a river delta with low-lying floodplains. The Intergovernmental Panel on Climate Change has classified Bangladesh as one of the countries that will be most affected by climate change. Changing rainfall and water flow patterns—coupled with prevailing poverty, high population density, and reliance on livelihoods that are weather sensitive—can affect food security, rural livelihoods, public health, and access to infrastructure and social services. The government has prepared its national sustainable development strategy with support from United Nations Environment Programme.

III. COUNTRY STRATEGY FRAMEWORK

A. Lessons From Previous Strategy

14. The design of the CPS carefully considers the lessons from the final review of the CPS 2011–2015 and its validation, both of which rated ADB operations during 2011–2015 *successful*, with some recommendations for improvement.¹⁵ The review stresses the need for: (i) enhancing project readiness and strengthening the capacity of executing agencies in areas such as procurement, safeguards, and financial management; (ii) retaining the current sector focus based on ADB's core strengths, accelerating ADB support for public–private partnerships (PPPs), and expanding private sector operations; (iii) strengthening regional cooperation and integration; and (iv) continuing a cross-sectoral emphasis on the environment and climate change.

15. The CPS final review validation rated ADB's strategic positioning *satisfactory*, and the program *relevant* to the country's needs, as well as *effective*, and *likely sustainable*. Because of delays in procurement and safeguards implementation, and difficulties in discerning ADB contributions to country outcomes, the program was rated *less than efficient* and the impact *less than satisfactory*. The validation stressed the need to reposition ADB's program in a period of heightened political volatility, and to strengthen the results framework to ensure a stronger link between the CPS and the operational program. Specific recommendations for improving performance include: (i) undertake a periodic review of governance and public sector management; (ii) make greater use of innovative financial instruments, such as results-based lending; and (iii) provide capacity development support for executing and implementing agencies to improve implementation integrity and efficiency.

B. National Development Strategy

16. **Key development goals.** In view of the positive outcomes of the Sixth Five-Year Plan (FY2011–FY2015), the government aims to pursue a broadly similar strategy in the Seventh Five-Year Plan (FY2016–FY2020), which has an overarching goal of achieving faster, inclusive,

¹⁴ Government of Bangladesh. 2014. *National Social Protection Strategy (NSPS) of Bangladesh*. General Economics Division, Planning Commission, Dhaka.

¹⁵ ADB. 2014. *Country Partnership Strategy Final Review: Bangladesh, 2011–2015*. Manila; Independent Evaluation Department. 2016. *Bangladesh: Country Partnership Strategy Final Review Validation, 2011–2015*. Manila.

and environmentally sustainable growth based on four pillars: (i) accelerating the average annual growth rate from 6.3% to 7.4% per year; (ii) making growth more inclusive, pro-poor, and environmentally sustainable; (iii) reducing poverty from 24.8% to 18.6% and extreme poverty from 12.9% to around 8.9%; and (iv) providing productive jobs for all new entrants to the labor force. Expenditures on social protection will increase from 2.0% to 2.3% of GDP. The plan assumes increases, from current levels, in (i) the tax-to-GDP ratio, from 8.5% to 14.1%; (ii) expenditure-to-GDP, from 13.5% to 21.1%; and (iii) revenue-to-GDP, from 9.6% to 16.1%. Remittances are projected to rise from \$15.3 billion to \$25.4 billion in 2020. An ambitious target has been set for foreign direct investment, projected to rise from the current level of \$1.7 billion (0.9% of GDP) to almost \$10 billion in FY2020 (3% of GDP).

17. **Development strategy.** The government estimates that to accelerate economic growth, the gross investment rate needs to rise from 29% in FY2015 to about 35% by FY2020; to maintain fiscal sustainability, about 80% of the incremental investment is expected to come from the private sector. Higher economic growth does not necessarily benefit all sections of the society immediately. Policies and measures to increase pro-poor expenditures and public investment in backward regions and better target social safety programs are essential to ensure inclusive growth. Providing diverse opportunities for rural employment and income generation are effective ways to achieve more equitable growth. Vulnerability to environmental degradation and climate change also needs to be addressed, because the livelihoods of the poor depend on increasing their resilience to unexpected environmental changes. Gender inequality remains an important social and economic issue, which limits how growth impacts a large section of the population.

C. Role of Development Partners

18. **Development assistance scenario.** Bangladesh has historically been a large recipient of financial assistance from bilateral and multilateral development partners. Foreign aid commitments equaled \$5.3 billion in FY2015, with about 85% in the form of concessional loans. In FY2015, foreign assistance accounted for nearly one third of development program spending. Bangladesh's attainment of lower-middle-income status in 2015 is unlikely to have much impact on its external financing needs over the next 5 years, and Bangladesh will still need significant financing to achieve rapid and sustainable growth and eradicate the remaining poverty. Because domestic revenue mobilization remains weak, and the capital market undeveloped as a source of infrastructure financing, access to concessional assistance from development partners will remain an important way of financing these investments. The government is expected to increase the size of non-concessional external financing from multilateral sources and/or the market to finance revenue-generating infrastructure projects. With outstanding external debt of 12% of GDP in FY2015, and the continued low fiscal deficits, Bangladesh is at a low risk of external debt distress.

19. **Partnerships and areas of coordination.** ADB will deepen coordination with development partners to enhance the effectiveness of its assistance, and explore more cofinancing opportunities. A vibrant Local Consultative Group, comprising the government and development partners, provides the overall framework for development partner cooperation. ADB currently co-chairs the Local Consultative Group energy and education working groups, and has been active in working groups on transport, agriculture and water resources management, and water and urban services. Development partner assistance through cofinancing has been instrumental in enabling ADB to leverage resources and build strong partnerships. ADB country operations business plans envisage cofinancing in projects focusing on infrastructure development, human capital development, rural transformation, and urban

infrastructure improvement. To address critical infrastructure constraints, ADB will work closely with key financiers in the infrastructure sector in Bangladesh, including the World Bank and Japan International Cooperation Agency. In education, ADB will continue to work with a consortium of development partners using a sector-wide approach. ADB financial support will complement knowledge, capacity and advocacy support from the United Kingdom, United States, and United Nations agencies. ADB will continue pursuing harmonized approaches to fiduciary oversight, governance, financial management, reporting, and procurement. Effort will be made to deepen the ongoing collaboration with civil society organizations for community-based approaches in urban health, water management and urban services. In addition, ADB aims to collaborate with other development partners on capacity building, and operational monitoring and reviews.

D. ADB's Strategic and Thematic Objectives and Public and Private Sector Operational Priorities

20. **Country partnership strategy objective.** In providing support to the government in achieving its vision of higher, inclusive, and sustainable economic growth, the CPS has two strategic objectives, based on ADB's core strengths in Bangladesh, and the recommendations of the ADB Strategy 2020 midterm review (footnote 3): (i) promoting economic diversification to enhance the economy's long-term growth potential, and (ii) accelerating rural and regional development to make growth more inclusive (Figure). The ADB country partnership strategy will also address the sustainability of economic growth at both policy and project levels.

21. Recognizing the wide range of development challenges, ADB will adopt a broad-based approach to flexibly respond to country needs. ADB assistance will comprise: (i) priority investments for projects and programs to support economic diversification, and rural and balanced regional development; and (ii) priority cross-cutting measures to enhance the overall effectiveness of ADB-assisted projects and programs.

(i) Priority investment areas for projects and programs:

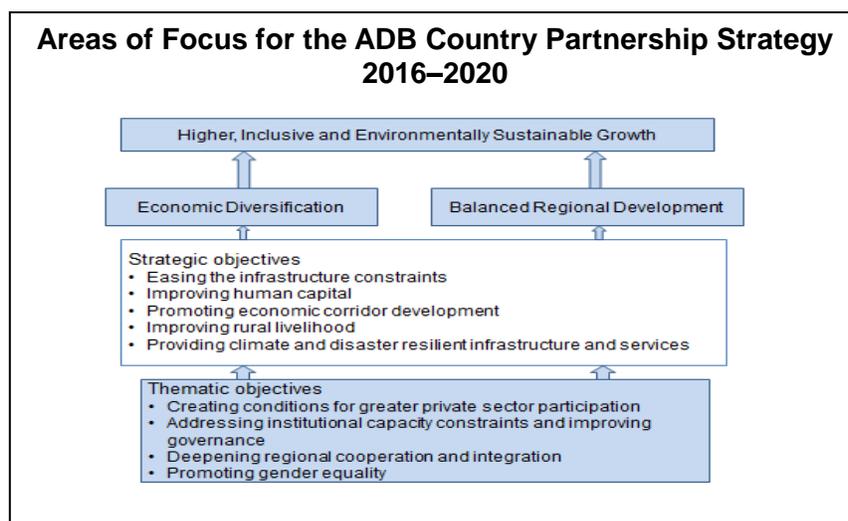
- (a) easing infrastructure constraints by undertaking transformational investments and promoting policy reforms in key sectors such as energy, transport, and urban development;
- (b) improving human capital by enhancing the quality of the workforce through better education and skills development;
- (c) promoting economic corridor development by connecting urban growth centers, fostering diversified industrialization, and linking to national, regional, and global markets and supply chains;
- (d) improving rural livelihoods by increasing the productivity of agriculture, diversifying into high value-added products, and investing in all-weather access to markets and agribusiness logistics; and
- (e) providing climate and disaster resilient infrastructure and services to sustain development achievements and reduce adverse impacts, especially on the poor.

(ii) Priority cross-cutting areas:

- (a) creating conditions for greater private sector participation to increase investments, promote economic diversification, and expand employment opportunities;

- (b) addressing institutional capacity constraints and improving governance to strengthen implementation capacity, and promote accountability and transparency;
- (c) deepening regional cooperation and integration to create new economic opportunities, exploit economies of scale, and enhance market access under the SASEC operational plan; and
- (d) promoting gender equality to strengthen the inclusiveness of growth by providing women with equal access to education, skills development, job opportunities, and credits.

22. **ADB value addition.** Individual interventions in each area (paras. 23–37) will be determined based on careful consideration of ADB’s core strengths, its comparative advantages, effectiveness in undertaking high level of policy dialogue to support reforms, as well as the role of other development partners. The impact of ADB assistance will be maximized by focusing its limited resources on building institutions and strengthening the capacity of public sector entities, creating new markets to attract private investment, and enhancing the accountability mechanism for rapidly expanding public and economic activities. To be effective, ADB financial assistance needs to be combined with knowledge products and services. ADB will also intensify its efforts to expand private sector operations by assisting in improving the business climate and strengthening the financial market.¹⁶ ADB investments will increasingly focus on areas rather than sectors—for instance, development of regional growth centers will be a priority, which combines multi-sector infrastructure facilities with provision of access to regional and global production networks.



- a. **Priority investment for projects and programs to enhance growth potential and make growth more inclusive and sustainable**

23. **Easing the infrastructure constraint.** With the government’s recognition of ADB’s strengths and work in infrastructure development, ADB will continue its focus on easing the country’s infrastructure constraints. To remain relevant and responsive to the evolving needs of the growing economy, ADB assistance will shift to a focus on area-based investments. For instance, ADB will support the government’s strategy to move from export-processing zones, which are largely based on a single product (garments), to special economic zones (SEZs) with

¹⁶ ADB. 2016. *Thematic Assessment (Summary): Private Sector Development*. Manila.

stronger linkages to and integration with the domestic economy. The government has also requested ADB assistance in developing an integrated strategy and updating master plans for transport connectivity nationwide.

24. ADB will support government efforts to expand power generation capacity, improve the efficiency of transmission and distribution networks, and expand regional interconnections. Energy security is one of the biggest obstacles to sustained growth in Bangladesh, and requires long-term intervention by ADB for both sector reforms and investments. ADB involvement in the transport sector will focus on strategic economic corridors, particularly those facilitating sub-regional trade. The railway sector will receive strong ADB support. ADB will provide assistance for urban transport capacity expansion and efficiency improvements. ADB has been catalytic in bringing in large investments to the urban sector, supported by transformative reform initiatives for better urban governance and management. Cities are where economic growth is focused, and ADB will combine improvements in basic urban services in water supply and sanitation with better services for urban health and skills training. The convergence of physical and social infrastructure is recognized as a key success factor for urban investments, and an example of the need for a geographically-based approach. ADB will also help set up information technology parks, which will create job opportunities, especially for women in information technology and information technology-enabled services, e.g., in business process outsourcing.

25. Inclusiveness will be a priority in designing infrastructure projects. Greater access to electricity will help promote inclusive growth by creating jobs in industry and services sectors, including small and medium-sized enterprises (SMEs) and cottage industries, and self-employment, especially for women. Good transport networks will integrate rural areas to urban centers, and provide access to markets and cost-competitive sources of inputs. This will help diversify the rural economy and boost rural incomes. Better roads will contribute to labor mobility; provide access to health, education and finance services; enhance regional trade; and boost competitiveness, private investment and growth. Improved urban infrastructure will also contribute to greater inclusiveness by attracting more investments and thereby creating more job opportunities.

26. **Improving human capital.** In response to the government's focus on higher, more inclusive growth, ADB will strengthen its support for human capital development through social sector projects and programs. ADB will expand investments in skills, primary and secondary education, and urban health. The main focus of ADB social sector assistance will gradually shift from providing access to ensuring higher service quality in the areas of education, skills training, and urban primary health care. ADB's strategy is to assist the government implement its social sector program by (i) adopting a sector-wide approach, in close coordination with other development partners; (ii) working closely with the private sector, especially in skills training and urban health care; and (iii) strengthening the government's institutional capacity in planning, budgeting, management, and monitoring and evaluation to provide better services. All assistance will aim to ensure gender equity in terms of access to services.

27. With the increasing diversification of the Bangladesh economy, ADB's strategic assistance for the next phase of development will be on technology and innovation for building a knowledge-based economy. While maintaining a focus on basic education and skills training, ADB will promote cooperation and technology transfer between academia and industry, with an emphasis on increasing the relevance of education to the needs of new industries and markets. This will require increased participation by industry and the private sector in labor market planning and provision of services. ADB support for the development of information technology parks and industrial development will help identify emerging opportunities.

28. **Promoting economic corridor development.** Economic corridor development is well aligned with Bangladesh's Seventh Five-Year Plan, which envisages an integrated development strategy for the southwest region, involving the establishment of government and private SEZs, high-technology industrial and information technology parks, and industrial estates for SMEs. Given its strategic location, Bangladesh's southwest region has strong prospects to become a hub for domestic and regional trade and investment, which will facilitate the country's participation in regional and global value chains. ADB has begun to formulate a comprehensive economic corridor development plan for economic centers to be connected to Dhaka, starting in the southwest region of Bangladesh. The plan is expected to identify, analyze, and recommend for possible future ADB support: (i) priority economic zones to be developed; (ii) industries for future development along the corridor, including micro- and SMEs, (iii) priority infrastructure needs in various sectors; and (iv) policy reforms and an institutional framework for setting up and operating businesses efficiently. Lagging areas in the hinterland of the main corridor can be developed with complementary industries, especially agribusiness and logistics facilities.

29. **Improving rural livelihood.** Agriculture provides nearly half of all employment and supports over 70% of the population. Making rural life more livable and attractive is of paramount importance for agricultural production and food security, as well as managing unplanned urbanization. ADB support will focus on: (i) raising productivity and profitability of agriculture, (ii) increasing diversification of crop and non-crop production for higher value and yield, (iii) maintaining food safety and quality, and (iv) tackling climate change impacts. Increasing private sector participation in agro-processing value chains is important to accelerate the agricultural diversification. To improve market connectivity, it is important to upgrade rural roads, improve maintenance, and foster agribusiness infrastructure. Focusing on climate-resilient design and better quality infrastructure will help address sustainability. In water resource management, the focus should be on improving disaster risk management, and realizing the full potential of irrigation schemes.

30. **Providing climate and disaster resilient infrastructure and services.** Considering the country's fragile ecosystem, ADB places environmental sustainability as a top priority in Bangladesh. The country environment assessment (2016) identified five thematic areas for integrating environmental sustainability, climate-resilient development (adaptation), and green growth (mitigation) into ADB's operations:¹⁷ (i) mainstreaming environmental and climate change considerations by strengthening country safeguards systems, climate risk screening, and climate-proofing of key investment projects; (ii) ensuring energy security and promoting green growth by expanding renewable energy and financing instruments to promote cleaner technology; (iii) ensuring food and water security through integrated water resources management and resilient infrastructure; (iv) promoting green cities by enhancing urban services and sustainable transport in urban areas; and (v) institutional strengthening of implementing agencies through capacity building and knowledge creation regarding environmental safeguards, climate change, and disaster risk management. Currently, climate change components are being incorporated in project designs to help Bangladesh move towards climate-resilient development. Climate-proofing is also being attempted in investment projects in the agriculture, urban, water resources management, transport, and energy sectors.

¹⁷ ADB. 2016. *Thematic Assessment (Summary): Country Environment Assessment*. Manila.

b. Priority cross-cutting areas to enhance effectiveness

31. **Creating conditions for greater private sector participation.** ADB will promote private sector development through (i) public sector support for creating an enabling environment for private sector development, (ii) direct private sector investment, and (iii) transaction advisory services for PPPs. Enhancing the enabling environment for private sector participation requires easing of infrastructure constraints, and improving policies and regulations. ADB support for developing industrial zones and economic corridors will help mobilize large sums for private investment. In addition, for efficient resource mobilization, ADB will continue to support development of domestic capital markets and help SMEs in non-urban areas. ADB assistance will target micro- and SMEs to directly benefit women entrepreneurs, especially in rural areas. ADB will continue to work with other development partners, including the World Bank and the International Monetary Fund, to reform trade and investment policies, the domestic tax regime, and PPP policies.

32. ADB has been directly supporting private sector investment in power generation, agribusiness and crop diversification, the garment and textile industry, mobile telecommunications, and the financial sector. ADB will continue this support and explore opportunities in other areas, including power transmission and gas supply infrastructure, renewable energy (especially solar), healthcare, education, logistics services, transport, water treatment and waste management, and information and communication technologies. ADB's support to garment factories, through private sector operations, focuses on the occupational safety and work environment of garment workers.¹⁸ ADB will continue to provide financial assistance to private sector projects with sound fundamentals and strong development impact. ADB will also facilitate international trade through an active trade finance program.

33. While institutional and regulatory policies for PPPs are essentially in place,¹⁹ they have not yet been actively implemented. ADB will work with the government to further improve the regulatory and legal environment for PPPs by enhancing institutional structure and capacities. ADB will provide transaction advisory services for PPPs, especially in transport and energy sectors.²⁰ ADB's private sector operations will also pursue the financing of PPP transactions.

34. **Addressing institutional capacity constraints and improving governance.** The CPS will attach priority to enhancing institutional capacity and improving governance. ADB programs and projects should help tackle governance challenges at project, sector and overall country levels. At the project level, ADB will continue to support agency-specific capacity building for procurement, financial reporting and auditing, safeguards, and gender equality. The sector-level support will include stringent fiduciary reviews to support use of country systems for accounting for primary and secondary education; accounting and financial reforms for the railway sector; and performance-based allocations of investment funds to support municipal governance reforms, strengthen service delivery, and build the capacity of municipal governments.

¹⁸ ADB processed a loan in 2015 to BRAC Bank; a similar loan, to extend identical benefits, is being processed in 2016.

¹⁹ The Public-Private Partnership Act 2015, passed in September 2015, simplified land acquisition for PPP projects. The government has also established a government-owned fund, Bangladesh Infrastructure Financing Facility, to facilitate cofinancing of PPP projects.

²⁰ On 30 June 2016 ADB signed a transaction advisory services mandate letter for a highway project.

35. At the country level, in line with the Second Governance and Anticorruption Action Plan,²¹ ADB will support completion of the Good Governance Program,²² thereby retaining a basis for dialogue on governance. Dialogue is also ongoing with the Office of the Comptroller and Auditor General to support incremental compliance with international accounting and auditing standards, starting at the project level, with the expectation that improvements will gradually expand to the sector and country levels. The policy and institutional framework has progressed with the creation of the autonomous Anti-Corruption Commission, development of a National Integrity Strategy that provides a strategic framework for anticorruption reforms in support of the Anti-Corruption Commission,²³ and introduction of the Government Performance Management System.²⁴ The implementation of the National Integrity Strategy, especially with regards to increasing the accountability of government institutions, is supported by the National Integrity Strategy Support Project, with the assistance of the Japan International Cooperation Agency. The Public Finance Management Reform Strategy 2016–2020, developed jointly by the government and development partners, aims to ensure accountability, transparency, proper use of public resources, and improvement in public sector organizational efficiency. The effect is being evaluated through an Annual Performance Agreement with various government administrative units. ADB will work closely with development partners to address diverse governance issues, and coordinate with government agencies to improve results and resource use.

36. **Deepening regional cooperation and integration.** ADB's future regional cooperation and integration operations in Bangladesh will be guided by the SASEC Operational Plan 2016–2025, which will focus on multimodal transport connectivity, trade facilitation, energy trade, and cross-border economic corridor development, and in coordination with ADB operations under other regional cooperation and integration initiatives such as the Greater Mekong Subregion Economic Cooperation Program and the Central Asia Regional Economic Cooperation Program. ADB will support Bangladesh in strengthening road, rail, and maritime connectivity with neighboring countries along key trade routes. As part of the ADB-assisted SASEC platform for regional power trade and interconnection arrangements, Bangladesh will expand power sharing arrangements with India, and possibly with Bhutan and Nepal (via India). ADB will assist the trade facilitation efforts of the Government of Bangladesh through logistics infrastructure and services improvements, as well as the implementation of the Bangladesh–Bhutan–India–Nepal Motor Vehicles Agreement. ADB support for the development of economic corridors centered on Dhaka will create synergies and complementarities with existing and planned economic corridors in other SASEC countries, as well as in countries under the Greater Mekong Subregion Economic Cooperation Program.

37. **Promoting gender equality.** In line with the current status of women in Bangladesh and in support of the Bangladesh Seventh Five-Year Plan, ADB will employ a dual approach in achieving greater impacts related to gender equality and women's empowerment. First, gender considerations will be integrated throughout ADB sectoral policy dialogue and operations in Bangladesh. ADB will continue to support the elimination of gender disparities in primary and secondary education; and facilitate women's entry into non-traditional academic fields and

²¹ ADB. 2006. *Second Governance and Anticorruption Action Plan*. Manila.

²² ADB. 2007. *Loan and Technical Assistance to the People's Republic of Bangladesh for the Good Governance Program*. Manila.

²³ Government of Bangladesh, Cabinet Division. 2012. *National Integrity Strategy: State Institutions and Organizations, Commitment for Golden Bengal*. Dhaka. ADB supported development of National Integrity Strategy along with creation of Anti-Corruption Commission under the Good Governance Program.

²⁴ Introduced upon recommendations of the Government of Bangladesh. 2000. *Report of the Public Administration Reform Commission*. Dhaka.

occupations, as well as skills development for women focused on technical and vocational education and training for employment. Support will also be given to urban primary health care, with the goal of reducing the maternal mortality ratio and infant mortality rate. ADB will also ensure gender equity in the urban governance and infrastructure development initiatives, disaster risk management investments, road infrastructure development, water supply network improvement, and energy sector development supported by ADB. As part of support for regionally balanced growth center development, ADB will train women to gain better entrepreneurial skills including in the use of information technology and accessing information on business opportunities. In addition, concerted effort will be made to facilitate women's access to financial resources and economic empowerment by supporting microenterprises and SMEs owned and managed by women. ADB will also continue to consolidate and disseminate good gender-related practices and lessons in these sectors by producing case studies and gender awareness raising materials for use in national, sub-regional and international peer-to-peer capacity development workshops and conferences targeting ADB executing agencies and implementing agencies.

E. Priorities for Knowledge Support

38. Given the multiple development challenges facing Bangladesh's growing economy, the government expects ADB to combine knowledge and expertise with financial assistance. ADB's operational experience in designing and implementing development projects over 40 years of partnership is a significant source of knowledge. It encompasses procurement, accounting and financial management, environmental and social safeguards, gender action plans, and project management and contract administration, as well as sector-specific reforms and development. ADB will develop a reference database using its accumulated operational experience and knowledge. Direct support will continue to strengthen institutional capacity for project implementation, while guiding executing agencies on best practices and relevant policy formulation.

39. Based on the findings of the country diagnostic study, ADB will undertake economic and sector work to support more rapid structural transformation of the Bangladesh economy. For instance, an in-depth analysis of economic corridor development will examine contributions to industrial and economic development nationwide, and explore ways to position Bangladesh as a part of regional and global manufacturing supply chains. ADB also plans to study service delivery improvement and climate-resilient urban planning at the municipality level. Activities include updating the road and railway sector master plans, preparing a Nationally Appropriate Mitigation Action for railways to promote green transport, and analyzing skills gaps and labor market dynamics. An ongoing energy security study will help map energy sourcing and use. ADB will leverage in-country expertise, and coordinate with local academia and think tanks, to produce knowledge products and services.

40. ADB will support implementation of the intended nationally determined contribution as agreed in Paris at the 21st session of the Conference of the Parties to the United Nations Framework Convention on Climate Change and conduct a country-level climate risk and vulnerability assessment, addressing knowledge gaps in environmental sustainability, natural resource management, and the nexus among water, energy, and environment. ADB will continue to provide training for capacity development on environmental and climate change-related issues.

IV. STRATEGY IMPLEMENTATION

A. Indicative Resource Parameters

41. While the government aspires to achieve greater private sector investment and domestic resource mobilization under the Seventh Five-Year Plan, it is likely that the need for external borrowing during 2016–2020 will exceed that during 2011–2015 because of higher public investment needs. The government expects ADB to expand its operations accordingly. ADB proposes \$8.0 billion in assistance for 2016–2020, including private sector operations, from concessional ordinary capital resources (OCR) and regular OCR. Because the proposed assistance exceeds the indicative resource allocation,²⁵ effort will be made to mobilize additional funding from sub-regional concessional resources, and the regular OCR lending set-aside for regional cooperation and integration. ADB will continue pursuing cofinancing from development partners to leverage knowledge as well as financial resources. ADB will also endeavor to support private sector operations in Bangladesh as the business environment improves especially in the priority sectors, and as commercially viable transactions are identified.²⁶

42. Technical assistance (TA) resources will be used judiciously, primarily for project or program development and preparation, implementation support, and to develop knowledge products and services. The ADB-funded TA program for 2016 totals \$4.3 million. In order to expand operations, the TA program for 2017–2020 is expected to require higher level of resources per year. In addition, TA loans and project design advances under the lending programs will support project and program preparation and advance their readiness for activities not covered by the TA grant.

43. The current cost-sharing arrangements, in which ADB's sovereign financing for individual projects covers up to 99% of the total project costs, will be retained. While the Bangladesh economy has grown steadily, the financing needs for public investment have also risen. The current cost sharing will ease counterpart fund needs and support strategy implementation.

B. Implementation Priorities

44. **Stricter project readiness criteria.** Eliminating project startup delays is a key priority for timely project implementation. Current requirements regarding securing government approvals for ADB financing will be made more stringent, so that many of those approvals will be obtained prior to loan negotiations. This will enable early establishment of the project office, commencement of land acquisition and resettlement procedures, and advance procurement. ADB and the government are following a “processing by readiness” approach. Tripartite reviews of the readiness of all projects included in the lending program will continue, with the review horizon expanded from 1 to 3 years. To help achieve compliance with stricter project readiness criteria, ADB will mainstream the use of TA loans and project design advances, mobilize existing executing agencies to prepare subsequent investments, and expand the pool of standby projects under preparation.

45. **Procurement risks.** The national legal and regulatory framework is considered robust. Procurement risk rating is moderate at the country level and moderate to high at the sector

²⁵ The indicative resources available during 2016-2020 for sovereign operations amount to \$6.0 billion comprising \$2.4 billion of concessional OCR lending and \$3.6 billion of regular OCR lending.

²⁶ As of 31 December 2015, ADB had approved 12 transactions, totaling \$402 million, or an average of \$33.5 million per transaction.

level.²⁷ Risks remain in the implementation of procurement processes, mainly due to a lack of implementation capacity. Delegation of implementation authority and accountability to the field level has strengthened ADB's interactions with counterpart authorities for improved procurement processes. For enhancing efficiency and transparency in procurement, the use of e-government procurement should be expanded, more autonomy needs to be provided to agencies, capacity of the members of the tender evaluation committees improved, and more frequent procurement audits conducted. The government is making efforts to address these aspects with support from development partners. ADB's standard bidding documents incorporate provisions for compliance with core labor standards (including forced labor and child labor).

46. **Use of country systems.** ADB is making full use of country systems for budgeting and external audit, and partially for procurement, accounting, and treasury. On procurement, ADB uses the Public Procurement Act and Public Procurement Rules of the government for local procurement, with exceptions such as the lottery system. On accounting and treasury, ADB has started using country systems under sector-wide programs, primarily in education. Accounting follows Project Accounting Manual of the government. Development partners, including ADB, have also started using the Integrated Budget and Accounts System of the government, which covers reporting requirements. The development partner group, including ADB, is supporting government efforts to increase the use of country systems.

47. **Empowerment of resident mission.** Since 2014 the Bangladesh Resident Mission has assumed responsibility for monitoring the performance of all projects in Bangladesh, regardless of whether the project team leader was operating from ADB headquarters or the resident mission. This will continue, with increasing responsibilities given to resident mission staff.

C. Monitoring of Results

48. The CPS results framework focuses on strategic results and synergies among priority themes, is closely aligned and consistent with the Development Results Framework of the Seventh Five-Year Plan, and includes the results of collective efforts by the government and its development partners and broad stakeholders.

49. Monitoring of results will be undertaken jointly with the government, development partners, and stakeholders. ADB will monitor the results on an annual basis during country programming missions, and modify the results framework as necessary. Country operations business plans will reflect such modifications and ensure linkages between the CPS and the actual operations programs.

50. The monitoring time frame will extend beyond the CPS period if achieving the country results so requires. ADB will track progress in implementing gender action plans, assess results achieved, and identify the factors influencing results to better plan projects. This cross-sectoral approach will help achieve specific outcomes in support of both gender equality and project results, and more broadly, help government agencies address gender issues.

²⁷ The current country and sector procurement thresholds for international competitive bidding will be retained, with national competitive bidding applicable for procurement not exceeding \$15 million for works and \$2 million for goods.

D. Risks

51. **Public financial management risks.** Public financial management needs to be improved by producing timely year-end accounts and aligning the same with international accounting standards, strengthening internal audits, and appointing skilled personnel to conduct performance audits. ADB will (i) support the strengthening of country systems and counterpart capacity—through financial management action plans, fiduciary reviews and TA—in both its projects and through results-based operations, particularly at the sector level in education and railways; (ii) continue supporting governance reforms through policy-based lending (e.g., the Good Governance Program); and (iii) engage with policy makers and key stakeholders, in collaboration with other development partners, to progress enforcement of laws and implementation of agreed reforms.

52. **Implementation capacity.** Government capacity to handle diverse tasks under a number of development projects has been an issue faced by ADB and other development partners. While concerted efforts—supported by the government and development partners—to develop institutional capacity are ongoing, progress will be incremental. Expansion of operations to meet the higher investment needs under the Seventh Five-Year Plan will place additional stress on the government's implementation capacity. The risk will be mitigated by targeting larger undertakings and containing the number of projects. ADB will continue project-based assistance, directly engaging in project implementation, and provide on-the-job training with direct oversight of results and outcomes. ADB will use results-based lending and country systems judiciously based on appropriate assessment of institutional capabilities. In the longer term, ADB will work with other development partners, including by engaging or establishing training institutes, to develop individual capacity into institutional capacity, with a focus on sustainability.

53. **Political and security uncertainty.** ADB mitigates the effects of the political situation by focusing its activities on public goods with inclusive benefits. ADB thoroughly consults with project owners and stakeholders to ensure their ownership, commitment, and acceptance. ADB is working with the government to advance startup activities, especially land acquisition and procurement, well before ADB consideration of the investment. Accountability for project implementation has shifted to the field level, as recommended in the Strategy 2020 midterm review action plans,²⁸ which enables ADB to communicate closely with all stakeholders and ensure a common platform for project implementation that includes project owners, stakeholders, and the general public. To effectively respond to unforeseen security situations and safeguard the safety and security of staff members, measures will be undertaken, with the help of the Office of Administrative Services, to empower the resident mission to manage and adjust ADB activities during emergencies.

²⁸ ADB. 2014. *Midterm Review of Strategy 2020: Action Plan*. Manila.

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

| Country Development Impact Indicators with which the CPS is Aligned | | | | |
|--|---|--|---|---|
| <ol style="list-style-type: none"> 1. Raise the rate of economic growth progressively from 6.6% in FY2015 to 8.0% in FY2020. 2. Reduce poverty rate to 18.6% by FY2020 (from 24.8% in FY2015) and extreme poverty to 8.9% by FY2020 (from 12.9% in FY2015).^a 3. Increase the percentage of formal employment in total employment from 12.5% in 2010 to 15% in 2020 | | | | |
| CPS Objectives and Related Impacts | CPS Priority Areas | Key Outcomes that ADB Contributes to | Outcome Indicators | CPS Resources |
| Economic diversification | <ul style="list-style-type: none"> Easing infrastructure constraints Improving human capital Promoting economic corridor development Improving rural livelihoods Providing climate and disaster resilient infrastructure and services Creating conditions for greater private sector participation Addressing institutional capacity constraints and improving governance Deepening regional cooperation and integration Promoting gender equality | <ul style="list-style-type: none"> Higher availability, reliability and enhanced access to power supply More efficient transport infrastructure and connectivity Environmentally sustainable transport system Improved urban infrastructure and services Quality education, greater access to education, and skills for employment Increased participation by women in education and employment Improved access to healthcare More inclusive financial sector Higher private investment More transparency in public procurement Improved regional transport and energy connectivity | <ul style="list-style-type: none"> Access to electricity increased from 72% of households in 2015 to 96% in 2020 Per capita generation of electricity increased from 371 kWh in 2015 to 514 kWh in 2020 Rail passenger traffic increased from 8.13 billion passenger-km in 2014 to 10.0 billion passenger-km in 2020 Rail freight traffic increased from 677 million ton-km in 2014 to 851 million ton-km in 2020 Annual average daily motorized traffic on roads and highways department roads increased from 4,150 vehicles in 2015 to 5,700 vehicles in 2020 Percent of schools that meet the student–teacher ratio standard of 46:1 increased from 62% in 2014 to 78% in 2020 Number of students in the technical and vocational education system increased from 689,663 in 2014 to 933,150 in 2020 Net enrolment in secondary education increased from 67.7% for girls and 57.0% for boys in 2014 to 84.9% for girls and 73.9% for boys in 2020 Grade 5 completion rate increased from 82% for girls and 75% for boys in 2014 to 85% for both girls and boys in 2020 Female enrolment in secondary education increased to 85% by 2020 from 68% in 2014 Female-to-male ratio in tertiary education increased to 1.0 by 2020 from 0.7 in 2015 Percentage of Class-I public sector officials that are female increased to 25% in 2020 from 21% in 2014 Proportion of population with access to safe drinking water increased to 100% by 2020 | <p>Ongoing portfolio</p> <p>Ongoing sovereign loans (as of 31 December 2015): Number: 63 Net Loan Amount: \$6.1 billion</p> <p>Planned operations and contribution:</p> <p>Sovereign</p> <p>Lending (\$3.6 billion of regular OCR and \$2.4 billion of Asian Development Fund/ concessional OCR lending for 2016-2020)</p> <p>Technical assistance</p> <p>Nonlending (\$5 million or more a year)</p> |

| CPS Objectives and Related Impacts | CPS Priority Areas | Key Outcomes that ADB Contributes to | Outcome Indicators | CPS Resources |
|------------------------------------|--------------------|---|--|---------------|
| | | | <p>Proportion of the urban population having access to sanitation increased to 100% by 2020 from 80% in 2014</p> <p>Maternal mortality rate per 100,000 live birth decreased to 105 by 2020 from 176 in 2015</p> <p>Mean urban air pollution of particulate matter decreased: (i) PM10 from 130.90 $\mu\text{g}/\text{m}^3$ in 2013 to 105.0 $\mu\text{g}/\text{m}^3$ in 2020, and (ii) PM2.5 from 78.0 $\mu\text{g}/\text{m}^3$ in 2013 to 73.0 $\mu\text{g}/\text{m}^3$ in 2020</p> <p>Ratio of small and medium-sized enterprise credit to total bank credit increased from 20.2% in 2014 to 25% in 2020</p> <p>Private investment as percent of gross domestic product increased from 22.1% in FY2015 to 26.6% in FY2020</p> <p>Use of e-procurement by public institutions increased from 0% in 2014 to 100% in 2020</p> <p>Energy trade capacity increased to 1,100 MW by 2020 from 500 MW in 2014</p> <p>Regional trade increased to 5.0% of gross domestic product by 2020 from 3.6% in 2015</p> | |
| Balanced regional development | | <p>Higher agricultural productivity and wages, and more employment</p> <p>Better managed flood control and riverbank erosion mitigation</p> | <p>Agriculture sector growth (growth in agricultural value added) increased to 3.5% by FY2020 from 3.3% in FY2015</p> <p>Percentage of maintained wetlands and natural sanctuaries increased from 1.7% in 2015 to 2.35% in 2020</p> <p>Percentage of coastal areas protected increased from 1.2% in 2014 to 5.0% in 2020</p> | |

ADB = Asian Development Bank, CPS = country partnership strategy, FY = fiscal year, km = kilometer, kWh = kilowatt-hours, MW = megawatt, OCR = ordinary capital resources, PM2.5 = particulate matter less than 2.5 microns in diameter, PM10 = particulate matter less than 10 microns in diameter, $\mu\text{g m}^3$ = micrograms per cubic meter

^a Poverty is based on calorie intake of 2,122 kilocalories per-capita per day, and extreme poverty is based on calorie intake of 1,805 kilocalories per-capita per day
Source: Government of Bangladesh, Planning Commission, Ministry of Planning. 2015. *Seventh Five Year Plan FY2016-2020: Accelerating Growth, Empowering Citizens*. Dhaka.

COUNTRY KNOWLEDGE PLAN

A. Introduction

1. Knowledge solutions are an integral part of the support the Asian Development Bank (ADB) extends to its developing member countries. The role of knowledge solutions will be critical in delivering ADB's program under the country partnership strategy (CPS), 2016–2020. The Bangladesh country knowledge plan seeks to identify the country's priority knowledge needs during the CPS period, and indicate how ADB will contribute to meeting these needs.

2. ADB's knowledge solutions will focus on identifying country knowledge gaps and providing knowledge-based inputs to address the challenges, such as supporting reforms and capacity development. The Bangladesh country knowledge plan is aligned with the strategic approach of the CPS, 2016–2020, and aims to capture knowledge requirements to implement the country's Seventh Five-Year Plan,¹ covering fiscal year (FY) 2016–FY2020.

B. Knowledge Needs

3. Bangladesh has attained rapid economic growth and made steady gains in terms of social progress, but major challenges remain to eradicate poverty and unlock the country's development potential. During programming exercises and sector discussions with country authorities, ADB identified that the government needs continuous analytical and technical assistance in planning and implementing projects and formulating policies for reforms in critical sectors. Current knowledge needs are centered on overcoming the challenges to the Seventh Five-Year Plan's inclusive and sustainable growth agenda, and harnessing Bangladesh's potential. In assisting the government attain its development goals during 2016–2020, ADB will seek to address the following priority investment and cross-cutting challenges: (i) easing infrastructure constraints, (ii) improving human capital, (iii) promoting economic corridor development, (iv) improving rural livelihoods, (v) providing climate and disaster-resilient infrastructure and services, (vi) creating conditions for greater private sector participation, (vii) addressing institutional capacity constraints and improving governance, (viii) deepening regional cooperation and integration, and (ix) promoting gender equality. Knowledge needs are focused on the following areas.

4. **Infrastructure constraints.** Bangladesh needs to make large investments and undertake policy reforms in key sectors such as energy, transport and urban development. Sector reforms are needed to ensure service delivery and investment sustainability. Knowledge assistance—through supporting studies, plans and strategies; adopting technologies and business processes; and development of capacity, and regulatory and legal frameworks—can significantly increase the efficiency and cost-effectiveness of undertaking these activities.

5. **Human capital.** Bangladesh needs to enhance the quality of its workforce by improving education and skills development. The role of knowledge solutions will be critical in adopting the best practices in these areas, tailored to local needs.

6. **Economic corridor development.** The development of economic corridors is recognized in the Seventh Five-Year Plan as a potential source of economic growth through strengthening of transport networks, infrastructure facilities and urban agglomerations, and

¹ Government of Bangladesh, Planning Commission, Ministry of Planning. 2015. *Seventh Five Year Plan FY2016-FY2020: Accelerating Growth, Empowering Citizens*. Dhaka

linking these to national, regional and global markets and supply chains. Lagging hinterland areas can benefit through development of complementary industries (e.g. agro-based industries and logistics). Economic corridors can help diversify the economy through expansion of the manufacturing and export base. Efficient development of economic corridors in Bangladesh will benefit by improving the understanding of Bangladesh's growth potential, drawing on knowledge and experience from emerging market countries that have successfully implemented economic corridor development projects, and adapting these lessons to Bangladesh's situation.

7. **Rural livelihoods.** About 85% of the poor live in rural areas. Accelerated rural development will significantly reduce poverty, and can be supported through a better understanding of how to raise agriculture productivity, and thereby boost the wages and incomes of the agriculture-dependent population, including through technological breakthroughs to enhance crop yields; reduction of production costs; and introduction of climate-resilient cropping technologies, and cost-effective and environmentally friendly irrigation technologies. Knowledge of the development of agricultural processing and agricultural storage and marketing networks, and establishment of agro-based industries can help create productive off-farm jobs, and shift surplus and underemployed labor from agriculture. These initiatives could contribute significantly to reducing rural poverty, while development of semi-urban growth centers would multiply the impacts.

8. **Environmental sustainability and climate resilience.** A large proportion of the poor continues to rely on the country's natural resource base for their livelihoods. Environmental and natural resource degradation and climate change-induced natural disasters heighten rural poverty, inequality, and the loss of livelihoods, and serve to make non-farm economic ventures unsustainable. Knowledge assistance can support planning to reduce the impact of climate change and natural disasters on poor and vulnerable populations.

9. **Private sector participation.** Greater private sector participation can help increase investments, promote economic diversification, and expand employment opportunities. Mobilizing the private sector to support manufacturing and export expansion will require improvement of the business environment, as well as the availability of a skilled labor force. Rapid private sector development can be assisted through knowledge support addressing constraints to private sector development, undertaking reforms to improve the business regulatory environment, reducing the costs of doing business, designing suitable tax policies, developing effective land acquisition and land use policies, improving banking systems, and developing capital and bond markets.

10. **Institutional strengthening and capacity development.** Improvements in institutional capacity for implementing development investments and associated governing policies and measures (e.g. promoting accountability and transparency), is lagging behind the growing need for such capacity. Speeding up efficient institutional strengthening and capacity development requires knowledge assistance.

C. Planned Knowledge Operations

11. In helping Bangladesh attain more rapid, inclusive, and sustainable growth, ADB aims to combine financial support with knowledge products and services. Based on its core strengths, comparative advantage, and the knowledge needs of the country, ADB will continue supporting the government in assessing sector, macroeconomic, and global challenges, and formulating policies and developing institutions to address these. ADB's knowledge support will respond to

the identified knowledge needs, be demand-driven, and prioritized in consultation with government agencies.

12. Based on the findings of the country diagnostic study, ADB will undertake economic and sector work to support a more rapid structural transformation of Bangladesh economy's.² ADB will develop a reference database using its accumulated operational experience and knowledge in Bangladesh. ADB will continue to produce macroeconomic updates in support of the government's formulation and implementation of macroeconomic policies. Ongoing knowledge products—including periodic macroeconomic updates; sector and thematic work; policy briefs; and contributions to institutional publications, such as the Asian Development Outlook—will continue.

13. **Infrastructure constraints.** ADB will support the government for development of an integrated road sector development strategy, covering improvement of efficiency in road maintenance, road asset management, road safety, rural connectivity, and multimodal integration. ADB will update the railway sector master plan, and support the identification of further reform needs for efficiency and service improvement. ADB will support preparation of the Nationally Appropriate Mitigation Action for railways to promote green transport. ADB will support knowledge sharing and cross-learning through the South Asia Subregional Economic Cooperation Research and Training Network and other focused forums to promote regional cooperation, and regional trade in particular, through implementation of the Bangladesh–Bhutan–India–Nepal Motor Vehicles Agreement. The ongoing energy security study will help the country plan energy sourcing and use; ADB has significant involvement in the sector, and will provide further knowledge support as needed.

14. **Human capital.** To better understand current and future labor market needs, a skills gap analysis and outcome assessment of the skills development sector is planned. ADB will also undertake a study assessing the capacity of the Department of Primary Education and the effectiveness of the use of information and communication technologies, and prepare guidelines for teachers' career progression. ADB will also conduct studies to identify policy options for labor market transformation.

15. **Economic corridor.** ADB will undertake a study for the development of the southwest economic corridor. ADB also plans to study service delivery improvement and climate-resilient urban planning at the municipal level. ADB will help the government prepare guidelines for developing comprehensive waste management facilities for large cities and municipalities.

16. **Rural livelihoods.** ADB plans studies on rural road maintenance planning and climate change vulnerability mapping of rural roads. A review of irrigation management operator performance is also planned to promote private participation in irrigation management systems. ADB will commission a study to identify options to accelerate structural transformation, and shift the large amount of surplus labor in agriculture to high-productivity jobs in manufacturing and services. ADB will help prepare guidelines for developing climate-resilient rural infrastructure.

17. **Environmental sustainability and climate resilience.** ADB will support implementation of the intended nationally determined contribution as agreed in Paris at the 21st session of the Conference of the Parties to the United Nations Framework Convention on Climate Change. ADB is completing a study to prepare a sector-specific, climate-resilient development and green growth plan, which is expected to guide ADB activities in Bangladesh. ADB will also conduct a

² ADB. 2016. *Bangladesh: Consolidating Export-Led Growth – Country Diagnostic Study*. Manila.

country environmental analysis and country-level climate risk and vulnerability assessment to identify country-level knowledge gaps in environmental sustainability, natural resource management and climate disaster. ADB will undertake a study to minimize industrial pollution and will continue to provide training and capacity development for government and non-government organizations in addressing environmental and climate change-related issues.

18. **Private sector development.** ADB will undertake a study to facilitate private sector participation through investment in transport infrastructure, and another study to identify measures and policies for industrial and export diversification.

19. **Institutional strengthening and capacity development.** ADB will support enhancing government capacity for project implementation through results-based monitoring and evaluation systems. Capacity development will be undertaken through a series of training programs, workshops, and on-the-job clinics in key operational areas, including procurement, accounting, financial management, and project and contract management. A governance risk assessment and risk management plan will be reviewed and updated periodically. ADB will extend support for preparing a new customs act and rules, and ensuring good governance in local municipality operations. Through a capacity development workshop, ADB will enlarge the knowledge base regarding the digital land management system and online submission of income tax returns.

20. **ADB 2016–2020 knowledge products and events.** The detailed listing of knowledge products and events included herein will be updated annually in the Bangladesh country operations business plan.

21. **Knowledge dissemination.** ADB will widely disseminate knowledge product findings, both within and outside the country. Lessons will be drawn from illustrative projects and programs; these and other knowledge products will be disseminated through policy notes, seminars, and media events. Knowledge enhancement will be promoted through interactive stakeholder consultations, held throughout the year. ADB will also use other forms of outreach including webcasts, short films, and inclusion of Bangladesh’s successful projects in South Asia Department’s Development Matters Platform.

D. Collaboration with Partners

22. ADB will closely coordinate with the government, development partners, and other stakeholders, including local think tanks and academic institutions, in planning, programming, and monitoring knowledge services and encouraging wider knowledge sharing and exchange. ADB will leverage in-country expertise to produce knowledge products and services.

E. Resource Allocation

23. ADB estimates knowledge work during 2016–2020 will cost about \$14.0 million. Staff consultancies will be an important resource for delivery of outputs. Investment projects will include suitable knowledge product and services. In addition to country-specific assistance, regional technical assistance by ADB and the ADB Institute will also be used. Trust funds, cofinancing from development partners, and cost sharing with the government will also support knowledge work.

COUNTRY KNOWLEDGE PLAN AT A GLANCE

| Knowledge Needs | Scope of ADB's Planned Knowledge Operations | Key Partnerships |
|--|---|--------------------|
| General and Economic Policies | | |
| Improving macroeconomic policy formulation | Periodic macroeconomic updates, policy dialogue, press conferences | ERCD |
| Identifying major constraints to economic growth | Country growth diagnostics study, policy dialogue, workshops | ERCD, MOF |
| Developing a reference database for using ADB's accumulated operational experience and knowledge in Bangladesh | Study | SARD, MOF |
| Human Capital | | |
| Policy options for identifying labor market transformation | Study | MOF, MOE, MOL |
| Capacity assessment of the Department of Primary and Mass Education; monitoring and evaluation and mentoring of teachers | Study | DPE |
| Better understanding of current and future labor market needs | Study on skills gap analysis, report, workshop | ERCD, MOF |
| Infrastructure constraints | | |
| Reforms to improve efficiency in road maintenance, road asset management, road safety, rural connectivity and multimodal integration | Integrated road sector development strategy | RHD |
| Reforms to improve the efficiency and services of the Bangladesh Railway | Update railway sector master plan | Bangladesh Railway |
| Promoting green transport | Nationally Appropriate Mitigation Action for railway, study, reports | Bangladesh Railway |
| Creating and sharing learning course among SASEC countries | SASEC Research and Training Network (RTN), report, seminar | MOF |
| Support for implementation of Bangladesh–Bhutan–India–Nepal Motor Vehicles Agreement | SASEC Research and Training Network, report, seminar | RHD, MOC |
| Better utilization of existing energy resources and tapping into new energy sources | Energy security study, reports, workshops | MOEMR |
| Rural livelihoods | | |
| Identifying policy options to accelerate the economic transformation to shift large amounts of surplus labor in agriculture to high-productivity jobs in manufacturing and modern services | Review the structural transformation of the Bangladesh economy, and drawing lessons from East Asian countries, study, reports | ERCD, MOF |
| Providing guidance and a framework for road maintenance in rural areas | Study on rural road maintenance plan | LGD |
| Identifying rural roads vulnerable to climate change and improving adaptation planning | Study on climate change vulnerability mapping of rural roads | LGED |
| Developing climate-resilient infrastructure | Preparing guidelines, policy dialogue | LGD |
| Economic corridor | | |
| Identifying modalities for municipal service delivery and private sector participation in urban service delivery | Study, meetings, workshops | LGD |
| Study on the development of the southwest economic corridor | Study on economic corridor development, reports, meetings, workshops | MOF |
| Climate-resilient urban planning, and development of climate-resilient (smart) cities | Reports, policy dialogue | LGD |
| Developing comprehensive waste management (both waste water and solid waste) facilities for large cities and municipalities | Preparing guidelines, policy dialogue | LGD |
| Private sector development | | |
| Facilitating private sector participation through investment in transport infrastructure | Dhaka–Chittagong Expressway public–private partnership study, reports, workshops | RHD |
| Identifying measures and policies for industrial | Study | MOF, MOC |

| | | |
|--|--|-----------------------------|
| and export diversification | | |
| Environmental sustainability and climate resilience | | |
| Mainstreaming climate-resilient development and green growth in ADB operations in Bangladesh | Studies and training programs | BRAC University |
| Identifying gaps in environmental knowledge, natural resource management, and climate change in the country | Country environmental analysis, reports, policy dialogue, meetings | Bangladesh Resident Mission |
| Assessing the level of risks and vulnerability associated with climate change | Country-level climate risks and vulnerability assessment, reports, policy dialogue | Bangladesh Resident Mission |
| Minimizing environmental pollution | Study on alternative construction building materials for discouraging fire-burned bricks | Bangladesh Resident Mission |
| Capacity development on contemporary environmental and climate change-related issues | Training programs | Various agencies |
| Institutional strengthening and capacity development | | |
| Bridging information gap on the informal and services sector, and the sub-regional distribution of economic activity | Support for economic data development and research to facilitate evidence-based policymaking, workshops, capacity development, handbooks, survey reports, and working papers | ERCD, DFID, BBS |
| Enhancing government capacity for project implementation | Study on Monitoring and Evaluation Division of Department of Primary Education, study, report | DPE |
| Developing better equipped public organizations | Capacity development, workshops | Various agencies |
| Addressing governance challenges | Governance risk assessment and risk management plan, studies, reports | Cabinet Division |
| New Customs Act and Rules | Support for preparing | NBR |
| Good governance for LGED operations, identifying key risks to fiduciary and PFM, and mitigation plan | Preparing roadmap | LGED |
| Digital land management system | Workshop, capacity development | MOL |
| Online submission of income tax returns | Workshop, capacity development | NBR |

ADB = Asian Development Bank; ADBI = Asian Development Bank Institute; BBS = Bangladesh Bureau of Statistics; CPA = Chittagong Port Authority; DFID = Department for International Development; DPE = Directorate of Primary Education; ERCD = Economic Research and Regional Cooperation Department; IMED = Implementation Monitoring and Evaluation Division; LGD = Local Government Division; LGED = Local Government Engineering Department; MOC = Ministry of Commerce; MOE = Ministry of Education; MOEMR = Ministry of Energy and Mineral Resources; MOF = Ministry of Finance; MOL = Ministry of Land; MOWR = Ministry of Water Resources; NBR = National Board of Revenue; PFM = public financial management; RHD = Roads and Highways Department; SASEC = South Asia Subregional Economic Cooperation.

Source: Government of Bangladesh and ADB Staff.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/CPS/?id=BAN-2016>

1. Inclusive and Sustainable Growth Assessment
2. Development Coordination Matrix
3. Country Operations Business Plan: Bangladesh, 2017-2019