Bangladesh:

Country Private Sector Diagnostic

EXECUTIVE SUMMARY

APRIL 2025

About the Country Private Sector Diagnostic

The private sector is the engine of long-term economic growth and a vital catalyst for global social and economic development. When functioning well, the private sector promotes innovation and entrepreneurship, improves access to and the quality of economic opportunities, and supports the sustainable use of natural resources. In developing economies, the private sector creates most jobs, generates tax revenue, and accounts for significant investment.

The revised Country Private Sector Diagnostic (CPSD) reports seek to unlock private sector–led growth and investment. Prepared jointly by the institutions of the World Bank Group, each report discusses the overall business environment within a country and provides an analysis of specific sectors in which private sector investment could accelerate growth, if appropriate policy and regulatory issues are addressed.

Designed from the perspective of an investor or entrepreneur, this new generation of reports seeks to identify untapped private investment opportunities and the barriers that stand in the way (earlier reports can be found at https://www.ifc.org/en/insights-reports/private-sector-diagnostic). The sector opportunities are chosen based on their potential to spur private investment, create jobs, generate domestic revenue, and foster sustainable, inclusive growth, in response to targeted policy action. The report aims to help country policymakers prioritize the most impactful actions that can boost private sector growth, while delivering on broader development goals.

The CPSD is one of the World Bank Group's core country diagnostics produced to guide the design and implementation of public and private investment projects, budget support operations, advisory services, and other analytical work. It is intended to be of interest to domestic and foreign business investors, government officials, World Bank Group staff and management, civil society, and other development partners.

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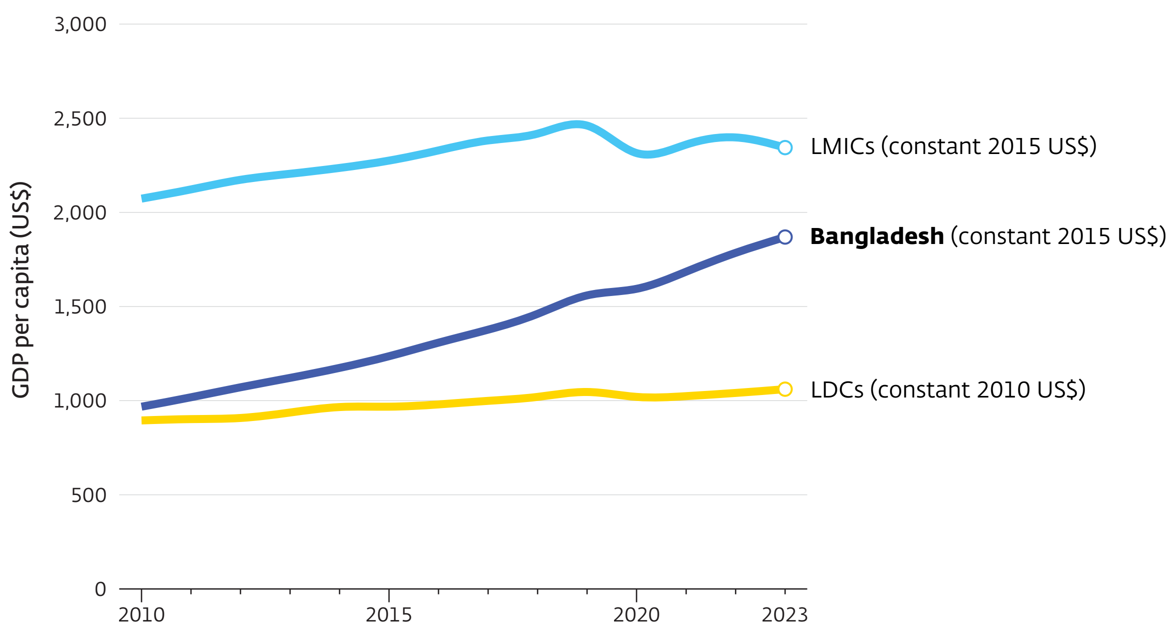
Executive Summary

Bangladesh achieved remarkable progress in economic growth, poverty reduction, and human development over the last two decades.

Stable macroeconomic conditions supported by steady remittance inflows and expansion of ready-made garments (RMG) exports for most of the period underpinned average annual real gross domestic product (GDP) growth of 6.4 percent between 2010 and 2023 (figure ES.1). Poverty and extreme poverty declined by 20 and 7 percentage points to 30 percent and 5 percent, respectively.[1] While these achievements remain, the pace of poverty reduction and of job creation have slowed, particularly in rural areas and among women, and spatial disparities and urban inequality have widened. After a wave of protests led to

Figure ES.1

Bangladesh's real GDP per capita has grown significantly, faster than other LDCs and closing the gap with LMICs



Source: World Bank Group's World Development Indicators.
Note: LDCs = least-developed countries; LMICs = lower-middle-income countries. GDP per capita reported in US$ at constant 2015 prices for Bangladesh and LMICs. LDCs are reported at constant 2010 prices.

the resignation of the former Prime Minister and forced out the party that had been in power for 15 years, an interim government took over in August 2024. Uncertainties related to the transition have greatly augmented pre-existing challenges faced by private investors due to a legacy of poor corporate governance, protectionist policies, energy shortages and weaknesses in the financial sector. The net result has been a sharp deceleration in economic growth and a wait-and-see attitude among investors.

Recent challenges aside, Bangladesh will also need to anticipate its eventual graduation from least-developed country (LDC) status to developing country status.[2] Expected graduation from LCD status comes with challenges for Bangladesh. LDCs benefit from trade preferences such as duty-free access to developed markets, which are gradually removed upon graduation. If Bangladesh moves on from LDC status in 2026, as expected, it will lose those trade preferences in 2029. To remain competitive, the country's private sector will need to become more productive which will require it to attract new investment, which in turn will require improvements its business environment.

The interim government is working to restore macroeconomic stability and protect jobs and development gains. Bangladesh's post-COVID recovery continues to be impacted by high inflation, balance of payments deficits, financial sector vulnerabilities, and increasingly limited job opportunities, especially for women and educated youth.[3] But the authorities recently undertook bold exchange rate reforms resulting in a significant exchange rate realignment.[4] The fiscal deficit has been contained below 5 percent of GDP, largely by compressing public investment, including in critical infrastructure. Despite recent efforts to strengthen the regulatory framework, the banking sector is vulnerable. The ratio of non-performing loans rose from 10 percent at end 2023 to 20 percent in early 2025,[5] with vulnerabilities concentrated in state-owned commercial banks (SOCBs).[6] Compounding this are other factors including contingent liabilities in other state-owned enterprises, a low revenue-to-GDP ratio, and evidence that GDP was systematically overstated overall several years.[7] This points to greater fiscal vulnerabilities than might be suggested by the public debt-to-GDP ratio estimated at 39 percent in 2024.

Bangladesh's corporate bond market is small, illiquid, and dominated by government securities with minimal participation by institutional investors. As of January 2025, there were only 16 corporate bonds listed on the Dhaka Stock Exchange versus 234 government bonds. While recent reforms have improved primary market pricing and transparency, the secondary market is underdeveloped and illiquid. Limited investment, due to a nascent pension sector and high-risk aversion among local investors with longer-term liabilities profiles, further hinders bond market growth.

The equity market is somewhat more developed, with 728 listed firms as of January 2025, but remains fairly illiquid. Stock market capitalization stood at 25.5 percent of GDP at end-2023, low compared to South Asia (34 percent) and lower-middle-income countries (28 percent). Investor confidence is weak due to economic uncertainty and vulnerabilities in SOCBs. Additionally, as monetary policy has tightened in recent years, large numbers of retail investors have exited the equity market in favor of high-yielding short-term debt securities.

Despite current turbulence, Bangladesh's underlying fundamentals are strong. Bangladesh is set to see substantial population (and labor force) growth over the next two decades, surpassing other middle-income countries (figure ES.2). The resulting rapid growth in domestic demand is expected to increase opportunities for private investors in a range of sectors, including manufacturing, housing construction, consumer goods, and services. Moreover, the ready-made garments sector demonstrates that with the right policies, Bangladesh can successfully export manufactures and attract foreign direct investment (FDI). It will need to do this in more sectors to create jobs for the many young Bangladeshis entering the labor force.[8] An unemployment rate of 28 percent among youth with tertiary education testifies to a growing mismatch between the competencies of graduates and the skills demanded by employers.[9] Without reforms to catalyze a new round of private sector–led growth, Bangladesh is at risk of wasting part of its demographic dividend.

To encourage private sector investment, Bangladesh needs to tackle several obstacles to its business environment. Firms cite electricity shortages, access to finance, corruption, and competition from the informal sector as major obstacles (figure ES.3). These obstacles have restricted the ability of promising small- or medium-sized firms to grow. Most sectors are dominated by a few large business groups. Promising small firms struggle to grow, and weak large firms fail to shut down.[10] Electricity shortages can be overcome by firms installing their own electricity generators that require large investments by the company itself.

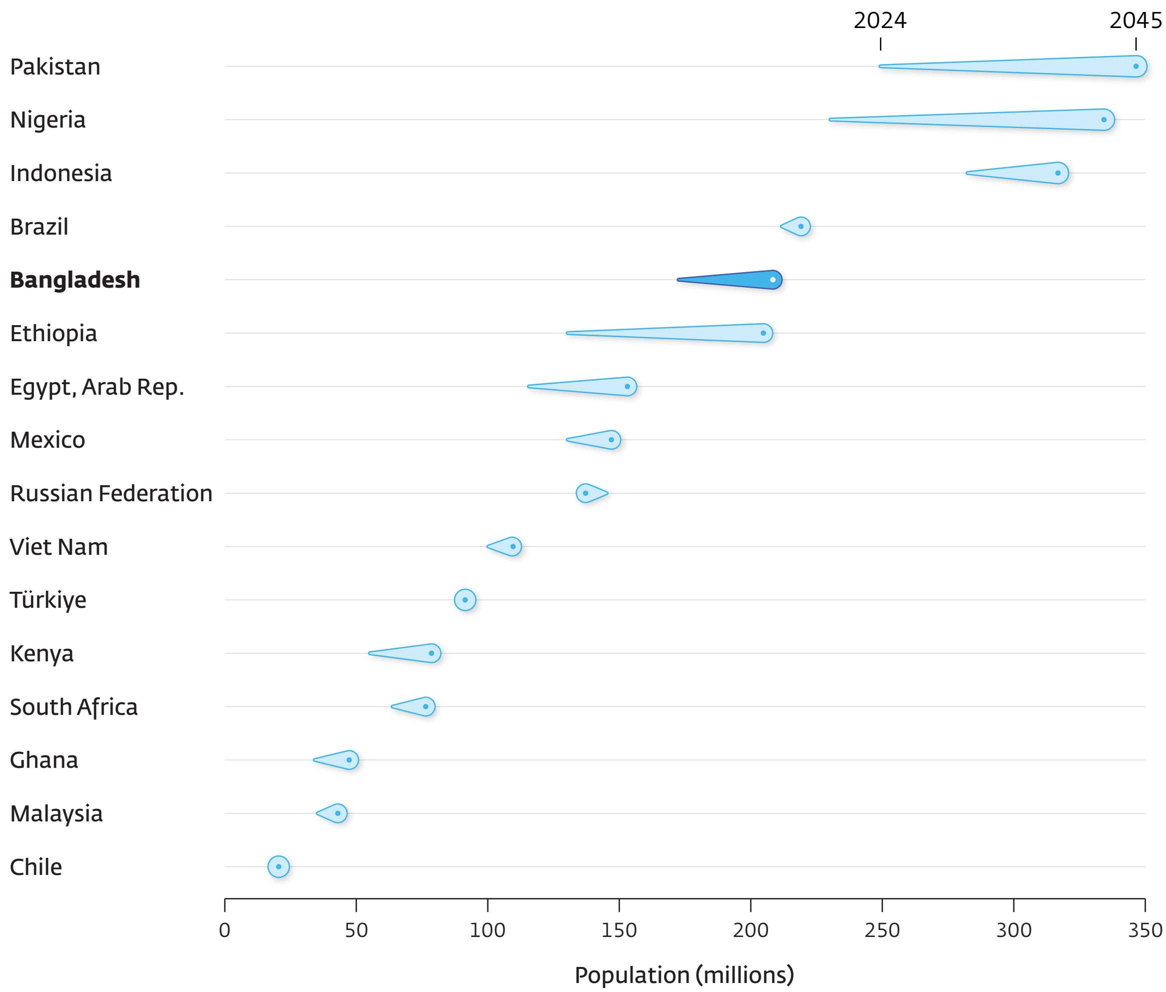
Corruption is also a major obstacle to doing business for firms operating in Bangladesh. According to the Worldwide Governance Indicators,[11] Bangladesh is in the 15th percentile globally, for "control of corruption" and compares unfavorably with the rest of South Asia. Bangladesh has *de jure* anti-corruption policies and regulations, but their enforcement has been lacking.[12] It is notable that the interim government has pledged to improve governance and transparency and made this one of their core objectives.

In addition, Bangladesh needs to overhaul its customs procedures and tariff structure. Bangladesh scores 2.6 on a five-point scale in the Logistics Performance Index (2023) with a 2.3 score in customs, indicating an overall rank of 88 and customs rank of 101 out of 139 countries. Long clearance times can lead importers to stockpile inventory which can be costly. Bangladesh continues to use tariffs as a primary trade policy instrument and a major revenue source. The average most-favored nation tariff in 2023 was 14.1 percent, but including supplementary and regulatory duties, effective protection rates on imports rise to approximately 30 percent.

Figure ES.2

Bangladesh is among emerging economies with rapidly growing populations that need to generate new opportunities for private investment

Bangladesh and middle-income country comparators,* population projections



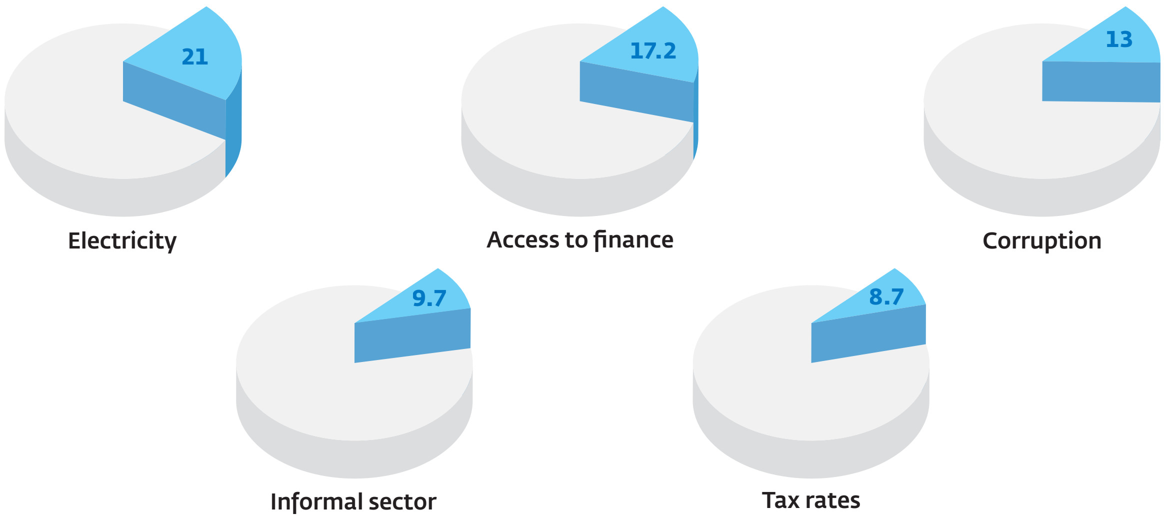
Source: United Nations World Population Prospects.
* This report benchmarks Bangladesh against structural and aspirational comparator countries as identified in the World Bank's (2022a) Bangladesh Country Economic Memorandum, other World Bank Group reports, and team consultations.

This CPSD analyzes opportunities for profitable private investment in four sectors, where reforms could serve as a signal of commitment to a more transparent and competitive economic model. These sectors are green ready-made garments (RMG), housing for middle-income households, paint and dyes, and digital financial services. Although these are by no means the only sectors that could contribute to the country's development, they were chosen as the focus of the CPSD based on the relative maturity

Figure ES.3

Top five business environment obstacles

Share of firms choosing it as a top obstacle (%)



Source: World Bank 2022b.

and political ease of the reform agenda. Rapid progress in these four sectors could catalyze investor interest, including from abroad, and serve as a signal that Bangladesh is open for business. The trajectory of the recommended policy actions—particularly with respect to regulatory reform and governance (including of SOCBs)—has relevance across to the economy more broadly. Moreover, improvements in the business environment in these four sectors could motivate reforms in industries with upstream and downstream linkages, thereby starting a virtuous cycle of structural reforms that can help Bangladesh address its jobs and productivity challenges.

Green Ready-Made Garments

Bangladesh is the world's second-largest exporter of textiles, after China. The textile sector draws more foreign investment than any other and accounts for 85 percent of the country's exports, mostly destined for the European Union. Its position as a leading FDI destination and exporter will be threatened once Bangladesh graduates from LDC status and loses its automatic duty-free access to the European Union (EU) (figure ES.4). Loss of trade preferences is expected to result in a decline in exports by 14 percent according to the World Trade Organization (WTO).

For Bangladesh to retain market access, it will need to meet the conditions of the EU's Generalized Scheme of Preferences Plus (GSP+), which require improvements in

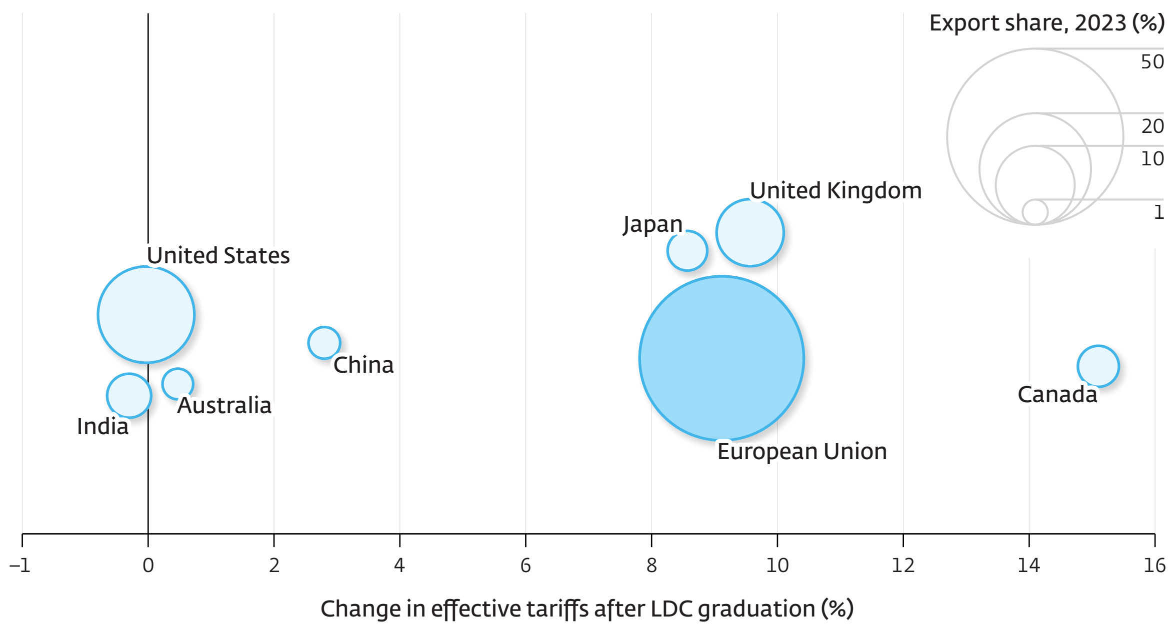
labor and environmental standards. In addition to GSP+, regulations such as the EU's *Corporate Sustainability Due Diligence Directive* require firms selling to the EU to adopt more stringent sustainability practices. Meanwhile, there is growing consumer preference for environmental, social, and governance–compliant products with major apparel brands having strengthened their sustainability commitments.

These shifts can attract private investment to help firms maintain market access and strengthen competitiveness. To remain competitive, the RMG sector must invest in advanced technologies to meet the increasingly stringent environmental and labor standards of major markets. One way of doing this by diversifying into man-made fibers (MMF) products, which require less water and have lower greenhouse gas emissions than traditional cotton products.

To attract private investment to the sector, Bangladesh will need more coherent import and export policies. For example, equalizing the duty for solar inverters (currently 37 percent) with the duty for solar panels (currently 1 percent) could encourage more solar investment in RMG factories. And rather than offering a cash incentive to export the polyethylene terephthalate bottle and flake used in MMF, manufacturers could be encouraged to use them to develop a domestic MMF production industry.

Figure ES.4

The immediate effect of LDC graduation will be higher tariff rates in Bangladesh's major export markets and lower exports



Source: World Bank 2022a.
Note: Export share refers to share of exports to a given destination as percent of total exports from Bangladesh.

Housing for Middle-Income Households

A growing number of middle-income households and rapid urbanization are driving demand for housing in Bangladesh, but supply remains constrained by land shortages, the cost of construction materials, and a complex and fragmented regulatory framework. Bangladesh's urban population grows by about 2 million people per year, while only about 30,000[13] housing units are supplied annually by formal sources in urban areas. Currently, private developers target high-income housing while the public sector focuses on social housing for low-income households. That leaves an opportunity to provide housing to the large and growing middle-income segment, particularly those in the 70th to 95th income percentiles, with potentially significant knock-on effects for consumer spending and job creation. However, high costs of land and construction materials (many of which are imported and subject to tariffs) push up prices.

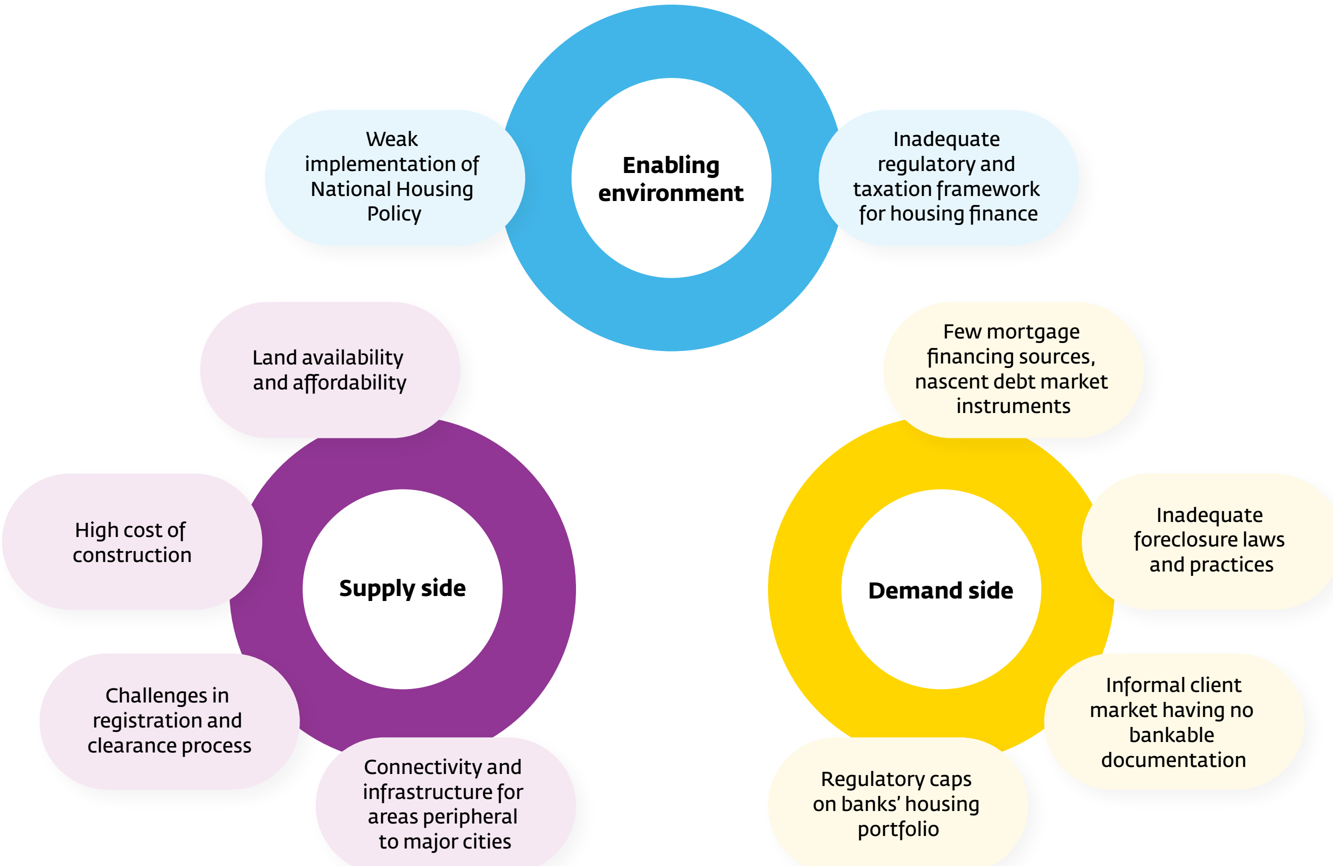
Bangladesh's housing sector faces significant challenges due to a fragmented regulatory framework and complex property transaction process. Complex legal requirements, unclear land titles, extensive paperwork, and bureaucratic delays make property transactions time-consuming and complicated for both buyers and sellers. Interest from foreign investors has been met by resistance from domestic housing interests (figure ES.5).

Home ownership is limited, with the majority of households residing in rental housing. This is partly due to structural challenges in the financial sector. Most bank deposits are short-term—a common trait in developing countries—which restricts banks' ability to offer medium and long-term mortgage loans. Additionally, the bond market is underdeveloped, limiting alternative funding sources. Establishing a mortgage refinance company could incentivize banks to provide more housing loans, while encouraging the financial sector to introduce affordable home financing products could facilitate the development of the mortgage market. Simplifying the foreclosure processes would also lower the costs and risks of mortgage lending, making homeownership more attainable for the middle class.

This report recommends that, among other things, the government spurs the housing market by making available its significant stock of vacant land at the periphery of urban areas for private development of housing. Improving infrastructure in exurban areas could enhance the commercially viability of housing development. A land bank, organized by the Bangladeshi Ministry of Land, could bring more transparency to land acquisition, as would digitizing the land registration process. Allowing developers to build smaller apartments could enhance the profitability of serving this segment of the housing market. And revising building codes to allow "green bricks," which are cheaper and more environmentally sustainable than traditional bricks, would lower building costs.

Figure ES.5

Private investments in housing are hampered by regulatory, supply side, and demand side constraints



Source: Team analysis based on research validated by expert interviews.

In a scenario modeled in this report, implementing the recommended reforms could increase annual construction by approximately 150,000 units per year.[14] This would create investment potential estimated at approximately US$2 billion annually for various financial entities, including banks, non-banking financial companies, and microfinance institutions. Supporting these housing loans could result in the creation of more than 2 million jobs[15] in construction and related industries each year.

Paint and Dyes

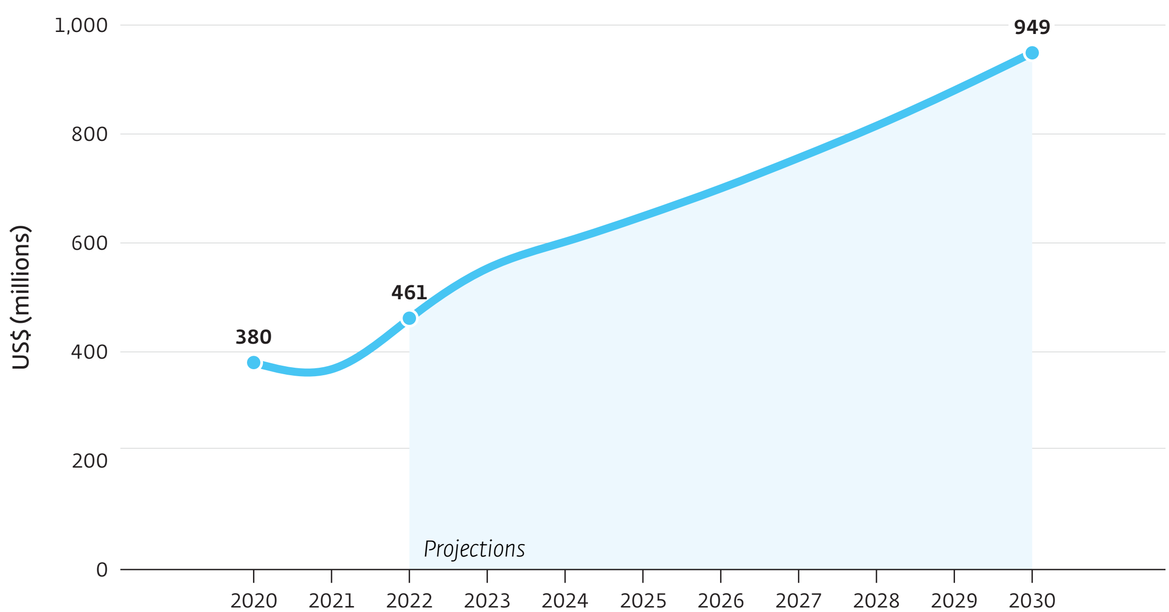
Demand for paint in Bangladesh is expected to grow in line with rapid urbanization, income growth, and construction demand, while demand for dyes is set to grow in line with the vast garment industry (figure ES.6). Indeed, with the right policy changes, including easing restrictions on the imports of raw materials used in dye production, there is ample scope for substituting expensive imported dyes for the RMG industry with domestic production. For paints, facilitating raw material imports could lower production costs, as imports account for up to 60 to 70 percent of total input costs.[16]

Both products suffer from complex and burdensome import rules stifling domestic production. For instance, complicated lab tests to determine import duties on raw materials imported by paint producers and a largely undigitized bureaucracy cause delays and force importers to carry large inventories. In the case of dyes, non-harmonized tariffs on raw materials and final goods discourage local production by incentivizing finished product imports.

Developing a more efficient customs system with lower tariffs would help. Dye and paint producers could benefit from faster customs clearances through the implementation of digitized classifications and allowance of third-party lab testing. Dye producers could also gain from improved bonded warehouse access and equalized duties, while paint producers could improve cash flow if permitted to defer duties on imported raw materials. A cost analysis in this report finds that these changes could allow Bangladesh to produce certain raw materials and finished goods—alkyd resin, used in paint, and black reactive

Figure ES.6

Estimated size and projected growth of Bangladesh market demand for dyes



Source: BCDMEA 2024. Interviews and team analysis. Data based on projections of RMG exports, which has historically grown in-line with the textile sector.
Note: Excludes basic chemicals. Figures represent total domestic consumption of dyes.

dye CI5, used for textiles—more cheaply than importing them. With the implementation of recommended reforms, domestic paint and dye production could expand by as much as US$1.4 billion (sales revenue) between 2023 and 2030. This increase in production would require an additional 10 to 20 percent in private investment, translating to an investment opportunity of US$144 to 288 million. The policy reforms suggested in this sector are symptomatic for the broader agenda of eliminating distortions in Bangladesh's trade and investment regime, which, while protecting individual companies, create high overall costs for the economy.

Digital Financial Services

Adoption rates of digital financial services (DFS) in Bangladesh are growing in some segments of the market. Thirteen banks currently offer mobile money services through more than 1.8 million agents, representing 60 percent growth since 2021.[17] Person-to-person (P2P) transactions dominate the market, accounting for nearly 80 percent of total transactions and registering 90 percent growth during the 2021–2024 period. Merchant payments, while growing by 85 percent, still constitute only 12 percent of total mobile financial services (MFS) payments (by value).[18] Given the more developed P2P market and other DFS for firms, there is relatively untapped lending potential that could enable higher usage of more complex financial services with the right enabling policy framework.[19]

Growth in DFS will improve financial sector efficiency and reach, improving the quality of intermediation. The low cost of account servicing, disbursement, and collection via digital channels will enable both innovative and traditional financial intermediaries to economically reach and service a mass market of low-value savers and borrowers. Implementation of CPSD recommendations could result in an increase in active MFS accounts and digitization of payment transactions, more data available for cash flow analysis and credit scoring, greater use of alternative data credit scores, and improved ability of non-bank lenders to fund their balance sheets. The prospect of increased adoption and opportunities to introduce new credit products will attract further investment into the sector.

DFS expansion has potential to increase employment and reduce informality. DFS can reduce informality by improving transaction records, incentivizing the use of digital payments, and increasing business efficiency. This report tentatively estimates that DFS could transform between 320,000 to 360,000 informal jobs to formal positions if the industry keeps its growth rate during the next five years.[20] The potential for DFS to increase employment is based on its ability to ease credit constraints by firms, thereby creating new business opportunities. Reforms aiming to increase adoption rates, enhance firms' credit access, and strengthen payment enforcement could create an estimated additional 96,000 to 460,000 jobs for firms adopting digital payments.[21]

Table ES.1

Summary of recommendations*

Sector	Recommended actions
Green ready-made garments (RMG)	
Rationale • RMG is the largest manufacturing and exporting sector, and a major employer (including of women). • There is a need to upgrade competitiveness in anticipation of least-developed-country (LDC) graduation. • Increasing sustainability focus and new regulations in foreign consumer markets pose risks for market access and jobs. *Key constraints* • High duties on non-cotton materials or man-made fibers, no regulation on fabric waste and groundwater usage. • Low levels of technological sophistication and investments in the sector.	• Adapt Labor Law (2006) to maintain European Union market access after LDC graduation. • Adopt EU's Ecodesign for Sustainable Products Regulation, and other green regulations through implementation of the Digital Product Passport (DPP),[a] and establish a DPP monitoring system. • Remove 10 percent cash incentive on polyethylene terephthalate bottle and flake exports. • Include advanced production technologies in the curriculum of the national skills and training programs. • Equalize the duty for solar inverters and solar panels in a fiscally neutral manner. • Introduce water efficiency certification for RMG firms to promote more efficient production. • Implement Government plan for the "Shadow Price of Water" for reducing groundwater usage in RMG sector.[b]
Housing for middle-income households	
Rationale • Housing for middle-income households is an investment opportunity given rapid urbanization and rising disposable income. • A weak regulatory environment and complex interdependencies between agencies need be addressed to unlock investment potential. • Expanding to peripheral areas and amending building regulations could help satisfy growing demand for housing units, while mortgage financing would help prospective buyers. *Key Constraints* • Housing development costs in cities are high and land registration, clearance, and sale procedures are challenging. • Undeveloped connectivity and infrastructure to peripheral urban areas.	• Use vacant government land for residential housing construction. • Raise floor area ratio to support construction of multi-story affordable homes. • Enhance municipal services to areas peripheral to urban centers. • Digitize land registration and clearance processes. • Government to enact the legal and regulatory framework to establish a mortgage refinance company. • Amend Money Loan Court Act to include non-judicial (i.e., out of court) settlements to expedite resolution. • Revise building codes and construction guidelines to permit use of green bricks.

(Table continues next page)

Table ES.1

Summary of recommendations* *(continued)*

Sector	Recommended actions
• Underdeveloped housing finance market and lack of regulations to support mortgage market. • Non-functional foreclosure practices, complex legal frameworks for loan restructuring and recovery.	
Paint and dyes	
Rationale • Paint sector will grow in line with urbanization, population growth, and local construction demand. • Strong demand from RMG buyers presents an opportunity for investment in textile dye production. • Both products present investment opportunities for manufacturing "closer to the consumer" products, greater diversification, and increased global value chain participation. *Key constraints* • Inconsistent application of customs classifications on imports of inputs for paint and dyes. • Cost of inventory holdings imposes capital constraints on domestic producers. • Benefits of bonded warehouse regime are largely unavailable for non-RMG sectors. • Tariff structure incentivizes import of finished dyes over domestic production.	• Digitize customs classifications on imported inputs for paint and dyes to expedite clearance. • Accept internationally reputable third-party laboratory testing results for customs purposes. • Allow application of deferred duties for importing firms until raw materials are cleared or consumed. • Revise the Bonded Warehouse policy to allow third-party operators to manage bonded warehouses, thereby increasing access for non-RMG firms. • Equalize customs duty of imports of raw materials used in dyes with those for finished dyes in a fiscally neutral manner.
Digital financial services (DFS)	
Rationale • Large population with low existing penetration of financial services. • Widespread use of mobile money shows willingness among consumers and firms to try new solutions on the demand side. • A vibrant but nascent fintech sector, partnerships of banks and mobile financial services, and emerging embedded finance offerings demonstrate innovation potential on the supply side.	• Establish protocol to enable mobile financial services to issue and validate merchant/corporate wallets that have higher transaction limits, enabling their use for wholesale transactions. • Bangladesh Bank should publish its methodology if it sets any limits on merchant discount, interchange, or other fees. The methodology should consider the costs and cost-savings to all involved parties to ensure that adoption of digital payments is economically attractive to users and economically viable for providers.

(Table continues next page)

Table ES.1

Summary of recommendations* *(continued)*

Sector	Recommended actions
Key constraints • Price controls on digital payments hinder cost recovery for acceptance networks. • Weak credit information systems slow data-driven lending and DFS growth. • Digital lenders lack funding structures and regulatory frameworks, requiring partnerships with banks. • Technical barriers restrict widespread adoption of structured finance.	• Confirm that alternative data scores (e.g., from credit bureaus licensed under 2024 guidelines) are acceptable alternatives to traditional credit reports for bank lending. • Broaden Credit Information Bureau reporting and data access to include all commercial entities engaged in lending. • Adapt non-bank financial institution licensing to encompass fintech or create new licensing category for fintech and embedded finance. • Eliminate transfer taxes on assets moved from originator to structured finance vehicles. • Articulate circumstances under which structured finance vehicles may take in offshore funding.

* For more detailed analysis and specificity of which authorities would be responsible for implementing recommended actions, please refer to sector-specific chapters in this report.

a. Digital passport is a document that accompanies a product on its journey, consolidating data from material sourcing and extraction until end-of-life recycling, permanently affixed to each product in the form of an NFC chip, QR code, or RFID tag.

b. Shadow Price of Water is a government plan to minimize the use of ground water by including an additional price that firms will have to pay on the amount of ground water that an industry is extracting and/or using.

Notes

1. Based on the international poverty line of US$3.65 and US$2.15 per day (using 2017 purchasing power parity) for poverty and extreme poverty, respectively.
2. Despite significant GDP per capita growth (above LDC threshold for income), Bangladesh remained an LDC as the UN also considers human assets and economic vulnerability indexes in its classification.
3. World Bank (2024).
4. IMF (2024).
5. The increase in part reflects tighter prudential norms and classification requirements and in part the deteriorating economic situation. See World Bank (2024) for an analysis of banking sector issues.
6. SOCBs had an average capital ratio of 6 percent compared to the regulatory benchmark of 10 percent (IMF 2024).
7. World Bank (2022c).
8. Galal et al. (2025).
9. World Bank (2024).
10. World Bank (2017).
11. Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprises, citizens and expert survey respondents in industrial and developing countries. Data are gathered from survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.
12. Bertelsmann Stiftung (2024).
13. Estimate shared by Policy Research Institute, Bangladesh.
14. IFC estimates, see appendix A for more details.
15. IFC estimates, see appendix A for more details.
16. IFC estimates, see appendix A for more details.
17. Central Bank of Bangladesh, 2024.
18. Mobile financial services or MFS is another broad term that refers to a range of financial services that can be offered across the mobile phone. Three of the leading forms of MFS are mobile money transfer, mobile payments, and mobile banking. Firpo (2009).
19. Klapper (2024).
20. Estimates are based on Syed et al. (2021) using Bangladesh Central Bank mobile money growth rate between September 2023 and September 2024, and ILO estimate of 60 million people in informal employment in the country.
21. Due to similar macro indicators, the model selected Kenya as a comparator. Based on Bangladesh's lower adoption rates of DFS compared to Kenya and other assumptions, the model estimates digital credit's contribution to GDP, currently at 0.9 percent, to reach 4.3 percent, if the recommended credit adoption and payment enforcement reforms are implemented. Alternatively, the estimates on jobs are based on Okun's law elasticity, Amin and Lima (2019).

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