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## A Country on the Move

### **From 'Basket-case' to Middle Income Candidate . . .**

International perceptions of Bangladesh have undergone a remarkable change. Henry Kissinger's derisive 1970s imagery of an international 'basket-case' which for years dominated perceptions about Bangladesh is no longer in vogue. Increasingly, Bangladesh is cited as an example on several key social achievements such as girl education, reduction in child mortality, effective disaster management, and, increased economic participation by women. The facts speak for themselves. Gender parity has already been achieved in primary and secondary school enrollment. Child mortality has been brought down from 146 in 1990 to 65 in 2008.<sup>1</sup> An extensive system of safety net programs has virtually eliminated post-disaster secondary cycles of death and hunger. Access to micro-credit has seen a quantum jump in women's gainful self-employment.<sup>2</sup> Work force in the readymade garment sector, the country's biggest export earner, is overwhelmingly female.

It is not only on its social progress that international perceptions on Bangladesh are changing. More recently, the resilience and potential of the Bangladesh economy has been noted in many leading global economic scenario exercises. These include Goldman Sachs's 2005 list of Next 11, J.P. Morgan's 2007 list of Frontier Five, and, Price Waterhouse Cooper's 2008 updated report on the World in 2050.<sup>3</sup> With stable and broad-based growth above 5 percent holding on even in the wake of the recent global recession<sup>4</sup> and highly favourable long-term demographics, Bangladesh is firmly in these lists of potential emerging economies.

### **Bangladesh in the N-11 Emerging Countries Map**



<sup>1</sup> UNDP/Planning Commission, GOB, 2009, MDG Needs Assessment and Costing 2009-2015 Bangladesh

<sup>2</sup> World Bank, 2008, *Whispers to Voices: Gender and Social Transformation in Bangladesh*

<sup>3</sup> Goldman Sachs, Global Economics Paper No. 153 N-11: *More than Acronym*, 2007; JPMorgan Emerging Markets Equity Research, *Ho Chi Minh Trail to Mexico*, 2007; Price Waterhouse Coopers, *The World at 2050: Beyond the BRICs: A Broader Look at Emerging Market Growth Prospects*, 2008

<sup>4</sup> Hossain Zillur Rahman & Salehuddin Ahmed, 2010, *Resilience amidst Uncertainty*, PPRC, Dhaka

## **A Personality Revolution . . .**

Parallel to changing international imageries, the transition in the national psyche has been even more remarkable. Over the course of the four odd decades since independence, a personality revolution has touched critical segments of society – business community, farmers, youth, women, and the broad ranks of the poor themselves. A forward-looking entrepreneurial culture has taken root amidst enormous odds. Continuing problems of governance, political culture and elite failures have failed to dampen the unceasing quest of ordinary citizens for building qualitatively more prosperous lives. Present government's Vision 2021 gives fitting expression to this upward aspirational shift. If yesterday's national discourse was about survival, today's discourse is firmly about making the transition to middle income status.

## **Up-scaling the 'Middle Income' Ambition**

### **Middle Income Status is a Broad Range . . .**

Bangladesh has demonstrated its potential to be a high-growth economy while simultaneously addressing the issues of equity and sustainability. Government of Bangladesh and the policy community at large have projected attainment of middle income status as a viable medium term objective. It is important to recognize, however, that middle income status is not merely a statistical goal of a certain per capita income level such as USD 1000. It can, in fact, encompass a substantially wide range. The 2007 *Next 11* report by Goldman Sachs, for example, projects nominal per capita income in Bangladesh to rise from 427 USD in 2006 to 1021 USD in 2025. Over the same period, the corresponding projection for Vietnam is from 655 USD in 2006 to 4683 USD in 2025. Discussions on the middle income goal need to bear this comparative picture in mind.

With one of the fastest growing economically active population in the world, Bangladesh can envisage crossing the USD 1000 per capita income mark within the medium term without any noteworthy acceleration in its current growth rate. But this would mean that problems of poverty would still be substantially with us. Clearly there is a need to sharpen our middle income ambition towards the high end of the range. We propose to focus on the size of the economy as a more action-oriented indicator to concretize our middle income ambition.

### **Upscaled Goal: 30<sup>th</sup> Largest Economy by 2030 . . .**

Bangladesh is currently ranked 49<sup>th</sup> (2009 PPP estimate) in terms of the size of the economy.<sup>5</sup> We are calling for adopting the goal of transforming Bangladesh into the 30<sup>th</sup> largest economy by 2030. This broadly envisages that within two decades, there will be:

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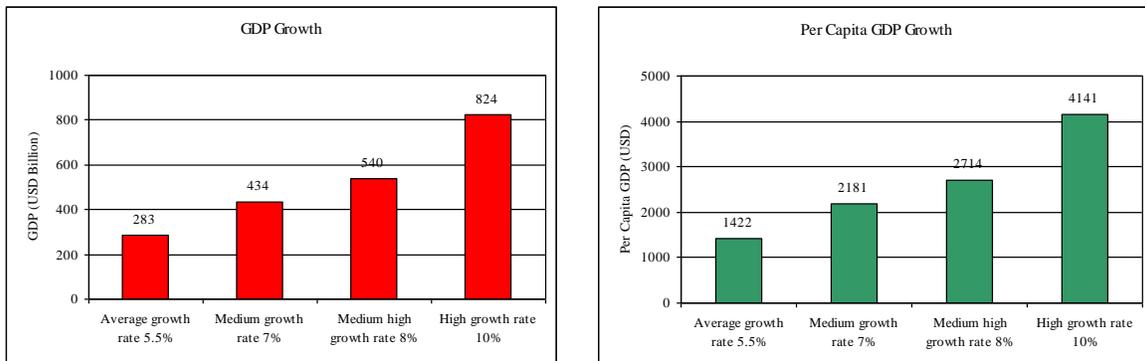
<sup>5</sup> World Fact Book, 2010: GDP estimate in PPP terms is 241.1 billion USD in 2009. Nominal GDP is 94.51 billion USD and corresponding country rank is 58<sup>th</sup>

## 2030 Goal

<b>30<sup>th</sup> Largest Economy in the World</b>
<b>Quadrupling of nominal GDP to \$400+ billion (\$1 trillion by PPP)</b>
<b>Tripling of Per Capita Income to \$2000+ (\$5000+ by PPP)</b>

This is in no way an outsize dream. Even the conservative projection for Bangladesh in the Goldman Sachs N-11 Report is hedged with the observation that 'significant progress in improving growth conditions could lead to substantial growth bonuses ... which could be as high as 3% - 4% for Bangladesh.. .' A projection exercise on alternative growth scenarios (Graph 1) shows that an acceleration in current growth rates by 2-3% to a medium-high annual rate of 8% and sustaining the same for two decades can bring the scaled up middle income ambition of 30<sup>th</sup> largest economy by 2030 within reach.

**Graph 1**  
**Bangladesh 2030 Alternative Growth Scenarios**



Note: Four growth scenarios are considered: 'business-as-usual' (5.5%), Medium (7%), Medium-high (8%), and High (10%). Base year GDP is 92.1 Billion USD (2009 estimate). Population projection for 2030 is 199 Million based on base year population estimate of 160 million (2010) and population growth rate of 1.1%. GDP estimates are in nominal terms.

## The Growth Journey So far

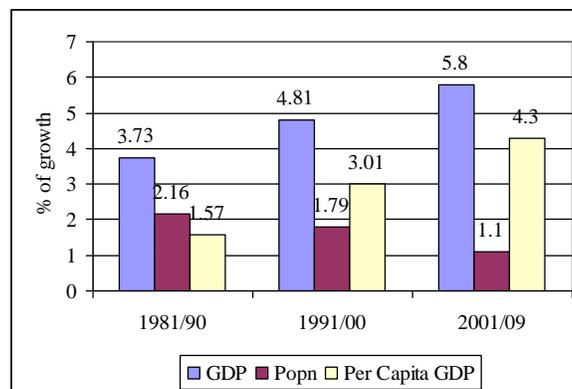
### Growth Trends . . .

The first two decades after independence in 1971 saw sluggish but incrementally advancing growth rates averaging 3.73 percent for the 1980s. Growth substantially accelerated in the

subsequent two decades rising to a decadal average of 4.81 percent in the 1990s and 5.8 percent in the current decade.<sup>6</sup> Remarkably, over the entirety of the faster growing 90s and 2000s, Bangladesh succeeded in avoiding even a single year of negative per-capita growth. Growth was also broad-based across sectors and critically contributed to reducing poverty from 70 percent at independence to 40 percent in 2005.<sup>7</sup> One estimate of growth elasticity of poverty shows that in the 1990s, for every percentage increase in per capita income, poverty declined by 0.81% in Bangladesh.<sup>8</sup>

The rise in per capita growth rates was even more striking since the period of growth acceleration also saw a substantial fall in population growth rate. Thus, compared to 1.2 percent annual average for the first two decades, per capita GDP growth rates tripled to an annual average of 3.3 percent in the latter two decades (1990s and the 2000s). In relative terms, however, three quarters of this per capita income growth acceleration was due to economic growth and one quarter due to population decline.<sup>9</sup>

Graph 2  
Growth Trends 1981-2009



Source: Osmani et al, 2003; Rahman and Ahmed, 2010

### Growth Drivers: RMG, Remittances and Policy Reforms . . .

Some parts of the growth story are well-known. Three drivers are usually singled out and rightly so – RMG, remittance and growth-enhancing policy reforms. From its chance beginning in 1979-81, export of ready-made garments (RMG) has been an unquestioned growth driver. In 2009, RMG exports stood at 12.48 billion USD which was 80.18 percent of total exports.<sup>10</sup> With its labour-intensive technology, it also contributed significantly to formal sector employment growth.

<sup>6</sup> Mahajan, Sandeep, 2007, *Bangladesh: Strategy for Sustained Growth*, World Bank; S.R. Osmani et al, 2003, *The Macroeconomics of Poverty Reduction: The Case Study of Bangladesh*, UNDP; Hossain Zillur Rahman & Salehuddin Ahmed, 2010, *Resilience Amidst Uncertainty: Poverty and Growth Perspectives*, PPRC, Dhaka

<sup>7</sup> Narayan, A. & Zaman, H., 2009, *Breaking Down Poverty in Bangladesh*, University Press Limited, Dhaka.

<sup>8</sup> Pasha, Hafiz A. & T. Palanivel, 2004, *Pro-Poor Growth and Policies: The Asian Experience*, UNDP, Table 3, P.9

<sup>9</sup> Osmani, S.R., *ibid*

<sup>10</sup> Rahman & Ahmed, *ibid*

Furthermore, the sector has seen an attendant backward linkage success story in the growth of a robust textile industry.

Remittances by overseas migrant workers have also been a recognized growth driver. From a small annual inflow of 115 million USD in the mid 1970s,<sup>11</sup> remittances have surged past the 11 billion USD mark in 2010 with the number of expatriate workers put at around 6 million. From a growth perspective, remittances have played two critical roles: firstly by raising forex reserves and thereby strengthening macro-economic balances, and secondly, by strengthening household-level liquidity, particularly in the villages and small towns,<sup>12</sup> which in turn contributed both to a demand boost and an expansion of small businesses.

The third of the recognized growth drivers has been the policy reforms from late 1980s focused on trade liberalization, banking and telecommunications reforms and fiscal responsibility. These served to unleash a multitude of private sector initiatives which sharply accelerated the growth process. At the same time, the policy reforms also contributed towards an institutional culture of macro-economic prudence which served Bangladesh well in weathering instability including the recent global recession.

### **Growth Drivers: Services, Urban Consumption and Domestic Economy . . .**

Some parts of the growth story are less well-known. A closer look at the structure of the incremental growth between 1980s and 1990s and between 1990s and 2000s brings out some interesting features (Table 1).

**Table 1**  
**Structure of Incremental GDP Growth**

Sector	Incremental GDP Growth at constant prices (billion Taka)		Sectoral Share of Incremental Growth (%)	
	1990s over 1980s	2000s over 1990s	1990s over 1980s	2000s over 1990s
<b>Agriculture/ Forestry</b>	5.1	48.16	1.78	11.99
<b>Fisheries</b>	43.21	-27.53	15.08	-6.85
<b>Industry</b>	119.97	134.73	41.86	33.55
<i>Manufacturing</i>	79.51	90.43	27.75	22.52
Large & Medium	58.06	62.29	20.28	15.51
Small-scale	21.41	28.17	7.47	7.01
<i>Construction</i>	39.42	46.50	13.76	11.58
<i>Others</i>	1.04	-2.2	0.36	-0.55
<b>Services and Trade</b>	118.28	246.26	41.28	61.31
<b>Total</b>	286.56	401.63	100.00	100.00

Source: 1980s and 1990s calculation from Osmani et al (2003); 2000s calculations by Hossain Zillur Rahman, both based on data from BBS, Statistical Yearbooks.

<sup>11</sup> World Development Report 1982, World Bank

<sup>12</sup> Rahman, Hossain Zillur, 2010, 'Global Recession and the Household Economy' in Rahman and Ahmed, *ibid*.

Alongside industry, the other key growth driver has been services/trade. Indeed, the importance of services/trade as a growth driver was even higher in the current decade – 61.31% of incremental growth in 2000s over 1990s - compared to 41.28% in the 1990s over 1980s. A closer look at the portfolio of activities encompassed within the services category during the current decade underlines the substantive and dynamic nature of this growth driver (Table 2). Public sector services account for only 13.96% of the broad services portfolio. The two major categories are private services (55.47%) and trade (30.57%). Private services encompass a wide range of activities including transport, telecommunications, professional services, real estate, education, health and finance.

A second feature to emerge from Table 1 is that contrary to popular perceptions, domestic economy has been as important a growth driver as exports. Small-scale manufacturing, construction, services and trade all relate to the domestic economy and these together accounted for nearly two-third of the incremental growth in the 1990s and even a larger proportion in the 2000s. Policy pre-occupations, however, have tended to neglect this significance of the domestic economy as a growth driver. External and domestic economies have not, of course, been isolated realities. Tomorrow's exporters are being born within today's domestic production activities and likewise export and remittance incomes have been a key source of the demand boost which has driven many of the service, construction, trade and small manufacturing activities of the domestic economy.

**Table 2**  
**The Services Portfolio**

Activities	Incremental GDP Growth 2000-2009 at Constant Prices (billion Taka)	Sectoral Share (%)	Share of Service Portfolio (%)
<b>Private Sector Services</b>	<b>298,733</b>	<b>29.00</b>	<b>55.47</b>
hotel/restaurant	8,436	0.82	
Transport/communication	64,154	6.23	
Post/telecommunication	63,839	6.20	
Finance	13,750	1.33	
Real estate	51,325	4.98	
Education	23,533	2.28	
Health	21,668	2.10	
Professional service	52,028	5.05	
<b>Public Sector Services</b>	<b>75,206</b>	<b>7.30</b>	<b>13.96</b>
Admin/defence	32,486	3.15	
Electricity/gas/water	18,471	1.79	
Education	10,153	0.98	
Health	4,772	0.46	
Finance	9,324	0.90	
<b>Trade</b>	<b>164,655</b>	<b>15.98</b>	<b>30.57</b>
<b>Total</b>	<b>538,594</b>	<b>52.29</b>	<b>100.00</b>

Source: BBS, Statistical Yearbook, 2009

Note: Calculations by Hossain Zillur Rahman

A unifying factor in driving growth in the domestic economy has been urban consumption. Urban population was estimated to be 42.3 million in 2007 (27% of the population) and is probably nearer to a third today.<sup>13</sup> Urban consumption has been driven not by urban growth alone but also by the concomitant rise of the middle classes, economically defined in one recent publication as those having a per capita daily expenditure between USD 2-20.<sup>14</sup> The ADB estimate puts the size of the Bangladesh middle class in 2005 at 31.01 million including the lower middle class (per capita daily expenditure USD 2-4).<sup>15</sup> Be that as it may, urban consumption has been a key growth driver of services, trade and small-scale manufacturing in the domestic economy.

The link between urban consumption and growth of rural non-farm employment constitutes a major gap in our research and policy thinking but some studies in the region are pointing to its critical role in the employment goal of the growth strategy. One study suggests a 10% growth in urban expenditure is associated with a 4.8% growth in rural no-farm employment.<sup>16</sup> In realities where labour absorption within agriculture is becoming limited and urban manufacturing is yet to graduate to the status of principal employer, rural non-farm employment remains a critical vehicle for the masses of semi-skilled labour who are being swelled by 1.8 million every year.

A crucial catalyst in Bangladesh's growth story for galvanizing urban consumption and the link with rural non-farm employment has been the extensive network of LGED rural roads. Thanks to this network stemming from the late 1980s, urban agglomerations have transformed the rural-urban divide into a rural-urban continuum stretching from metropolitan Dhaka and Chittagong to larger secondary towns to rural towns to market centres to villages espousing urban consumption aspirations. Whether it is the emerging class of women entrepreneurs assisted by micro-credit or farmers tasting higher incomes through access to competitive prices, a multitude of economic actors have been empowered by this rural-urban linkage. The emergence of this connected reality as vividly brought out in the bus traffic network map below is a central, though lesser-known, feature of Bangladesh's growth story.

### **Map 1** **Bangladesh: Bus Traffic Network**

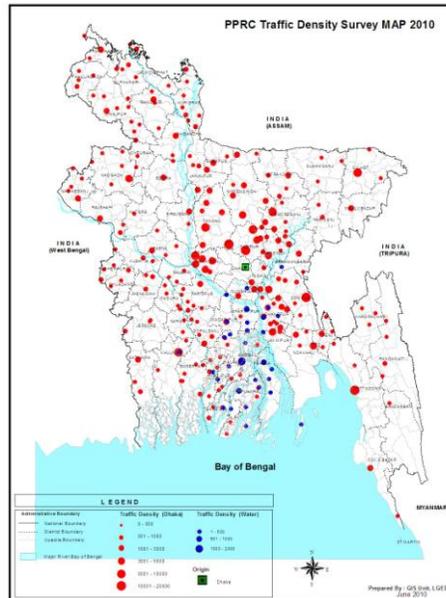
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<sup>13</sup> World Development Indicators 2009

<sup>14</sup> Asian Development Bank, 2010, *Asia's Emerging Middle Class*

<sup>15</sup> Table 2.3, p.8, *ibid*

<sup>16</sup> Roopa Purushthaman et al, *Is Urban Growth Good for Rural India?* Future Capital Research, India



Source: PPRC Traffic Density Survey, 2010

Note: Red dots indicate daily bus destinations connecting Dhaka to various parts of the country. 0.6 million passengers travel daily from Dhaka to 241 destinations across the country.

### **Agriculture: Providing Food Security but Growth Potential Untapped . . .**

Where does agriculture stand in the growth story? Two facts are clear. First, as a share of GDP, agriculture has been secularly declining. In 2008-09, this share (agriculture including fisheries and forestry) stood at 16.03% of GDP.<sup>17</sup> Even within the structure of rural household income, the share of agriculture stood at 39.8% in 2009.<sup>18</sup> Second, the agriculture growth trend has been inconsistent, sluggish in the 1990s, robust in the 2000s. However, the true significance of agriculture vis-a-vis the growth story lies in a different set of conclusions. As highlighted in the next section, agriculture has been critical not as a growth driver per se but in providing a crucial cushion to the growth process in terms of food security. Policy mind-set has prioritized this aspect of the role of agriculture but unfortunately this appears to have been at the expense of tapping the sector's broader growth potential. This can be seen starkly in the fate of the fisheries sector (Table 1). Export of frozen fish contributed 15% to the incremental GDP growth between 1980s and 1990s. It was clearly an emerging growth driver. But policy neglect has reversed the scenario with the sector's share in the incremental GDP growth between 1990s and 2000s turning negative. Livestock, dairy, forestry – the other potential non-crop growth sub-sectors within agriculture – all have suffered from a lack of sustained policy attention.

### **The Importance of Cushions . . .**

The growth journey has not been a story of drivers only. The growth process has been sustained by two crucial cushions. First has been the attention to food security. Even as population

<sup>17</sup> BBS, Statistical Yearbook of Bangladesh, 2009, p.444

<sup>18</sup> Rahman and Ahmed, *ibid* p.46.

doubled since independence, food production has tripled with annual food-grain production crossing the 30 million metric tons mark in 2008.<sup>19</sup> The country is near to food-grain self-sufficiency though vagaries of weather due to climate change pose a serious long-term risk.

The second cushion has been the development of an extensive system of safety net programs. Though problems of leakage and mis-targeting remain, by and large these have ensured that the larger growth process has not been derailed by post-disaster cycles of death and hunger. With 30 major and 20+ minor programs, safety net allocations have noticeably increased over time. Annual allocations for 2010-11 stand at 1.615 billion USD.<sup>20</sup>

Economists have rarely appreciated the importance of the psychological milieu within which economic actors pursue their initiatives. By significantly reducing the atmosphere of endemic crisis which stem from unattended cycles of hunger and disease, the safety net portfolio in Bangladesh has contributed in no small measure to bringing about a more psychologically secure social atmosphere in which forward-looking economic activities can be pursued. These in no small measure have strengthened the growth process.

## Accelerating Inclusive Growth: The Strategic Agenda

### **Building on Achievements . . .**

No strategy is or can be wholly new. Building on achievements is an integral part of the strategy for growth acceleration. RMG will continue to be a key growth driver in the medium term. Rising labour costs in competitors such as China is fuelling a process of relocation and Bangladesh stands to reap the benefits of this diverted business on account of its comparative cost-competitiveness. Recent statistics already point towards this potential.

Remittance as a growth driver, however, faces structural challenges on account of fragile global economic recovery and dwindling opportunities for unskilled labour. We have already seen a sharp drop in the annual number of out-migrants from an all-time high of 0.98 million in 2008 to 0.34 million in 2010.<sup>21</sup> Success in addressing the structural challenges will determine how far remittance will continue to be a growth driver in the coming decades.

The hard-won benefits of prudent macro-economic policies will have to be continued with further emphasis on broadening the revenue base. So also the focus on the twin growth cushions of food security and social safety nets. The demographic dividend of a youthful labour force,

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<sup>19</sup> Rahman, Hossain Zillur & Liaquat Ali Chowdhury, 2010, *Food Price Inflation : Impact and Response : Lessons from Recent Experiences*, PPRC Policy Paper, PPRC, Dhaka

<sup>20</sup> Rahman, Hossain Zillur et al, 2010, *Social Safety Nets in Bangladesh: A Comprehensive and Analytical Inventory*, PPRC/UNDP, Dhaka.

<sup>21</sup> Bureau of Manpower Employment and Training statistics

however, faces long-term concerns on account of emerging reversals in the success on population control. Re-energizing population control measures will be critical to ensuring that growth gains translate into commensurate gains per capita.

### **Changing Gears . . .**

However commendable our current growth performance is by historical standards, incrementalism alone will not take us to our desired goal of becoming a high-end middle income country i.e. 30<sup>th</sup> largest economy by 2030. A decisive shift of gears in policy efforts, strategic thrusts and innovative solutions is essential. Neither feel-good prescriptions nor encyclopedic wish-lists will produce this required shift of gears. The challenge here is about prioritizing within priorities, of being strategic about strategy.

### **Seven Strategic Priorities**

Five considerations define the pursuit of our high-end middle income goal: high growth, employment focus (inclusive of self-employment), productivity increase, economic diversification, and environmental sustainability. These lie at the heart of the agenda for inclusive growth.

Seven priorities are identified as having the most strategic promise for accelerating such a growth process:

**Bangladesh 2030**  
*Strategic Priorities for Accelerating Inclusive Growth*

<b>Overcoming the Infrastructure Deficit</b>
<b>New Sectors, New Markets</b>
<b>Engaging on Skills</b>
<b>Re-Positioning Agriculture for Growth</b>
<b>Urban Strategy</b>
<b>Strategizing on Regional Connectivity</b>
<b>Sustainable Adaptation to Climate Change</b>

## **Strategic Priority 1: Overcoming the Infrastructure Deficit . . .**

Infrastructural investment in high growth economies such as China, Thailand and Vietnam exceed 7% of GDP. In contrast, Bangladesh invests less than 2% of GDP in hard infrastructure. This alone is indicative of the degree of infrastructure deficit that poses perhaps the most serious barrier to any meaningful growth acceleration.

While infrastructure needs are many, there are three outstanding agenda which demands strategic attention: i) power & energy, ii) port and transport networks, and, iii) land. A fourth infrastructural priority – urban infrastructures – is discussed separately under urban strategy.

### *Power & Energy*

Electricity is nearly synonymous with development. But in Bangladesh, it is currently the most serious constraint on growth. Peak system deficit is as high as 2000 MW. Six critical problems are hobbling the sector: a) extremely low production base: per capita production was 160 kwh as against a global average of 3000 kwh and an Indian average of 650 kwh;<sup>22</sup> b) an increasing gap between demand and supply: annual rate of increase in total demand has been 9.7%<sup>23</sup> as against a stagnant effective supply of around 5000 MW; c) unbalanced energy-mix in power generation: 88% of electricity is generated from gas;<sup>24</sup> d) imbalance in the logistics of generation, transmission and distribution; e) absence of a rational pricing policy based on the economic value of gas, and f) unacceptably high levels of system loss.

In many ways, the power crisis is a derivative problem of the energy crisis. Nearly a 1000 MW of installed capacity is non-functional due to lack of gas supply. New gas exploration is in policy limbo. Absence of a rational pricing policy for gas has led to inefficient use particularly in domestic consumption and transportation. Current pattern of gas consumption shows 11% being consumed domestically which if freed through expanded use of LPG could be deployed to industrial and other uses.

Question marks also hang over the short-term rental power projects based on liquid fuel as the logistics of significantly augmented liquid fuel import required to service the short-term rental power plants does not appear to have been addressed. Political consensus in exploiting proven coal reserves also remain to be achieved.

The power and energy sector has suffered from an extreme of short-termism and governance issues. Yet, it is the most serious of the strategic challenges facing our growth aspirations. Estimates put the need for new annual investment to catch up with demand at 1.5 billion USD.<sup>25</sup> There is urgency for bold as well as pragmatic steps.

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<sup>22</sup> CUTS International, 2010, *Consumer Empowerment in Electricity Reforms: A Review from South Asia*

<sup>23</sup> Bangladesh Planning Commission, 2010, *Outline Perspective Plan 2010-2021*, General Economics Division

<sup>24</sup> *ibid*

<sup>25</sup> World Bank, *Bangladesh: Strategy for Sustained Growth*

Key challenges include i) new vigour in gas exploration, ii) securing social consensus on coal use, iii) demand efficiency in power use, iv) move towards rational energy-mix in power generation, v) investment in transmission logistics pertaining to coal, gas and electricity, vi) viable and cost-effective power import, particularly hydro-power, through regional co-operation.

### *Port and Transport Networks*

Port is central to export and imports. Transport networks are central to linking hinterlands as well as fostering growth poles. The challenge here is not about starting from zero but of a significant scaling up of facilities and efficiency.

Strategic challenges here include Chittagong port governance, initiating steps on the long-term agenda of a deep-sea port, facilitating expanded use of Mongla port, Padma Bridge, Dhaka-Chittagong growth corridor, Integrated Multi-Modal Transport Policy, mass rapid transit for Dhaka and Chittagong, upgrading investment in railway, road maintenance fund.

### *Land*

The significance of land as an emerging strategic challenge to growth acceleration is yet to be adequately taken note of. Factories need land to be set up. So do enterprises. So does a variety of infrastructures. All of these have to be met within a context of worsening land-man ratio. Securing or acquiring land is often the single most significant delay factor in projects or enterprises taking off. And yet, a sporadic project approach rules rather than a comprehensive national policy framework.

There are also great inefficiencies and injustices in the process of land acquisition. Despite Bangladesh being characterized by extreme land scarcity, official attitudes are often tinged with a 'zamindari mentality' leading to wholly unjustified excess acquisition. The land issue is also complicated by the dispute-prone and archaic system of land records and land administration. The Thai success in reforming land titling and various improvements in land administration practices in several states of India can be tapped here to shape reform strategies for land records and land administration.

Recommendation Matrix 1 summarizes the short-term and medium/long term action plan necessary to address the strategic challenges of each of the above three infrastructural priorities. To give a strategic edge to the recommendations, these have been grouped in three boxes: those at the stage of investment decisions, those at the stage of policy decisions, and, those at the stage of public debate.

### **Strategic Priority 2: New Sectors, New Markets . . .**

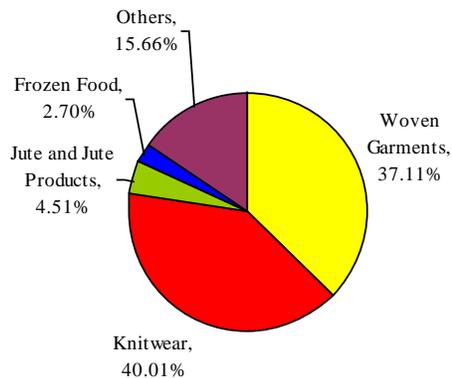
Product-mix of the Bangladesh economy remains highly undiversified. RMG (woven and knitwear) alone constituted 77.12% of total export earnings in 2009-10 (Graph 3). For Bangladesh to

emerge as a high-end middle income country, new growth drivers have to be added. Such new drivers will materialize not as a consequence of bureaucratic choice but more as a matter of private initiative aided by supportive public sector.

Strategic challenge here is fourfold: i) improve overall competitiveness for both export and domestic sectors, ii) build on current drivers where potential is clear, iii) promote new drivers with potential for rapid scaling up, and, iv) pursue all market opportunities.

In the short to medium term, RMG will continue to dominate exports with high growth projections based on diverted business from China. However, for such projections to materialize, infrastructural and port governance issues will have to find satisfactory solutions.

**Graph 3**  
**Export Profile, 2009-10**



Many new growth shoots have emerged: pharmaceuticals, leather, ceramics, plastics, software, fmcg. Individually, these are small in sectoral terms but cumulatively they add up to 16% of total exports. The challenge here is not one of strategic concentration on any one of these but of ensuring general infrastructural and governance support. A few sectors, however, are emerging who have the potential to graduate to new billion-dollar sectors and who merit strategic nurturing. In the short to medium term, three stand out: ship-building, jute and jute products, and, frozen fish.

Ship-building sector has jumped to annual turn-over of 200 million USD within a very short time and shows every sign of graduating to a billion-dollar sector. Current value-addition of the sector is 35% and it may rise to 50%.<sup>26</sup> The industry has already spawned two backward linkage industries – electrical cable and furniture, and has the potential to support seventeen other such

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<sup>26</sup> Discussion with Western Marine Shipyard officials

backward linkage industries. The industry also has high employment potential particularly in the semi-skilled to skill variety.

Jute and jute products too have high potential to graduate to a billion-dollar sector. Climate change concerns have opened a new global opportunity for this erstwhile golden fibre. Bangladesh has a unique opportunity here to nurture this potential strategically.

The third of the potential billion-dollar sector in the short to medium term is frozen fish. The sector demonstrated its potential in the 1990s but has suffered from policy neglect since. With its advantageous ecology, the sector has the potential for rapid scaling up but food safety and other issues will have to be dealt with. The sector also has significant employment potential.

New growth drivers have to be sought not only in new sectors but also in new markets. A four-pronged strategy is necessary here: i) deepen entry into existing export destinations, notably USA and EU, ii) targeted focus on new markets with potential to scale up to billion-dollar trade volume in the short to medium term, iii) targeted entry into wholly new markets, and, iv) simultaneous focus on domestic market.

Beyond USA and EU markets, potential new billion-dollar trade partners in the short to medium term include China, South Korea, Turkey, ASEAN, Japan and India. There is also a challenge of making an entry into wholly new markets. RMG export has already entered Latin America and pharmaceuticals into Africa. Such beginnings will have to be pursued wherever opportunities exist. The strategic lesson here is that all markets matter.

The focus on market cannot only be about export markets. Our growth history has already demonstrated the significance of the domestic economy in driving growth and employment, particularly in sectors such as services, construction, trade, small-scale manufacturing, tele-communications. Policy thinking has generally neglected this potential. A clearer engagement on the potential of the domestic market will be necessary. A specific requirement will be strategic plan for investment in market infrastructures.

Recommendation Matrix 2 summarizes the action plan to address the strategic challenges on new growth drivers.

### **Strategic Priority 3: Engaging on Skills**

Any growth acceleration strategy will have to focus on TFP and by implication on skills. Bangladesh faces a massive skill deficit emanating both from critical weaknesses in school education and the absence of a holistic and effective skill development strategy. Four outstanding problems define the sector: i) poor market relevance of skill education leading to a severe mismatch between demand and supply, ii) poor certification standards, iii) lack of focus on language skills, and, iv) relative absence of effective champions.

An extensive infrastructure of technical education exists as do a plethora of delivery agencies but the overall outcome is both an absence of prioritization and poor results. Efforts to energize the National Skill Development Council have been taken recently but critical problems of ownership, duplication and drivers remain. Share of private vocational training institutions in student coverage has risen from 40% in 1998 to 61% in 2005.<sup>27</sup> There is thus a very active market response to latent demand but there is little institutional consolidation and a pronounced lack of focus on standards.

Skills is simultaneously a short, medium and long-term priority for Bangladesh. The viability of remittance remaining a growth driver hinges on the success of the skills strategy as does the broader challenge of raising productivity across sectors. With 1.8 million youth joining the work force every year, the challenge is all the more urgent. Recommendations on action plan to address the skills challenge is summarized in Matrix 3.

#### **Strategic Priority 4: Re-positioning Agriculture for Growth**

The GDP share of agriculture may have declined to under 20% but the sector remains strategic vis-a-vis the goals of food security and stabilization of rural incomes. Unfortunately, policy thinking has been content to focus only on these goals to the neglect of exploiting larger growth potentials of the sector. Recent pro-poor growth stories in agriculture have included floodplain fisheries, maize-for-feed in monga districts, small farmer horticulture, homestead nurseries, poultry, value chains etc. More recently, jute is a new growth story on account of renewed global interest stemming from climate change concerns.

Policy neglect of growth driver potentials of agriculture has been fuelled in part by perception biases which view agriculture as a backward sector. Re-positioning agriculture as a growth driver will be critical to any successful strategy for growth acceleration to meet the goal of high-end middle income status. This will require both overcoming the perception biases and prioritizing growth-relevant sub-sectors. The latter include fisheries, jute, horticulture, dairy, livestock and poultry. While some of these will have export potentials, others will serve burgeoning domestic demand.

In pursuit of these growth drivers, traditional discourses on agriculture will have to be supplanted by new discourse themes of technology, seed, vertical integration, marketing infrastructures, quality and process certification, warehousing etc. To ensure pro-poor outcomes, the secular decline in public investment in agriculture will need to be reversed. The principal driver of change will, however, continue to be private initiatives.

Currently, import of certain agri-products such as pulses and edible oil cost over Taka 11 billion. There is an opportunity here of import substitution through launching of pulse and palm oil growing missions. Not only will this free resources for other imports, it will also address the issue

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<sup>27</sup> PPRC, 2010, *The Emerging Urban Future: Realities and Trade-offs*, Dhaka

of severe supply chain instability which afflicts these products leading to considerable consumer distress.

Some out-of-the box thinking will be necessary to overcome the land constraint which will confront agriculture in the medium to long-term. One option to consider is private investment in land-lease and buy-back purchase arrangements in land abundant countries in Asia and Africa. Myanmar and Uganda have already emerged as possible candidates where such options can be explored. Countries like India and China are already embarked on such strategies. For such options to materialize, current legal bar on investment abroad will have to be reviewed.

One key area yet to come into focus is agri retail. Investment in this area is central to supply chain efficiency, product quality and price stability. Development of appropriate policy framework to promote such investment with attendant focus on warehousing, customized transportation, product certification, customized outlets including farmer's markets, etc. is a priority.

Recommendations on action plan to address the challenges of re-positioning agriculture for growth are summarized in Matrix 4.

### **Strategic Priority 5: Urban Strategy**

Bangladesh urgently needs a holistic urban strategy both to manage urbanization and to maximize the growth potentials of urban centres. Dhaka and Chittagong are the two dynamic growth poles of the Bangladesh economy and the Dhaka-Chittagong corridor is emerging as a growth corridor. Emerging issues of urban congestion pose long-term questions marks on the growth viability of these metropolitan centres unless their expansion is appropriately managed.

As distinct from these metropolitan growth poles, secondary towns and lesser urban centres have collectively provided another impetus to the growth process in the form of urban consumption as a driver of services and rural non-farm employment. An urban strategy encompassing both of these realities, i.e. the metropolitan growth poles and the secondary centres of urban consumption, is a strategic priority towards achieving the desired growth acceleration towards a high-end middle income goal.

Existing discourse on urbanization has proceeded on fragmented premises of physical planning, slum studies, municipal governance and migration studies. The economic dimension has been a missing focus.<sup>28</sup> The challenge, in particular, is for a holistic, integrated perspective by which issues of cities as growth drivers and sustainable urbanism can be considered. Recommendation Matrix 5 summarizes the action plan for a growth-relevant urban strategy.

### **Strategic Priority 6: Strategizing on Regional Connectivity**

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<sup>28</sup> PPRC, 2010, *The Emerging Urban Future*, ibid.

Bangladesh enjoys a strategic locational advantage of being in the neighbourhood of three dynamic growth centres of the global economy – India, China and ASEAN. Exploiting this locational advantage can be a critical contributor to the desired growth acceleration of the Bangladesh economy. The opportunities here are twofold: i) Bangladesh to emerge as a connectivity hub for these three growth centres, and, ii) the three growth centres becoming major export destinations for Bangladeshi products.

Recommendation Matrix 6 summarizes action priorities to tap the connectivity potential.

### **Strategic Priority 7: Sustainable Adaptation to Climate Change**

Many global accounts describe Bangladesh as a front-line economy in the theatre of climate change. While many of these accounts emphasize a victim narrative, the narrative inside the country and in particular among the citizenry at large is one of resilience and sustainable adaptation. In a sense, Bangladesh has been acting out this narrative in its long history of taming a deltaic frontier and building prosperity amidst continuing ecological vulnerability.

A viable growth agenda must address the issue of sustainability which in many ways pertains to the question of adapting to climate change. Possible action priorities to address this challenge is summarized in Recommendation Matrix 7.

## **Risks on Growth Environment**

### **Avoiding Miss-the-Bus Syndrome . . .**

Bangladesh has every potential to reach the goal of becoming the 30<sup>th</sup> largest economy by 2030. Current growth rates is likely to take the country to middle income status by 2021 but this would be at the low-end of the middle income range with problems of poverty still substantially present. Our ambitions are higher. However, while the potential is unmistakable, it is useful to maintain an awareness of possible risks which could derail the desired growth trajectory and afflict us with the miss-the-bus syndrome which has characterized some erstwhile economies rated as potential but subsequently becoming off-course. Philippines is a case in point here, rated as the Asian country most likely to succeed in 1960 but currently nowhere near fulfilling this potential.

### **Four Risks . . .**

Goldman Sachs Report on N-11 identifies political instability, corruption and skill shortage as the most serious of the growth environment constraints for Bangladesh out of a total of thirteen such factors. This projection was made in 2005 but is still largely true. To these three risk factors, a fourth has emerged, namely the power deficit.

The clearest evidence of the risks to growth is in the stagnant investment scenario (Table 3). Gross investment as a percentage of GDP has been stuck at 24% for the whole of the current decade. Annual FDI hover around \$1 billion only (\$1.86 billion in 2008 and \$700 million in 2009).<sup>29</sup> Since savings rate is higher, investment is clearly not constrained by lack of funds. The constraints lie rather in the issues of investment climate and governance factors.

**Table 3**  
**Savings and Investment Scenario**  
**% of GDP**

<b>Category</b>	<b>FY02</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
<b>Gross Investment</b>	<b>23.4</b>	<b>23.4</b>	<b>24.0</b>	<b>24.5</b>	<b>24.7</b>	<b>24.5</b>	<b>24.2</b>	<b>24.2</b>
Private Investment	16.8	17.2	17.8	18.3	18.7	19.0	19.3	19.6
Public Investment	6.4	6.2	6.2	6.2	6.0	5.5	4.9	4.6
<b>National Savings</b>	<b>23.4</b>	<b>24.9</b>	<b>25.4</b>	<b>25.8</b>	<b>27.7</b>	<b>28.7</b>	<b>30.2</b>	<b>32.4</b>

Source: Bangladesh Economic Survey

### **Miles to Go . . .**

The challenge thus is very clear. Bangladesh is at a crossroads where graduation to a qualitatively higher economic status is within view. Four pitfalls stand in our way – political instability, corruption, skills shortage, and, power deficit. Will these pitfalls derail our dream or will we be able to summon the determination to find the solutions to overcome them? The future is ours. So is the responsibility.

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<sup>29</sup> United Nations, World Investment Report 2010

**Recommendation Matrix 1**  
*Overcoming the Infrastructural Deficit*

Infrastructural Priority	Short-Term			Medium/Long-term	
	Investment Decisions	Policy Decisions	Public Debate	Investment Decisions	Policy Decisions
<b>Power &amp; Energy</b>	<ul style="list-style-type: none"> <li>▪ New logistical facilities in Chittagong (Sandwip channel and other side of Karnaphuli) for augmented liquid fuel import to support rental plants</li> <li>▪ Hydro-power import from Myanmar with off-take guarantee</li> <li>▪ Policy and resource package to transform BAPEX into an independent and dynamic agency</li> </ul>	<ul style="list-style-type: none"> <li>▪ Expansion of LPG in domestic use which can free up to 12% of total current gas consumption for alternative use in industry and power generation</li> <li>▪ Rational gas pricing policy</li> <li>▪ Reduction in system loss</li> <li>▪ Targeted expansion in use of renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Consensus-building on coal policy</li> </ul>	<ul style="list-style-type: none"> <li>▪ Developing coal logistics</li> <li>▪ New gas exploration (both off-shore and on-shore)</li> <li>▪ Annual investment of 1.5 billion USD in power plants</li> </ul>	<ul style="list-style-type: none"> <li>▪ Policy shift from gas-based power generation for more rational energy-mix</li> <li>▪ Explore nuclear power option</li> <li>▪ Explore viable and cost-effective energy solution options through regional co-operation</li> </ul>
<b>Port &amp; Transport networks</b>	<ul style="list-style-type: none"> <li>▪ Augmented rail freight traffic between Dhaka and Chittagong through double tracking</li> <li>▪ Dhaka-Chittagong Expressway</li> <li>▪ Facilitate expanded use of Mongla port</li> <li>▪ Padma Bridge</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review and adopt Integrated Multi-modal Transport Policy</li> <li>▪ Unfreeze Dhaka STP</li> <li>▪ Chittagong port governance</li> <li>▪ Re-focus on Road Maintenance Fund</li> </ul>	<ul style="list-style-type: none"> <li>▪ Public debate on rail reform</li> <li>▪ Public debate on PPP options in infrastructure financing</li> <li>▪ Position paper on Bangladesh priorities vis-a-vis deep-sea port and regional connectivity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Padma Bridge</li> <li>▪ Deep-sea port</li> <li>▪ Dhaka-Chittagong growth corridor</li> <li>▪ Augmented logistics for inland water container traffic</li> </ul>	
<b>Land</b>		<ul style="list-style-type: none"> <li>▪ Updated land acquisition and resettlement policy balancing the needs of development and social justice</li> <li>▪ Mandatory limits on inefficient and excess land acquisition</li> </ul>	<ul style="list-style-type: none"> <li>▪ Evidence-based position paper on implications of climate change on land use</li> <li>▪ Public debate on land use zoning</li> </ul>	<ul style="list-style-type: none"> <li>▪ Project on land administration reform drawing on regional best practices</li> </ul>	<ul style="list-style-type: none"> <li>▪ Promote cluster concept in using land for industrial use</li> <li>▪ Priority Industry-specific economic zones at viable locations eg. ship-building zone at Karnaphuli mouth</li> </ul>

**Recommendation Matrix 2**  
*New Growth Drivers*

Driver	Action Priorities	
	Investment Decisions	Policy Decisions
New Sectors	<ul style="list-style-type: none"> <li>▪ Broad-based infrastructural and governance support to improve general competitiveness</li> <li>▪ Establishment of R&amp;D Centre on Business Innovations and Trends through PPP model</li> </ul>	<ul style="list-style-type: none"> <li>▪ Continued support to RMG sector</li> <li>▪ Targeted support to potential billion-dollar sectors (short/medium term): ship-building, jute &amp; jute products, frozen fish</li> <li>▪ Consultative Forum on Growth Acceleration drawn from Government, Business Community, Experts</li> </ul>
New Markets		<ul style="list-style-type: none"> <li>▪ Deepen entry into existing markets: EU and USA</li> <li>▪ Target new billion-dollar trade partners: China, South Korea, Japan, ASEAN, India, Turkey</li> <li>▪ Entry into new markets: Africa, Latin America</li> </ul>
Domestic Market	<ul style="list-style-type: none"> <li>▪ Investment package for domestic market infrastructures</li> </ul>	

**Recommendation Matrix 3**  
*Engaging on Skills*

Time-frame	Action Priorities	
	Investment Decisions	Policy Decisions
Short-term	<ul style="list-style-type: none"> <li>▪ An inventory on public and private supply: physical facilities, curriculum, faculty, number of graduates by skills and where absorbed</li> <li>▪ A demand inventory segmented by i) domestic industry requirements, ii) overseas workers both lower and upper end, iii) self-entrepreneurship, and, iv) language and management.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Independent secretariat for NSDC</li> <li>▪ Formation of a national advocacy group</li> <li>▪ Action plan for skill education institutions for on-job training and sharing of workshop facilities</li> </ul>
Medium/Long term	<ul style="list-style-type: none"> <li>▪ Technology Development Agency under private sector initiative</li> </ul>	<ul style="list-style-type: none"> <li>▪ Projection exercise on likely skill requirements within global and national scenario 2030</li> <li>▪ Bangladesh Technical Education Board to be made autonomous and placed under NSDC</li> </ul>

**Recommendation Matrix 4**  
***Re-Positioning Agriculture for Growth***

Time-frame	Action Priorities	
	Investment Decisions	Policy Decisions
Short-term	<ul style="list-style-type: none"> <li>▪ Priority project on fisheries sub-sector</li> <li>▪ Priority project on dairy sub-sector including improved governance of the public sector dairy co-operative Milk-Vita</li> <li>▪ Priority project on livestock sub-sector</li> <li>▪ District-level soil fertility testing centres</li> <li>▪ Quality and process certification facility</li> <li>▪ Investment package on market infrastructures in major urban centres, rural growth centres and viable highway locations</li> <li>▪ Branding initiative to prioritize products</li> </ul>	<ul style="list-style-type: none"> <li>▪ Scale up existing PPP platforms on fisheries and horticulture i.e. Sub-sectoral Business Promotions Councils under Ministry of Commerce</li> <li>▪ Policy review on investment abroad for land-lease and guaranteed purchase arrangements pertaining to agricultural products</li> <li>▪ Policy framework to promote investment in agri retail</li> <li>▪ Enhance technological collaboration with India, China and Thailand and other relevant countries</li> <li>▪ Launch of Milk for All by 2030 Campaign</li> <li>▪ Action plan to promote jute and jute products</li> <li>▪ Policy framework to promote agri-business support services, market-based extension services, meteorology-based extension services</li> <li>▪ Launch of pulse and palm oil growing missions</li> </ul>
Medium/Long term	<ul style="list-style-type: none"> <li>▪ Food Safety Centre with international collaboration</li> <li>▪ Investment plan to transform 70 lac hectares one-cropped land in coastal area into double-cropped land</li> </ul>	<ul style="list-style-type: none"> <li>▪ Review options for a Commodity Exchange</li> <li>▪ Action plan for improvement in patent regime including post-patent stages</li> <li>▪ Development of Union-wise Crop Maps</li> <li>▪ Action plan to promote halal products for export including halal meat</li> <li>▪ Action plan on urban agriculture</li> </ul>

**Recommendation Matrix 5**  
*Urban Strategy*

Urban Type	Action Priorities	
	Investment Decisions	Policy Decisions/Public Debate
Metropolitan Centres	<p><b>Dhaka</b></p> <ul style="list-style-type: none"> <li>▪ Mass Rapid Transport</li> <li>▪ Network of Elevated toll roads</li> <li>▪ Implementation of Dhaka STP priorities: ring roads, pedestrian paths, informal economy space, east-west link roads, off-street parking</li> </ul> <p><b>Chittagong</b></p> <ul style="list-style-type: none"> <li>▪ Drainage master plan</li> <li>▪ Ring roads (JICA plan)</li> <li>▪ Elevated toll roads</li> <li>▪ Truck terminals</li> </ul> <p><b>Dhaka-Chittagong Growth Corridor</b></p> <ul style="list-style-type: none"> <li>▪ Dhaka-Chittagong Expressway</li> <li>▪ Augmented rail freight through double tracking</li> </ul>	<ul style="list-style-type: none"> <li>▪ Public debate on relocation of big establishments from within Dhaka (JICA reports)</li> <li>▪ Public debate on bus franchise in Dhaka</li> </ul>
Secondary Towns	<ul style="list-style-type: none"> <li>▪ Investment package for core infrastructures for selected secondary towns (all to be covered in phases)</li> <li>▪ Investment package for core infrastructures for rural towns (all to be covered in phases)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Development of action plan for Urban Renewal Mission</li> </ul>

**Recommendation Matrix 6**  
*Strategizing on Regional Connectivity*

Time-frame	Action Priorities	
	Investment Decisions	Policy Decisions/Public Debate
Short-term	<ul style="list-style-type: none"> <li>▪ Action plan to promote expanded use of Mongla port</li> </ul>	<ul style="list-style-type: none"> <li>▪ Development of separate Position Papers detailing Bangladesh priorities on regional connectivity to the three growth economies of India, China and ASEAN.</li> <li>▪ Public debate on core issues emerging from the Position Papers pertaining to regional connectivity</li> <li>▪ Projection exercise on logistical challenges of Bangladesh becoming a regional connectivity hub</li> </ul>
Medium/Long term	<ul style="list-style-type: none"> <li>▪ Deep sea port</li> <li>▪ Chittagong-Kunming rail and road link</li> <li>▪ Chittagong-North-East States (India) road-rail link</li> <li>▪ Karnaphuli Tunnel (Chittagong)</li> </ul>	

**Recommendation Matrix 7**  
*Sustainable Adaptation to Climate Change*

Time-frame	Action Priorities	
	Investment Decisions	Policy Decisions/Public Debate/Research/Social Mobilization
Short-term	<ul style="list-style-type: none"> <li>▪ Coastal Embankment Rehabilitation Project 3</li> <li>▪ Investment plan to complete gaps in cyclone shelter availability</li> </ul>	<ul style="list-style-type: none"> <li>▪ Participatory embankment maintenance</li> <li>▪ Action research on documenting climate change effects in selected localities</li> <li>▪ Introducing energy-efficiency in the building code</li> <li>▪ Prepare viable projects to access Adaptation Funds</li> </ul>
Medium/Long term	<ul style="list-style-type: none"> <li>▪ Action plan on emission reduction in brick kilns</li> </ul>	

