

Bangladesh institutional diagnostic overview

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Introduction

The objective of the Institutional Diagnostic is to design a tool that will **permit policy-makers to identify weak institutional areas that constrain development, and appropriate directions for reforms**. The “institutional diagnostic” tool was originally inspired by the “growth diagnostic” tools developed by Hausmann, Rodrik and Velasco, but the proposed new tool is meant to go beyond this by focusing on the institutional weaknesses possibly responsible for binding economic constraints. In this research endeavour, “institutions” are broadly defined as the “formal or informal rules of the game expected to be followed, individually and collectively, by political, social and economic actors”. As such, they touch upon a variety of areas - political, judicial, economic, cultural, religious, etc.

The Bangladesh institutional diagnostic was officially started in September 2018. It is led by Selim Raihan, the Executive Director of the South Asian Network for Economic Modelling (SANEM), together with François Bourguignon, Research Director of the Economic Development and Institutions (EDI) programme.

Methodology and process

The methodology for designing the Institutional Diagnostics tool is based on in-depth case studies of a few countries, aimed at comprehensively exploring the relationship between the characteristics and the functioning of a country's institutions and its economic development performance and constraints. The study builds on the methodology developed for institutional diagnostics conducted in Tanzania and Benin, incorporating lessons from each.

Stage 1: Background paper on institutional areas

The general analysis in Stage 1 is the identification and justification of institutional areas. It comprises of a background paper on the country.

From a war-torn economy in 1972 until now, Bangladesh has been able to increase its per capita GDP by 15 times (from as low as around US\$ 100 in 1972 to US\$ 1516 in 2017), cut down the poverty rate from as high as 71 percent in the 1970s to 24 percent in 2016, became the second largest exporter of readymade garments in the world, and registered some notable progress in social sectors. In 2015, Bangladesh graduated from the World Bank's classification of low-income country to lower-middle income country category. Also, in 2018, the country met the first review of the three criteria to graduate from the least developed country (LDC) status, and the country is in the track to meet the second review in 2021 to be finally graduated out of the LDC status by 2024. Bangladesh's aforementioned development happened in the context of country's weak institutional capacity. All these prompted to term Bangladesh's development as 'Bangladesh paradox' or 'Bangladesh surprise'. Despite that the growth and development processes in Bangladesh over the past four and half decades contributed to some important positive economic and social as well as some structural changes in the economy, the fundamental question is whether Bangladesh can continue its success and achieve larger development goals with the business as usual growth and development processes. There are concerns that the weak institutional capacity of the country may work as a binding constraint as the country eyes to meet the stiff targets of the Sustainable Development Goals

(SDGs) by 2030, aspires to become an upper middle income country by 2031, and visions to become a developed country by 2041. The dividend from the so-called 'Bangladesh surprise' are likely to be on a decline as the country is plunged with a number of challenges related to slow progress in structural transformation, lack of economic diversification, high degree of informality in the labour market, slow pace of job creation, poor status of social and physical infrastructure, slow reduction in poverty and rising inequality. Against this backdrop, keeping in mind the stiff development targets the country wants to meet in the next 2-3 decades, this paper presents an analyses of the major development challenges of Bangladesh which include problems related to structural transformation, economic diversification, labour market challenges, poverty reduction, social development, and weak state capacity. The paper further presents an analysis of the politics of development in Bangladesh and the comparative assessment of progress in institutional fronts.

Stage 2: Launch workshop and side meetings

To test the validity of themes identified in the background paper, a project launch workshop was held on 24th September 2018 alongside meetings with high-level decision makers. This collection method of expert opinions will inform subsequent stages of the study.

Stage 3: Preparation of questionnaire survey

As an additional method for collecting expert opinions, we will conduct a questionnaire survey on a broad sample of decision-makers and covering a broad range of the economic, social and political functioning of the country. We currently anticipate to conduct a survey with a sample size of c. 300 firms and individuals.

A key activity for Bangladesh will be to incorporate learnings from the institutional diagnostic surveys concluded successfully in Tanzania and Benin. This will include a workshop and a series of teleconferences as well as email exchanges to review the questionnaire line by line. Also, the design of the survey in terms of selection of samples and plan of execution of the survey will be finalised over the months of October and November 2018.

Stage 4: Implementation of survey

This stage, most likely in early 2019 will include an interview of people and survey of firms including analysis that will feed into the selection of themes.

Stage 5: Identification of themes

From the analysis of survey data and stakeholder interviews, five major institutional areas will be identified as being particularly restrictive for economic development in Bangladesh, thereby warranting deeper analysis. Expert authors will be chosen to investigate the themes.

Stage 6: Commissioning thematic studies

Draft concept notes on the five themes will be presented by the potential authors of the thematic papers in a kick-off workshop. Based upon this, five studies on the identified themes will be commissioned. Each thematic study will have a lead author (or team of authors) and a discussant. This approach has been taken successfully for the Tanzania study and is being followed in Benin.

Importantly, the major differentiating point of EDI is not necessarily that we are exploring institutional areas that were not previously thought to be constraining, but that we are doing so using the framework of new institutional economics with the objective of producing new research and actionable results.

Stage 7: Integration of findings

The Bangladesh Institutional Diagnostics will culminate in a volume describing the results from each phase of the study.

Stage 8: Dissemination of findings

This stage brings together the results of the full study for dissemination to policy stakeholders.

Dissemination activities include general dissemination through a conference-style event, to include current policymakers and incumbent governments, opposition parties, social movements, NGOs, donors and civil society more broadly, as well as targeted meetings with key stakeholders.

About EDI

Institutions matter for growth and inclusive development, but there is little evidence on how positive institutional change can be achieved. The Economic Development and Institutions (EDI) research programme addresses this knowledge gap by working with some of the finest economic thinkers and social scientists across the globe to inform new pathways to inclusive, sustainable economic growth.

Policy engagement is a critical focus for EDI research. We engage with policymakers and influencers throughout the design and development of our research programmes. EDI Research Insights and Policy Briefs are published at various stages of research to distil evidence and synthesise key findings for general and policy-focused audiences.

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