

BTI 2010 | Bangladesh Country Report

Status Index	1-10	5.74	# 62 of 128	
Democracy	1-10	6.05	# 57 of 128	➔
Market Economy	1-10	5.43	# 68 of 128	➔
Management Index	1-10	4.87	# 69 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Transformation Index (BTI) 2010. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	157.8	HDI	0.54	GDP p.c.	\$	1247
Pop. growth	% p.a.	1.5	HDI rank of 182	146	Gini Index		31.0
Life expectancy	years	66	UN Education Index	0.53	Poverty ²	%	81.3
Urban population	%	26.7	Gender equality ¹	-	Aid per capita	\$	9.5

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

After being ruled by a military-backed technocratic regime, Bangladesh returned to the path of democracy during the period under review. The state of emergency, declared in January 2007, was lifted in December 2008. This was followed by parliamentary elections. The elections, participated in widely by voters, were free, fair and credible. The Awami League (AL) and its allies, headed by Sheikh Hasina, secured a landslide victory and formed the government. The Bangladesh National Party (BNP)-led alliance suffered a serious defeat. The two years of caretaker government leading up to the election, headed by Fakhruddin Ahmed, were marked by a curtailment of fundamental rights and the absence of accountability. But the administration succeeded in bringing about some institutional changes, and waged a vigorous campaign against corruption. For example, Ahmed's government took the first steps toward a separation of the executive and judiciary. Bangladesh's economic performance during the period under review was resilient, despite global economic challenges and domestic natural disasters. Two devastating floods and a cyclone, as well as a tidal wave, hit the country in 2008. The momentum for growth continued, and international reserves increased despite severe import pressures. Overall GDP growth rates were high, at 6.5% in 2007 – 2008. Rising inflation, high levels of underemployment, and budget and trade deficits remained the main negative aspects of the economy.

History and Characteristics of Transformation

Bangladesh became an independent state in December 1971, following a nine-month civil war which began after the Pakistani military waged a genocidal war against the Bengali population of what was then East Pakistan. The Bengali resistance movement received moral and material

support from India throughout the war. India's military involvement against the Pakistani forces expedited the conclusion of the war. In the past 37 years, Bangladeshi politics have undergone significant transformation, as the country has experienced a variety of systems of governance, including prolonged military rule. These transformations can be divided into four broad phases: the era of elected civilian regime (1972 – 1975), the era of military and military-dominated rule (1975 – 1990), the era of democratic civilian governance (1991 – 2006), and the era of military-backed caretaker government (2007 – 2008). The general election held in December 2008 brought the country back to the democratic path.

Between 1972 and 1975, Prime Minister Sheikh Mujibur Rahman and the ruling Awami League (AL) adopted a parliamentary form of government, but pursued a command economy. Domestically, Bangladesh relied on a strong public sector and promoted a policy of nationalization to rebuild itself after the destruction of the war. The AL, which had been the main advocate of independence, became the dominant party. The foreign policy of the new state focused on close political and economic relations with India and the Soviet Union. The regime advocated a secular nationalist ideology and promoted a Bengali nationalism that emphasized the common historical and cultural background of all Bengalis, including those in the neighboring Indian state of West Bengal.

The military coup of August 1975 and the assassination of Mujibur Rahman resulted in a radical shift at both the domestic and international levels. The military government under General Ziaur Rahman (1975 – 1981) promoted Bangladesh's relations with the industrialized nations of the West, with the People's Republic of China and with the oil-rich Gulf countries. The new regime opened up the economy to foreign investment and announced an export-oriented policy in the 1980s. General Ziaur Rahman founded his own political platform in 1978 called the Bangladesh Nationalist Party (BNP). The BNP became the main competitor to the AL. The BNP emphasized a separate Bangladeshi identity and promoted a religious concept of nationalism that emphasized differences with the Bengali speaking community in India. In 1977, Islam was incorporated into the previously secular constitution for the first time. In May 1981, Ziaur Rahman was killed in Chittagong. An attempted transition to civilian rule failed, and in March 1982, General Ershad took power. With the creation of the Jatiya Party (JP) in January 1986, Ershad founded a vehicle for his own political ambitions. In 1988, a new constitutional amendment made Islam the state religion of Bangladesh. Ershad benefited from the personal rivalries between Sheikh Hasina (AL) and Khaleda Zia (BNP). During his rule, the role of the military in public institutions was strengthened. The era of military governance ended in December 1990, after a popular uprising.

The elections of February 1991 brought the BNP back to power under the leadership of Khaleda Zia. Power alternated between the BNP and the AL in elections held between 1991 and 2006, with the rigged elections of spring 1996 serving as a conspicuous dark spot. However, the AL was elected to power following a further poll in June 1996. The election of October 2001 brought another change of government, turning power over to the BNP and coalition partners that included religio-political parties such as the Jamaat-i-Islami (JI). Parties which favor an admixture of religion and politics have gained strength and influence since 1978. Islamist militant groups proliferated in the late 1990s and the early 2000s. In late 2006, the country

plunged into chaos as the outgoing government and the opposition parties failed to reach agreement on various issues, including who should lead the interim government an election was held.

Street agitation, violence and months of uncertainty led to the appointment of a military-backed technocratic caretaker regime in January 2007, under a constitutional provision enacted in 1996. The government attempted to reform institutions and a political culture which had caused uncertainty, corruption and acrimony during the 15 years of democracy. In the election held in December 2008, the AL emerged victorious with an unprecedented majority in parliament.

Bangladesh has experienced steady economic growth since the 1980s, and has made remarkable progress according to various social indicators such as the reduction of population growth and child mortality, and an increase in gender parity in primary education, to name but a few. Widespread corruption, patronage and the misallocation of resources have kept the country from making a more significant developmental leap.

Transformation Status

I. Democracy

1 | Stateness

Governments in Bangladesh still face great problems in exercising the legitimate use of force. Widespread corruption, partisan influence over the civil administration, and the availability of small, light weapons have caused a deterioration of law and order in recent years. These factors coexisted with the emergence of a well-organized network of Islamist militant groups such as the Jama'at-ul-Mujahedeen Bangladesh (JMB), smaller and highly dispersed left-wing extremist groups in various parts of the country, and extortionist groups supported by political elements. Since the execution of the JMB leaders in 2007, at least 100 members of JMB cadres have been arrested from various parts of the country. The law and order situation improved under the emergency rule promulgated in January 2007. Until political activities resumed in late 2008, political violence levels remained significantly low. After an initial downward trend in criminal activities, the number increased in 2008.

Monopoly on the use of force

Bangladesh has a sound basis for nation-building. Compared to its neighbors in South and Southeast Asia, the country has high religious and linguistic homogeneity, as over 98% of the people are ethnic Bengalis, predominantly Bangla-speaking, and 80% of the total population is Muslim. A peace accord signed between the government and ethnic rebels in the Chittagong Hill Tracts (CHT) in December 1997 brought an end to the insurgency, but the tension and conflicts between the indigenous ethnic minorities and Bengali settlers have yet to be resolved. About 300,000 so-called "Biharis" ("Stranded Pakistanis," according to the official lexicon), or those who opted to resettle in Pakistan after the 1971 war of independence, as well as their descendants, remain in a legal limbo. In 2008, the government allowed 15,000 of them to register as voters.

State identity

Bangladesh's first constitution, implemented in 1972, was secular. After the military coup of 1975, Islam was introduced into the constitution in 1977, and became the state religion with the addition of the Eighth Amendment in 1988. Popular Islam in Bangladesh is strongly influenced by liberal Sufi traditions.

No interference of religious dogmas

Islamist groups and parties have demanded the introduction of Islamic law (Shari'ah), but there is no significant popular support for such demands. Islamist parties such as the Jamaat-e-Islami (JI), which became part of the ruling coalition in 2001, tried to ban liberal Muslim sects like the Ahmadiyyas. Agitation by Islamist groups against the Ahmadiyya community, including a number of attacks on their mosques, took place between 2005 and 2007. No such incidents were reported in 2007 or 2008, primarily due to the promulgation of emergency rule. However, street agitation by the Islamists forced the government to retreat from plans to give women equal rights to hold property, and prompted the management of a Bengali daily to apologize and to fire the deputy editor of its humor supplement, for allegedly hurting religious feelings. Islamist groups have attacked a number of sculptures erected in public places, condemning them as un-Islamic.

Bangladesh has a basic administrative infrastructure throughout the country. Its operation is deficient because of a lack of resources, widespread corruption and patronage, and a politicized bureaucracy.

Basic
administration

2 | Political Participation

Bangladesh's political system features universal suffrage and the right to campaign for elected office. The general elections of 1991, June 1996, 2001 and 2008 were assessed as free and fair. The Bangladesh Election Commission (BEC) ensures that elections are run correctly. Voter registration, the presence of ghost voters on voter rolls, the influence of political parties on local administration during the election and the lack of independence of the election commission have been the electoral system's key problems. The political crisis of 2006 centered on many of these issues. Reconstituted in 2007, the election commission took steps to address some of these outstanding issues, including the voter registration process. The new voters' list with pictures, compiled by the commission with the help of the army, has been commended as a significant step towards ensuring fair elections. The caretaker administration remained neutral during the 2008 election, as it was a non-partisan government.

Free and fair
elections

Elected governments have the power to govern, in principle. However, between January 2007 and January 2009 the country was governed by a non-elected technocratic regime, under a constitutional provision that allows a caretaker administration to hold power between two elected governments. Interpretation of this provision, particularly in regard to the length of the caretaker administration, varies. Many insist that the clause only allowed the interim administration to hold power for 90 days. The armed forces were confined to barracks after the transition to democracy in 1990, but emerged as the country's most powerful institution in 2007. In the view of many in the international media, the army intervened sensibly, faced with a failing democracy. In the past two years the armed forces have played

Effective power to
govern

key roles in administration and in public life. Many analysts have speculated that the army might seek to remain in politics by forming its own party. Despite a peaceful transition from the caretaker administration to the elected government, the armed forces remain a significant force in the political process.

There are no significant de jure constraints on the freedoms of association or assembly. But the state of emergency, effective until the end of 2008, limited such rights. Various draconian rules were added to extant legal provisions, particularly in the form of the Emergency Power Rules of 2007 (with several amendments between 2007 and 2008). These rules provided far-reaching powers to law enforcement agencies. Political activities were completely banned until May 2008. The right to assembly was restored in late 2008. Violation of fundamental rights was rampant during the caretaker administration. But the caretaker government also established the Human Rights Commission.

Association /
assembly rights

Freedom of the press and freedom of opinion are guaranteed under the constitution. The media, both print and electronic, is diverse and vibrant. Newspapers tend to demonstrate a tilt toward a particular political party. Despite significant restrictions under the military-backed caretaker government, the media played a pivotal role in keeping the government in check, and contributed to raising awareness about democratic norms. The caretaker government also enacted, for the first time in the history of the country, the Right to Information Act. The number of journalists physically attacked or receiving death threats from political militants and criminals sharply decreased. But the number of arrests increased markedly. A television channel was forced to close.

Freedom of
expression

3 | Rule of Law

Traditionally, the executive dominates the political institutions. The Supreme Court enjoys a certain degree of independence vis-à-vis the executive. In the absence of a functioning parliament during the years under review, the executive exercised enormous power. All political parties during the election campaign promised to make the parliament the center of governance, but early indications following the election were not encouraging in this regard.

Separation of
powers

The caretaker government took significant and welcome steps in separating the judiciary from the executive, as originally stipulated by a 1999 Supreme Court order. However, this separation is not a guarantee of judicial independence. In addition, the separation order needs to be approved by the newly elected parliament. The main problems, such as the basis of judicial appointments, security of tenure, and the patterns of political patronage and interference are yet to be addressed. At the lower levels, courts are often subject to political interference and charges of corruption.

Independent
judiciary

Bangladesh is generally considered to be a highly corrupt nation. The country has been labeled as such for four consecutive years by Transparency International. It was common knowledge that officeholders tended to exploit their positions for private gain. The caretaker government launched a vigorous anti-corruption drive in early 2007, reorganizing the Anti-Corruption Commission (ACC). This resulted in the filing of hundreds of cases against politicians, businessmen and bureaucrats, many under the Emergency Power Rules (EPR). A significant number of individuals were convicted, which challenged the long-held public perception that powerful individuals were above the law and could act with impunity. However, many of these convicted individuals were later released on bail. Cases against many are pending and are dependent on the newly elected government's political will to pursue the anti-corruption drive.

Prosecution of
office abuse

Civil rights protections deteriorated during the period under review, in large measure due to the state of emergency. The security forces, especially the RAB, were engaged in extrajudicial killings, although the number of such incidents was smaller compared to 2006.

Civil rights

4 | Stability of Democratic Institutions

In principle, democratic institutions perform their functions. But the absence of a political culture of tolerance and compromise has prevented the proper functioning of democratic institutions. A key structural impediment to the institutionalization of democracy is the concentration of power, whether in the hands of one or two party leaders, in the case of parties, or one or two offices (such as the prime minister's office) for the state apparatus. Additionally, political interference, patronage networks and widespread corruption have weakened the foundations of these institutions.

Performance of
democratic
institutions

The major political parties and civic associations accept democratic institutions as the legitimate political order. The main potential veto players are radical Islamist groups and parties that want to replace the democratic system with an Islamic state. The army, as an institution, has accepted the leadership of elected governments thus far, although it wants to further its corporate interests and views itself as guardian of the state. A latent tension between the civil political institutions and the military exists.

Commitment to
democratic
institutions

5 | Political and Social Integration

The major political parties, such as the Awami League (AL), Bangladesh Nationalist Party (BNP), Jatiya Party (JP) and Jamat-e-Islami (JI), developed an established party base after the democratic transition of 1991. However, the major

Party system

parties (the BNP, the AL, and the JP) lack any internal democracy, while the JI's internal democratic practices are opaque at best. The main parties are sometimes wracked by internal divisions. The BNP faced several splits during the past two years, and the AL was torn by internal tensions after one group of leaders tried to democratize the party structure, leading to the group's marginalization.

The main parties are dominated by individual leaders and their families, such as Khaleda Zia (BNP), Sheikh Hasina (AL) and General Ershad (JP). Nepotism is present at almost every level of these parties.

The political reform measures pursued by the caretaker government between 2007 and 2008 attempted to curb this practice and encourage internal democracy, but with little real success. The parties registered with the BEC are now required to practice internal democracy and to allow the voices of grassroots members to be heard in policy-making processes.

The extensive polarization of Bangladeshi politics can be traced back to the bitter personal rivalries between Khaleda Zia and Sheikh Hasina. Their personal acrimony has frequently overshadowed true ideological cleavages.

Because of the polarization and politicization of Bangladeshi society, most interest groups are organized along party lines. As the Islamists have emerged as kingmakers within mainstream electoral politics, like-minded religious groups and educational institutions have gained greater influence. They aim to replace the democratic state with a religion-based political order.

Interest groups

The events of the past two years have renewed the commitment of the people to democratic norms. While people are critical of the quality of political leadership and the extant party system, their commitment to democratic norms is unwavering. Opinion polls, public discourse and the high voter turnout in the general election of 2008 are testimony to this commitment.

Consent to democratic norms

Bangladesh has a great variety of social organizations. Many NGOs are active in rural areas, and provide programs for alleviating poverty, empowering marginalized groups and women, health training and basic education. NGOs such as the Bangladesh Rural Advancement Committee (BRAC) have established a country-wide network of branches. Some NGOs, such as the Grameen Bank and its microcredit banking program, have received international acclaim. In a few cases, NGOs have been prosecuted because of alleged political activities. In rural areas, Islamic organizations have begun to establish networks which often work against secular NGOs that promote women's rights. In recent years, the government has tried to control the international financial support for NGOs. Financial support for religious organizations with close ties to ruling religious parties is not controlled in the same way.

Associational activities

II. Market Economy

6 | Level of Socioeconomic Development

Despite an uninterrupted period of high growth in recent years, socioeconomic development has not been an unambiguous boon for the majority of the population. According to the most recent figures, 40.0% of the population lives under the poverty line. UNDP figures indicate that 41.3% of the population lives on less than \$1 a day, with 84.0% living on less than \$2 a day. Female economic activity accounts for 52.7% of the economy, but females earn less than half the income of their male counterparts. Rural areas still lack basic health care facilities and educational institutions. Thirty percent of the total population is still regarded as undernourished. Only 39% of the population had sustainable access to improved sanitation in 2004. Minorities and women are disproportionately affected by structural underdevelopment.

Socioeconomic
barriers

Economic indicators		2004	2005	2006	2007
GDP	\$ mn.	56560.7	60277.6	61901.1	68415.4
Growth of GDP	%	6.3	6.0	6.6	6.4
Inflation (CPI)	%	9.2	7.0	6.8	9.1
Unemployment	%	-	4.3	-	-
Foreign direct investment	% of GDP	0.8	1.3	1.1	1.0
Export growth	%	12.5	15.6	25.8	13.0
Import growth	%	10.6	19.1	18.2	16.0
Current account balance	\$ mn.	-278.7	-176.2	1196.1	856.9
Public debt	\$ mn.	19186.4	17922.6	18836.3	20150.5
External debt	\$ mn.	20129.0	18919.4	20490.8	22033.4
Total debt service	% of GNI	1.1	1.3	1.1	1.1

		2004	2005	2006	2007
Cash surplus or deficit	% of GDP	-0.7	-1.1	-1.4	-1.3
Tax Revenue	% of GDP	8.1	8.2	8.2	8.0
Government consumption	% of GDP	5.5	5.5	5.5	5.5
Public expnd. on edu.	% of GDP	2.2	-	2.5	2.6
Public expnd. on health	% of GDP	1.0	0.9	1.0	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	1.2	1.2	1.2	1.2

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

The country has developed strategic sectors such as the ready-made garments industry, which was supported by the state but with a key role played by private entrepreneurs. Apart from this strategic sector, the majority of Bangladeshis are still employed in the agricultural and informal sectors of the economy. Bangladesh faces problems in the economic sector that could decelerate economic growth and destabilize the economic framework. Power shortages are a growing problem, and the country has not implemented needed reforms in the power sector. Increasing oil prices and fierce competition in world textile markets are also major concerns.

Market-based competition

The formation of monopolies is regulated in an inconsistent manner.

Anti-monopoly policy

Bangladesh has pursued a policy of trade liberalization and export promotion. In 2006 – 2007, manufactured exports accounted for 92.1% of merchandised exports, with the vast majority being ready-made garments. A high priority has been put on export diversification and import liberalization in recent years. The South Asian Free Trade Agreement (SAFTA), signed by members of South Asian Association for Regional Cooperation (SAARC) and implemented in July 2006, has achieved very little success in the past two years. Intraregional trade accounts for only 5.5% of Bangladesh's total trade. The expansion of trade with India is still hampered by domestic political discussions, including those regarding gas exports and transit trade.

Liberalization of foreign trade

State control of the economy, once tight, has been relaxed in recent decades. The banking sector experienced a gradual relaxation of control, and has consequently been growing in recent years. However, the state-owned commercial banks (SCBs)

Banking system

still undermine the efficiency of the system. According to the International Monetary Fund, private banks grew rapidly in fiscal year 2008, and their financial soundness strengthened. However, the SCBs, which account for over 30% of total banking sector assets, remain mainly moribund, with negative capital and high (30%) non-performing loan ratios. The caretaker government accelerated economic and sectoral reforms in several areas where previous governments had difficulty moving forward for political reasons. Examples include completing the privatization of the Rupali Bank, and approving corporatization of the remaining three state-owned commercial banks. The Grameen Bank and local savings societies play an important role in rural areas by extending microcredit loans to the poor. They often offer better loan repayment terms than do the state-run banks.

8 | Currency and Price Stability

The government has attempted to control inflation. Since the 1990s the average inflation rate has been about 5.6%, remarkably low compared to the second half of the 1980s, when the rate was about 8%. Inflation averaged 7.2% in fiscal year 2007, primarily due to rises in both food and nonfood prices. Among the main causes were domestic demand pressures, fed by higher incomes and strong monetary and credit growth. However, after June of the same year, escalating international commodity prices, especially for food, were dominant, driving inflation to 11.4% (year on year) in January 2008. Near the end of fiscal year 2008 food prices moderated, thus allowing point-to-point inflation to drop to 7.5% percent in May.

Anti-inflation /
forex policy

The exchange rate remained stable, but growth in monetary aggregates has started to increase. Available reports show that money growth fell in mid-fiscal year 2008, but subsequently picked up again, with broad and reserve money growth exceeding 17% in May 2008.

The caretaker government has been applauded for accelerating the macroeconomic policy reforms.

The government has developed a culture of stability that is strongly supported by the international donor community. But because of the volatility of the political process, there are hardly any institutional safeguards that would strengthen an independent culture of stability.

Macrostability

9 | Private Property

The right to own property is safeguarded by law. However, implementation problems are especially acute in rural areas, where patronage networks linking landowners, the police and state bureaucrats make it difficult for peasants and

Property rights

minorities to assert property rights.

The privatization of state companies is progressing slowly. Close ties between political parties and the unions have delayed necessary reforms.

Private enterprise

10 | Welfare Regime

Social safety nets exist for only a very small section of society, mainly in the government sector and parts of the corporate sector. For many years, the government has promoted poverty alleviation programs with the support of the international donor community. Local NGOs have also initiated social safety net programs, but only on a limited basis.

Social safety nets

Despite the fact that two female leaders have dominated Bangladesh's political landscape since the 1991 democratic transition, and that 45 parliamentary seats are reserved for women, equal opportunity is far from reality for most women. The caretaker government's attempt to introduce equal property rights by means of a women's development policy was blocked by the Islamists. The government also lacked the political support needed to bring about such a dramatic change. However, some gradual societal changes are taking place. Eighteen women candidates were elected to the parliament in 2008, the highest number since independence. Altogether, 63 women members will be serving in the ninth parliament. One of the two elected vice chairs of local upazila (the lowest level of administrative government) councils has to be a woman. They are elected by means of direct elections. Public offices and the civil service have a very small proportion of ethnic and religious minorities as employees.

Equal opportunity

11 | Economic Performance

Bangladesh's economic performance in fiscal year 2008 showed considerable resilience, despite global economic challenges and domestic natural disasters. Two devastating floods and a cyclone, as well as a tidal wave, hit the country in the first half of fiscal year 2008. The combined loss was estimated at \$2.8 billion, or about 4% of GDP. Yet the country's economy maintained a performance consistent with previous years. In the years under review, the momentum for growth continued and international reserves increased despite severe import pressures. Overall GDP growth rates were high. The GDP growth rate was 6.5% in 2007 – 2008. Rising inflation, high levels of underemployment, and budget and trade deficits remained the main concerns for the economy. Strong growth in overseas workers' remittances has provided a cushion to the external balance.

Output strength

12 | Sustainability

Environmental concerns are a high priority in certain areas, with particular need for protection against natural disasters such as flooding and hurricanes. In the industrial manufacturing sector, environmental protections are mostly inadequate.

Environmental
policy

Public expenditure on education was 2.7% of GDP in 2005. There are no comparable figures available for investment in research and development. Net primary enrolment has reached 94%. The bulk of public expenditure is 49.5% for the secondary level.

Education policy /
R&D

Transformation Management

I. Level of Difficulty

Bangladesh continues to present a development paradox, as it has achieved considerable social gains and a reasonably impressive economic performance in the past decade, although the quality of its governance is rated as very poor by almost every standard. However, the country has made efforts to improve its overall governance environment. Areas such as public administration, public financial management, the judicial system, and watchdog institutions are considered the core of the governance system, and efforts are underway to make improvements in these areas. Overall, the country faces several structural impediments to reforming the governance system. These include a high level of poverty, absence of a national consensus on reform measures and their prioritization, an adverse climate, lack of physical capital, and a clientelistic political system.

Structural
constraints

Bangladesh has a considerable tradition of civil society associations. There are numerous NGOs, especially in the rural areas. They are engaged in empowerment programs for marginalized groups, poverty alleviation, and health care and education. Islamist groups have also started their own NGO networks and religious institutions to propagate Islam. NGOs like BRAC have developed into national institutions. The Grameen Bank has received international acclaim, including a Nobel Peace Prize, for its microcredit lending program.

Civil society
traditions

Political polarization between the two major parties is high and often detrimental to social progress and democratic processes. The acrimonious relationship between political parties and their leadership encourages intolerance and social conflict. Ethnic and religious conflicts are limited thanks to the population's homogeneity, but low-intensity conflict between radical leftist and Islamist militant groups continues to pose a threat to law and order and national security. Armed insurgencies in nearby regions including northeastern India and Myanmar have already spilled over to Bangladesh, and are drawing the country into their conflicts.

Conflict intensity

II. Management Performance

14 | Steering Capability

Bangladesh's political parties and institutions, whether civil or military, have demonstrated very limited capability with regard to steering or managing transformation. The experiences of the past two years (2007 and 2008) bear testimony to this weakness. The events leading to the declaration of the state of emergency in January 2007 showed that the political leadership is either unable or unwilling to act on the basis of a long-term perspective. The caretaker government led by Fakhruddin Ahmed, former head of the central bank, promised to bring structural changes necessary for a sustainable democracy and waged a vigorous campaign against corruption. However, despite its best intentions, the interim government failed to implement some fundamental institutional reforms. The absence of tools (such as a political party) to mobilize popular support for a reform agenda was a major factor behind this limited success, but the inability to prioritize issues or devise strategies for change contributed in equal measure. Two elements of the current situation reveal glimmers of hope, however. First, the need for a qualitative change in political culture was the rallying cry of the electorate in the 2008 election. Second, power was in fact transferred peacefully to the elected regime. Both events have serious implications for the country's future.

Prioritization

The government is committed to democracy and a market economy. However, the persistence of political polarization, widespread patronage and corruption have constrained successive administrations' success in implementing enduring reforms.

Implementation

The political polarization, acrimonious relationships, a culture of intolerance and personal rivalries between two major parties, particularly between two key leaders, Sheikh Hasina and Khaleda Zia, have hampered political and economic development over the past decade and a half. The experience of the past two years has yet to be transformed into policy. Structural changes in politics, an institutionalization of democratic norms, a continued fight against corruption at all levels, and the establishment of accountability and transparency in governance all remain necessary. However, these issues have gained salience in public discourse.

Policy learning

15 | Resource Efficiency

Resource efficiency is still low. Despite the anti-corruption drive of the caretaker government, corruption has remained high in several sectors, including the judiciary

Efficient use of assets

and the police. It has decreased in some sectors, however. Levels of patronage and rent-seeking were remarkably low during the period under review, due to the absence of a political regime. The government insisted that it is acting in a transparent manner, but as a non-political and unelected regime there was little true government accountability. The administration made several attempts at decentralization, including the approval of a number of laws aimed at ensuring that decentralization would continue under future political regimes. The interim government insisted on holding elections for upazila councils (sub-district-level elected councils) before the general election. In the face of stiff resistance by political parties, these local elections were instead pushed to a date after the general election. The new AL regime has already backtracked on its election promise to continue the decentralization process. Local self-government is a case in point. The caretaker government introduced a law that provided local upazila councils autonomy, and made them free of partisan influence. But the AL government has changed the law in ways that once again give local parliamentary members a decision-making role.

Coordination within the government is not pursued in a coherent manner. This was a significant problem in 2007. The reshuffling of the Council of Advisors in early 2008, and the appointment of a number of assistants to council members improved coordination among the ministries. Ministers often pursue their own interests, but the Prime Minister's Office ensures overall coordination in policy matters.

Policy
coordination

One of the defining features of the caretaker government in 2007 and 2008 was the high-profile anti-corruption drive. The Anti-Corruption Commission (ACC), set up in February 2004, remained ineffectual for several reasons, including the absence of institutional autonomy, the politically motivated appointments of commissioners, and government control over the commission's budget and administrative power. Its jurisdiction was also limited by rules that prevented access to banking, finance, money-laundering and foreign exchange records, or to the internal activities of multinational corporations. The interim government addressed these inadequacies in February 2007 by reorganizing the ACC and amending the Anti-Corruption Act of 2004. In the last general election, all political parties, including the Awami League, committed to maintaining the independence of the ACC.

Anti-corruption
policy

16 | Consensus-Building

There is general support among the main political parties for the establishment of a market-based democracy in Bangladesh. Islamist parties such as Jamaat-e-Islami (JI) are exceptions, with the avowed goal of establishing an Islamic state.

Consensus on goals

There are some potential veto actors in Bangladesh. Islamist parties such as Jamaat-e-Islami (JI) are not regarded as strong veto actors, even though they pursue a non-

Anti-democratic
veto actors

democratic ideology. The popular base of Islamist parties is limited and does not exceed 5% of the electorate. The army seems to be committed to democratic practices. They remained confined to barracks until early 2007. The military transferred power to the elected regime in January 2009, despite the fears of many analysts to the contrary. The participation of Bangladeshi troops in U.N. peacekeeping missions is regarded as a positive constraint on the involvement of the armed forces in politics.

The political leadership exacerbates existing political cleavages between the BNP and the AL, as a result of the bitter personal rivalry between the two parties' leaders.

Cleavage /
conflict
management

Some civil society organizations are actively involved in political debates. Because of the weakness of the state apparatus, they are active in various social and economic contexts. The government has tried to control the activity and financial support of some of the larger international NGOs.

Civil society
participation

Past injustices, such as the military's 1975 assassination of Mujibur Rahman, leader of the AL and father of Sheikh Hasina, and the role of the JI during the liberation war of 1971, have still not been properly addressed. There are allegations that Zia-ur Rahman, who was Khaleda Zia's husband and was later assassinated by army officers himself, was involved in Mujibur Rahman's murder. The new government has promised to bring those who perpetrated war crimes during the liberation war to trial.

Reconciliation

17 | International Cooperation

The government works closely with the international community in various forums. The scope and structure of the cooperation has changed over time. The country is no longer dependent on external aid, and has emerged instead as an active participant in the global economy. However, development partners still play a significant role in shaping domestic policy. This cooperation has greatest potential for success in natural disaster management, and alleviation of poverty for the country's poorest citizens.

Effective use of
support

The caretaker government enjoyed considerable support from the international community throughout its entire rule, although it was an unelected government. Occasional criticisms of the government focused on its poor human rights record, and in particular the extrajudicial killings of the time. The international community also insisted that the democratic process be restored, so that the uncertainties associated with any unelected government are removed. The free and fair election held in December 2008 was described as a major achievement of the government and was welcomed by the international community. The assumption of power by an

Credibility

elected civilian administration paves the way for long-term partnerships with the international community, in economic and other fields.

Almost a quarter of a century has passed since the founding of the South Asian Association for Regional Cooperation (SAARC), yet very little has been achieved in terms of sustained cooperation among the South Asian countries. Domestic politics and the security perceptions among these countries' political elites are the key impediments in this regard. The strained relationship between two large countries, India and Pakistan, has influenced the trajectory. The Indo-Bangladesh relationship was uneventful during the period under review, although perennial issues surfaced intermittently, such as Indian allegations of illegal migration from Bangladesh, or accusations that Bangladesh is harboring Indian militants within its borders. Bangladesh has rejected these allegations, and has alleged that it is being used as a scapegoat by the Indian administration. The construction of the Tipaimukh dam on the Barak River in Indian state of Assam, upstream of the Meghna River in Bangladesh, is a matter of serious concern for Bangladesh. The charges and countercharges stem in part from domestic political environments in both countries. The major issue of contention is the transit agreement through Bangladesh for the northeastern states of India. Previously, the BNP regime declined this request, and alleges that the AL will comply with it at the expense of the nation's security.

Regional
cooperation

A slight recent improvement in the relationship between Bangladesh and Myanmar did not last long. Tensions rose in November 2008 linked to maritime border issues, particularly when Burma sent naval vessels to escort a Korean company exploring for oil and gas about 50 km (30 miles) south of Bangladesh's Saint Martin Island. Both sides accused each other of violating the international border. In early 2009, the United States assured Bangladesh of its support in patrolling its sea borders. Also contributing to the tension are the Rohingya refugees from Burma's Arakan State, who have taken to the Bay of Bengal in open boats in search of a new home. Thousands of Rohingyas have taken refuge in Bangladesh over the course of the last decade, and have used Bangladeshi soil as a staging ground for an insurgency. The South Asia Free Trade Area (SAFTA) signed in 2006 did not bear fruit. The "Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation" (BIMSTEC) Initiative extends the scope of cooperation among the countries in the region, but the political will required for genuine implementation is lacking in the various member countries.

Strategic Outlook

The economic growth and impressive gains in several social indicators over the past decade point to Bangladesh's enormous potential. These achievements have been made despite poor governance, an adverse domestic political environment, lack of infrastructure and repeated natural calamities. However, these accomplishments cannot be sustained for long if the political leadership fails to address deep-seated problems. Four issues warrant attention and action. First, a qualitative change in the political culture is needed. The acrimonious politics, with utter disregard for national interests, has cost the nation dearly in recent decades. It is evident from the past two years (2007 and 2008) that reforms in major institutions, including political parties, can facilitate this transformation. Sustained efforts with clear objectives and well-devised strategies can bear results. This effort must be initiated from within, but external support is imperative for its success. Secondly, political violence including militancy must be addressed comprehensively. The sources of extremism need to be identified and addressed, a task as important as confrontation of the militants. The culture of impunity, political patronage, and the inflow of weapons are the three key factors supporting the thriving violence today. National, regional and extra-regional actors are involved in support of the conflicts. Therefore, the issue cannot be left to a single set of actors, whether national, regional or international, for resolution. Thirdly, infrastructure improvement, particularly road networks and electricity supply, is a sine qua non for moving the country forward both in the short and long term. Fourth, diversification of the economy and the expansion of educational opportunities to create skilled human resources, better prepared to serve new economic demands, are crucial to the country's long-term future. Limited spending on education, which has led to a decline in attendance and in the quality of education, must be arrested. Success in this arena will set the country on the path of sustainable development.