

Economic Reform in Bangladesh - Progress, Challenges, and the Role of Social Business

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Overview





Overview

Since gaining independence in 1971, Bangladesh has made substantial economic progress, transitioning from one of the poorest countries in the world to a middle-income nation.

Economic reforms, especially in the areas of trade liberalisation, financial sector development, poverty reduction, and industrialisation, have played a central role in this transformation¹.

Despite these successes, Bangladesh faces numerous challenges, including income inequality, unemployment, underdeveloped infrastructure, and environmental degradation.

This paper examines recent economic reforms in Bangladesh and explores how Dr. Muhammad Yunus's social business model could help address persistent economic challenges².

“Bangladesh’s ready-made garment (RMG) sector accounted for over 80% of the country’s export earnings, amounting to over \$45 billion annually.”

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Trade Liberalisation Reforms



Trade Liberalisation Reforms

Trade liberalisation has been a cornerstone of Bangladesh's economic policy since the early 1990s. These reforms were aimed at making the economy more export-oriented, reducing tariff barriers, and integrating the country into the global economy³.

Bangladesh's rapid expansion in ready-made garments (RMG), its primary export industry, can be attributed to these reforms. As of 2022, Bangladesh's ready-made garment (RMG) sector accounted for over 80% of the country's export earnings, amounting to over \$45 billion annually⁴.

Between 1990 and 2021, Bangladesh's average tariff rate fell from 87% to 10%, facilitating greater trade openness⁵. Despite the success of the RMG sector, Bangladesh's export basket remains highly concentrated in textiles, leaving the economy vulnerable to external shocks, such as changes in global demand or supply chain disruptions⁶. Furthermore, non-tariff barriers and inefficient customs procedures continue to hinder the country's full integration into the global economy⁷.

The RMG sector's rapid growth has provided employment to over 4 million workers, most of them women. However, the sector has also been criticised for poor working conditions, low wages, and a lack of diversification. The Rana Plaza disaster in 2013, which killed over 1,100 garment workers, highlighted the urgent need for labour reforms and better safety regulations⁸.

“The industrial sector remains concentrated in low-value manufacturing, with limited diversification into higher-value-added industries such as technology or advanced manufacturing.”

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Industrial Policy





Industrial Policy

Bangladesh's industrial policy has focused on fostering sectors with high growth potential, such as textiles, pharmaceuticals, and information technology. The government has implemented special economic zones (SEZs) to attract foreign investment and support industrial expansion. By 2023, the government had approved 100 special economic zones, of which 15 were fully operational, contributing to over \$3 billion in foreign direct investment (FDI)⁹.

While SEZs have attracted significant investment, the lack of skilled labour, inadequate infrastructure, and bureaucratic delays have limited their full potential¹⁰. Moreover, the industrial sector remains concentrated in low-value manufacturing, with limited diversification into higher-value-added industries such as technology or advanced manufacturing¹¹.

“By creating RMG factories that prioritise social impact, such as improved working conditions and fair wages, Bangladesh can enhance its global reputation and make the sector more sustainable.”

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Dr. Yunus's Role in Trade and Industrial Reform

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Dr. Yunus's Role in Trade and Industrial Reform

Dr. Yunus's expertise in social business can provide innovative solutions to trade and industrial challenges.

Social Business in the RMG Sector

Dr Yunus could introduce a social business model within the RMG sector, focusing on ethical labour practices and reinvesting profits into worker welfare. By creating RMG factories that prioritise social impact, such as improved working conditions and fair wages, Bangladesh can enhance its global reputation and make the sector more sustainable¹².

Skills Development through Social Enterprises
Dr Yunus could establish skills development programs for workers in industrial sectors through social enterprises. These programs would equip workers with the skills needed to move into higher-value manufacturing industries such as electronics and pharmaceuticals, promoting greater industrial diversification¹³.

“As of 2022, Bangladesh had 61 banks operating in the country, of which 42 were private commercial banks. Financial inclusion has increased significantly, with 53% of adults now having access to formal banking services, up from 30% in 2010.”

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Financial Sector Liberalisation



Financial Sector Liberalisation

The financial sector in Bangladesh has undergone substantial reforms over the last two decades, including the liberalisation of interest rates, the introduction of private banks, and the development of the capital market. The reforms were intended to promote greater financial inclusion, increase access to credit, and support small and medium enterprises (SMEs)¹⁴.

As of 2022, Bangladesh had 61 banks operating in the country, of which 42 were private commercial banks¹⁵. Financial inclusion has increased significantly, with 53% of adults now having access to formal banking services, up from 30% in 2010¹⁶. Despite these reforms, the financial sector faces significant challenges. Non-performing loans (NPLs) remain a critical issue, with the ratio of NPLs to total loans reaching 9.4% in 2022¹⁷. Additionally, access to finance remains limited for many small businesses, especially in rural areas, where informal lending still dominates¹⁸.

“Grameen Bank’s model of group lending has proven successful in improving repayment rates and supporting entrepreneurship in rural areas. Grameen Bank has a 98% repayment rate, demonstrating the effectiveness of microfinance in promoting financial inclusion and reducing poverty.”

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Microfinance and Grameen Bank

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Microfinance and Grameen Bank

The success of Grameen Bank, founded by Dr. Muhammad Yunus, has been a landmark achievement in financial inclusion. The microfinance institution has provided small loans to over 9 million borrowers, the majority of whom are women¹⁹. Grameen Bank's model of group lending has proven successful in improving repayment rates and supporting entrepreneurship in rural areas²⁰. Grameen Bank has a 98% repayment rate, demonstrating the effectiveness of microfinance in promoting financial inclusion and reducing poverty²¹. While microfinance has been successful in many areas, critics argue that the model has not been as effective in fostering long-term economic growth or providing access to larger sums of credit needed for scaling businesses²².

**“Mobile banking
and digital wallets
can be used to
extend banking
services to remote
and underserved
populations,
reducing reliance on
informal lenders.”**

A large, semi-transparent portrait of Dr. Muhammad Yunus, the founder of Grameen Bank, serves as the background for the lower half of the page. He is an elderly man with white hair, looking slightly to the left with a gentle expression. He is wearing a patterned sweater over a collared shirt.

Dr. Yunus's Role in Financial Reform



Dr. Yunus's Role in Financial Reform

Dr. Yunus's experience with microfinance can be leveraged to promote broader financial reforms.

Expand the Microfinance Model

Dr Yunus could expand the microfinance model to provide tailored financial products for small and medium enterprises (SMEs). This would help bridge the financing gap that many SMEs face, particularly in rural areas²³.

Social Business Banks

Dr Yunus could establish social business banks that focus on providing low-interest loans to social enterprises. These banks would prioritise funding projects that have a measurable social impact, such as job creation in underserved communities²⁴.

Digital Financial Inclusion

By leveraging technology, Dr Yunus could promote digital financial inclusion. Mobile banking and digital wallets can be used to extend banking services to remote and underserved populations, reducing reliance on informal lenders²⁵.

“As of 2023, over 10 million households were beneficiaries of social safety net programs, providing crucial support to vulnerable populations. Despite these successes, poverty remains concentrated in rural areas, where 35% of the population still lives below the poverty line.”

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A photograph of a woman holding a young child in a slum, overlaid with a red tint. The woman is wearing a headscarf and a patterned sari. The child is looking directly at the camera. The background shows a cluttered, unpaved area with debris and a large plastic jug. The text 'Poverty Alleviation Programs' is overlaid on the bottom left of the image.

Poverty Alleviation Programs

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Poverty Alleviation Programs

Bangladesh has made remarkable progress in reducing poverty, with the percentage of people living below the poverty line falling from 48% in 2000 to 20.5% in 2022²⁶. Government programs such as the Social Safety Net Programs (SSNPs), which include cash transfers, food security programs, and workfare schemes, have played a critical role in poverty alleviation²⁷.

As of 2023, over 10 million households were beneficiaries of social safety net programs, providing crucial support to vulnerable populations²⁸. Despite these successes, poverty remains concentrated in rural areas, where 35% of the population still lives below the poverty line²⁹. Additionally, the coverage of social safety nets is often limited by administrative inefficiencies and corruption³⁰.

The Vulnerable Group Development (VGD) Program is one of Bangladesh's largest safety net programs, providing food and cash assistance to poor women. Over 1 million women have benefited from this program, which also includes vocational training to help women build sustainable livelihoods³¹.

“By integrating digital technology into the distribution of benefits, corruption could be reduced, and the most vulnerable populations could be better targeted.”

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Dr. Yunus's Role in Poverty Reduction

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Dr. Yunus's Role in Poverty Reduction

Dr. Yunus's work with Grameen Bank and his philosophy of social business have proven effective in addressing poverty. He could further contribute to poverty reduction through the following approaches.

Creation of Social Enterprises

Dr Yunus could advocate for the creation of social enterprises focused on poverty alleviation. These enterprises would employ low-income individuals and reinvest profits into local communities, promoting sustainable economic development³².

Scaling Microfinance

By scaling the microfinance model, Dr Yunus could extend financial services to more rural areas, targeting the poorest populations who remain excluded from the formal banking system³³.

Improving Social Safety Nets

Dr Yunus could work with the government to improve the efficiency and reach of social safety nets. By integrating digital technology into the distribution of benefits, corruption could be reduced, and the most vulnerable populations could be better targeted³⁴.

“Despite progress, Bangladesh faces a \$30 billion infrastructure gap. Roads, ports, and railways remain underdeveloped, and power outages are still common in rural areas.”

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Infrastructure Development

Infrastructure Development

Bangladesh has made significant investments in infrastructure, particularly in energy, transportation, and telecommunications. The construction of the Padma Bridge, which connects the southwestern region to the rest of the country, is a landmark achievement that is expected to boost trade and reduce travel time³⁵. The Padma Bridge is expected to increase Bangladesh's GDP by 1.23% annually³⁶.

Meanwhile, electricity coverage has expanded to 95% of the population, thanks to significant investments in energy infrastructure³⁷. Despite progress, Bangladesh faces a \$30 billion infrastructure gap. Roads, ports, and railways remain underdeveloped, and power outages are still common in rural areas³⁸. The lack of infrastructure also limits foreign direct investment (FDI) and industrial growth³⁹.

“Air pollution, deforestation, and rising carbon emissions are significant concerns. Bangladesh is also one of the countries most vulnerable to the impacts of climate change, particularly rising sea levels and natural disasters.”

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A woman wearing a headscarf and a patterned dress stands in a field of young trees. She is holding a clipboard and looking at a plant. The background shows more trees and a clear sky.

Environmental Sustainability



Environmental Sustainability

Rapid economic growth has come at a cost to Bangladesh's environment. Air pollution, deforestation, and rising carbon emissions are significant concerns. Bangladesh is also one of the countries most vulnerable to the impacts of climate change, particularly rising sea levels and natural disasters⁴⁰. The country's environmental policies have been inadequate in addressing the challenges posed by industrial pollution, poor waste management, and over-reliance on fossil fuels⁴¹.

“Dr. Yunus could promote the creation of green social enterprises that focus on renewable energy, waste management, and sustainable agriculture.”

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Dr. Yunus's Role in Infrastructure and Sustainability



Dr. Yunus's Role in Infrastructure and Sustainability

Dr. Yunus could promote the creation of green social enterprises that focus on renewable energy, waste management, and sustainable agriculture⁴².

Dr Yunus could encourage social impact investment in infrastructure projects, particularly in areas such as rural electrification, clean water access, and sustainable transportation⁴³. Dr Yunus could work with the government and international organisations to develop climate adaptation programs that help vulnerable communities build resilience to climate change⁴⁴.

“By focusing on social impact, financial inclusion, and sustainable development, Dr Yunus can play a pivotal role in shaping the future of economic reform in Bangladesh.”



Conclusion

Conclusion

Economic reforms in Bangladesh have led to impressive growth, particularly in trade liberalisation, financial sector development, and poverty alleviation. However, significant challenges remain, including income inequality, inadequate infrastructure, and environmental sustainability⁴⁵.

Dr. Muhammad Yunus's social business model offers innovative solutions that could help address these issues. By focusing on social impact, financial inclusion, and sustainable development, Dr Yunus can play a pivotal role in shaping the future of economic reform in Bangladesh.



FOOTNOTES

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