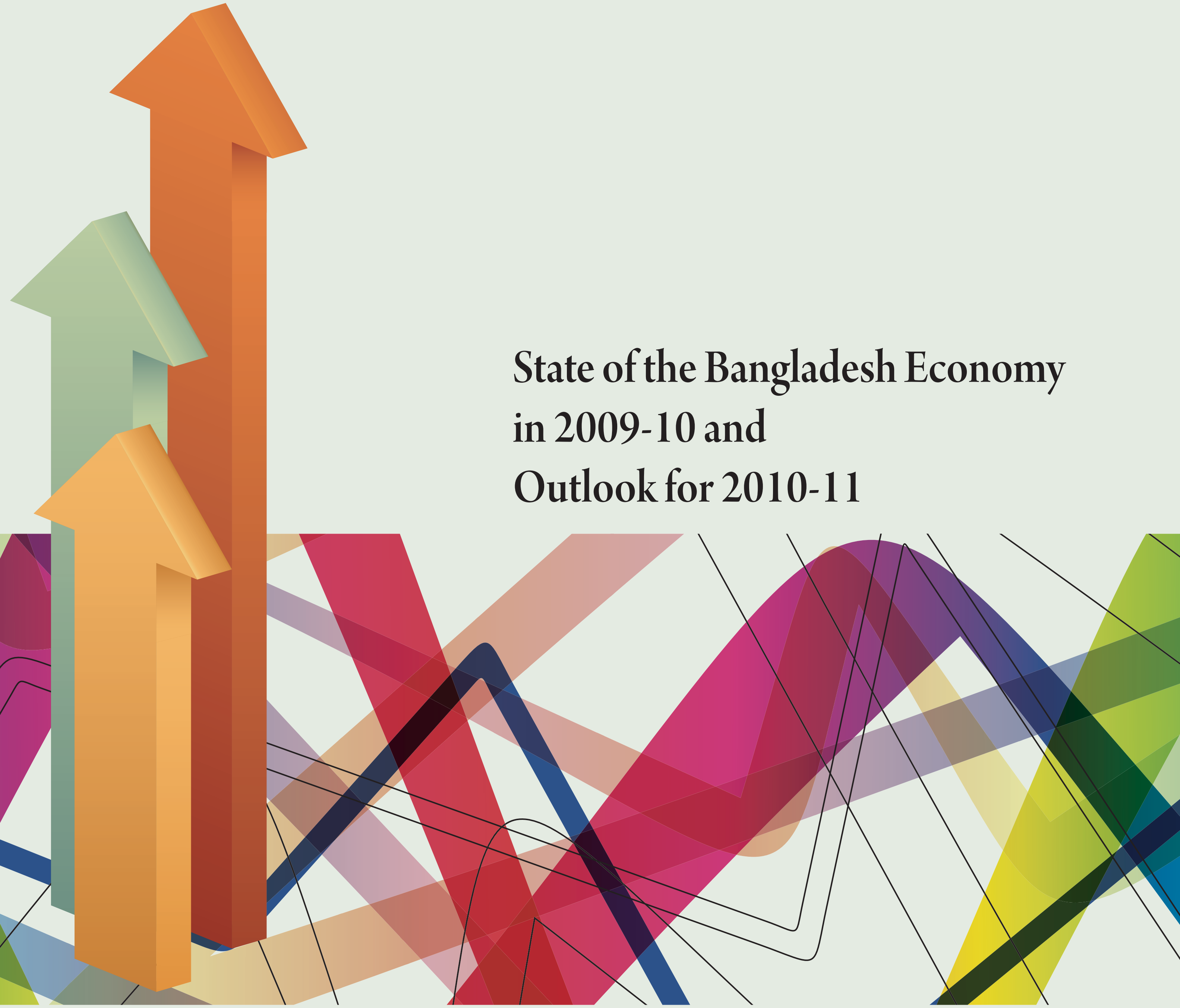
2009-10



State of the Bangladesh Economy in 2009-10 and Outlook for 2010-11

Centre for Policy Dialogue (CPD)

State of the Bangladesh Economy
in 2009-10 and
Outlook for 2010-11

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The Centre for Policy Dialogue (CPD), established in 1993, is mandated by its Deed of Trust to service the growing demand originating from the emerging civil society of Bangladesh, for a more participatory and accountable development process. CPD seeks to address this felt-need through organisation of multistakeholder consultations and dialogues, by conducting research on issues of critical national, regional and global interests, through dissemination of knowledge and information on key developmental issues, and by influencing the policy making process in the country. At the core of CPD's activities lies its dialogue programme. The dialogues are designed to provide a forum for constructive engagement and discussion on key relevant issues, and to come up with specific recommendations to redefine the policies and for ensuring their effective implementation. The recommendations are then placed before current and prospective policymakers of the country as inputs to the decision making process. Some of the major research areas of the CPD include *Macroeconomic Performance Analysis; Poverty, Inequality and Social Justice; Agriculture and Rural Development; Trade, Regional Cooperation and Global Integration; Investment Promotion, Infrastructure and Enterprise Development; Climate Change and Environment; Human Development and Social Protection;* and *Development Governance, Policies and Institutions*. CPD actively networks with other institutions within and outside Bangladesh which have similar interests and also regularly participates in various regional and international fora where interests and concerns of developing and least developed countries are discussed. CPD's current publication list includes more than 360 titles including Books, Monographs, Occasional Papers, Dialogue Reports and Policy Briefs. CPD outputs are available for sale at the Centre and also in selected bookstores in Bangladesh. CPD publications and other relevant information are also regularly posted on CPD's website www.cpd.org.bd

The views expressed in this volume are those of the CPD IRBD 2010 Team members and do not necessarily reflect the views of the CPD.

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Mr Towfiqul Islam Khan acted as the coordinator of the CPD IRBD 2010 Team.

Preface

The present volume is in continuation of CPD's longstanding annual tradition of brining out an in-depth analysis of the major macroeconomic performance indicators and developments in the relevant fiscal year, and also sharing CPD's early assessment of the outlook for the next fiscal year. The purpose of this volume, as has been in case of the earlier publications of the *Independent Review of Bangladesh's Development* (IRBD) exercises of the CPD, is to bring to the wider audience CPD's assessment of the performance and prospects of the Bangladesh economy in key areas of economic governance including fiscal-budgetary and monetary sectors and the real economy. CPD hopes that whilst such annual reviews enable the audience to appreciate the dynamics of changes taking place in the Bangladesh economy and the challenges that the economy faces, such reviews, carried out on a regular basis, over successive years, will also enable those who follow the evolution of Bangladesh economy and economic policies to evaluate the progress/regress and the challenges in this regard, from a comparative perspective.

IRBD is a continuing exercise at CPD, and this volume includes a number of interim outputs prepared under the programme at CPD at various points of time, in the course of a particular fiscal year. The IRBD process has involved analytical work, expert group meetings, dialogues and discussion sessions, and thus contributors to this work include, besides the CPD researchers, many stakeholders whose views have also been reflected in this volume, and which have enriched the quality of work presented in this volume. The volume includes four analytical chapters and two annexes.

Chapter 1 of the present volume concentrates on an examination of the key macroeconomic indicators' performance in FY2009-10. As will be known to those readers who follow Bangladesh economy, the year under review, FY2009-10, has experienced fluctuating fortunes with regard to key variables. Both slow recovery and lagged impact of the global financial crisis impacted on Bangladesh's economic prospects in this fiscal year. The analysis in this section have put under scrutiny the performance of the government during its first full fiscal year of governance (July 2009-June 2010), after it took over the power on 6 January 2009. The chapter discusses the outcomes of the government's initiatives in various areas including agriculture, industry, power and energy, and social sector in relation to the targets set in the budget and various sectoral plans of the government. The chapter also flags a number of key emerging concerns which are needed to be addressed on a priority basis in the short to medium-term.

Chapter 2 presents an analysis of the various proposals in the national budget for FY2010-11 which focuses on the impact and incidence of tax proposals in terms of their implications for income distribution and equity, resource mobilisation, incentives for investment, and domestic protection and export promotion. Sectoral allocations with regard to the Annual Development Programme (ADP) for FY2010-11 have also been examined from the perspective of sources of funds, efficacy of resource use, justification of sectoral distribution, and feasibility of implementation. The chapter puts forward the challenges that policymakers are likely to face in terms of implementing this budget. The need of significantly raising the quality and timely implementation of public sector expenditure envisaged in the budget for FY2010-11 has also been emphasised and discussed in the chapter.

PREFACE

It is by now a regular practice of the CPD to prepare a set of proposals in view of the national budget to be placed before the parliament by the Finance Minister for the next fiscal year. Chapter 3 presents the proposals that CPD had prepared in April 2010 as inputs to the budget for FY2010-11. These include modalities towards higher domestic resource mobilisation, ways of raising allocative efficiency, suggested fiscal proposals and reforms, and possible distribution of resources for revenue and developmental purposes in the context of the emerging needs of the economy.

Chapter 4 deals with the outlook for the next year, i.e. FY2010-11. This chapter is based on an interim report which CPD has prepared based on its analysis of the performance of the economy over the first two quarters of this fiscal year. Here the progress made in terms of realising the annual targets has been analysed with a view to assess the likelihood of achieving fiscal targets, identify bottlenecks, and suggest policies and initiatives in the near term.

The volume also includes two Annexes. Annex 1 is a report on the dialogue held on 19 June 2010 at the Dhaka Sheraton Hotel, where CPD's budget reactions were presented. Annex 2 is a report of the post-budget discussion held in Chittagong on 24 June 2010, in collaboration with Chittagong Chapter of the Bangladesh Economic Association (BEA). These are presented in this volume to enable the readers to appreciate the rich discourse that followed the budget analysis under the IRBD programme at the two aforesaid important events. Readers will also get a flavour of the critical views and opinions of representatives of key stakeholder groups who attended these dialogues with regard to a wide range of issues including policies pursued by the government, and the efficacy and quality of their implementation.

Acknowledgement

The work on preparing this volume was guided by *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD. I would like to take this opportunity to register my deep appreciation for his intellectual leadership in designing this year's IRBD, and for his organisational stewardship in seeing the process through to its successful completion. All the research staff at CPD have been involved in the IRBD work, in various capacities, and all of them have worked tirelessly to prepare the various studies that constitute this volume. *Dr Fahmida Khatun*, Head of Research, CPD has played a key role in steering the IRBD work, and has made valuable contribution to the outputs which emerged from the IRBD exercise. *Dr Uttam Deb*, immediate past Head of Research, CPD who is now on leave has contributed importantly in preparing the drafts of a number of IRBD chapters. I would also like to put a very special word of appreciation to *Mr Towfiqul Islam Khan*, Senior Research Associate, CPD for his stellar performance in coordinating the work of the IRBD 2010 Team.

As on previous occasions, this volume has benefited greatly from peer reviews of earlier interim drafts. I will be remiss if I do not adequately recognise the contribution of the large number of individuals and institutions who have extended their cooperation to CPD IRBD 2010 Team. They included researchers, members of the academia, leading policymakers, political leaders and members of the parliament, government officials, business leaders, and representatives from grassroots and civil society organisations. CPD IRBD Team gratefully acknowledges the important contribution of all the members of the Expert Groups that were formed for the interim reports on State of the Economy for FY2009-10 and FY2010-11 (First Reading); comments availed through these exercises have significantly enhanced the quality of these two papers.

The CPD IRBD Team received valuable support, in the form of access to relevant data and information, from concerned officials belonging to a number of institutions including Bangladesh Bank, Bangladesh Bureau of Statistics (BBS), Bangladesh Power Development Board (BPDB), Board of Investment (BoI), Bureau of Manpower, Employment and Training (BMET), Department of Agricultural Extension (DAE), Department of Agricultural Marketing (DAM), Dhaka Stock Exchange (DSE), Export Promotion Bureau (EPB), Ministry of Finance (MoF), Ministry of Food and Disaster Management, National Board of Revenue (NBR), Petrobangla, and Planning Commission. On behalf of the CPD IRBD Team, I would like to express my sincere thanks to all of them for their time and insights, and for sharing their ideas and information which have added significant value to the present work.

I would also like to put on record our deep appreciation for support and cooperation received from members of the print and electronic media of the country which have allowed CPD to take IRBD-generated insights and analysis to a wider audience, within and outside the country.

Special words of appreciation are due to CPD's Dialogue and Communication Division headed by *Ms Anisatul Fatema Yousuf*, Director, CPD for their hard work in organising various dialogues and workshops on interim IRBD outputs, and preparing the IRBD manuscript for publication within such a short time. Contribution of the CPD Administration and Accounts Division in facilitating organisation of IRBD-related research and dialogue activities is also sincerely acknowledged.

I would like to specially mention the hard work of *Ms Nazmatun Noor*, Senior Dialogue Associate, CPD who had borne the brunt of copy editing of all the chapters in this volume. *Mr Avra Bhattacharjee*, Senior Dialogue Associate, CPD has worked with devotion for the cover and graphic works of the book, and was in overall supervision of the designing process. *Mr Fazley Rabbi Shakil*, Publication and Print Associate and *Mr Md Shaiful Hassan*, Programme Associate (DTP), CPD have provided able support to get the present volume in the pre-printing format. Contributions of *Mr A H M Ashrafuzzaman*, Senior System Analyst, CPD for his technical support, and *Mr Md Hamidul Hoque Mondal*, Senior Administrative Associate, CPD for his valuable secretarial support are also appreciated.

As will be known to all those who follow CPD's IRBD-related works, it was the idea of *Professor Rehman Sobhan* in the first place, to prepare a civil society audit of performance of the Bangladesh economy on a regular basis. His inspiration and advice has been the lighthouse that has kept the CPD's IRBD work and related activism going over all these years, since 1995. It is satisfying to note that a new generation of researchers represented by *Towfiq* and our other young colleagues at CPD have stepped in to carry the torch forward.

I join all the CPD IRBD Team members in acknowledging our deep debt of gratitude to *Professor Rehman Sobhan* for his guidance and advice in taking the IRBD process forward.

Mustafizur Rahman
Executive Director
Centre for Policy Dialogue (CPD)

February 2011
Dhaka

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Acronyms

ACC	Anti Corruption Commission
ADB	Asian Development Bank
ADF	Augmented Dickey-Fuller Test
ADP	Annual Development Programme
AGM	Annual General Meeting
AGOA	African Growth and Opportunity Act
AIS	Agriculture Information System
AIT	Advance Income Tax
ATV	Advance Trade VAT
BADC	Bangladesh Agricultural Development Corporation
BAFFA	Bangladesh Freight Forwarders Association
BAPEX	Bangladesh Petroleum Exploration & Production Company Ltd.
BARVIDA	Bangladesh Reconditioned Vehicles Importers and Dealers Association
BBBF	Bangladesh Better Business Forum
BBS	Bangladesh Bureau of Statistics
BCCRF	Bangladesh Climate Change Resilience Fund
BCIC	Bangladesh Chemical Industries Corporation
BDBL	Bangladesh Development Bank Ltd.
BDT	Bangladesh Taka
BEA	Bangladesh Economic Association
BEPZA	Bangladesh Export Processing Zone Authority
BERC	Bangladesh Energy Regulatory Commission
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BIFF	Bangladesh Infrastructure Finance Fund
BJMC	Bangladesh Jute Mills Corporation
BJSA	Bangladesh Jute Spinners Association
BKB	Bangladesh Krishi Bank
BKMEA	Bangladesh Knitwear Manufacturers & Exporters Association
BMET	Bureau of Manpower Employment and Training
BNP	Bangladesh Nationalist Party
BO	Beneficiary Owner
BOO	Build-Own-Operate
BOOT	Build-Own-Operate-Transfer
BOP	Balance of Payment
BOT	Build-Operate-Transfer
BPC	Bangladesh Petroleum Corporation
BPDB	Bangladesh Power Development Board
BSB	Bangladesh Shilpa Bank
BSCIC	Bangladesh Small & Cottage Industries Corporation

ACRONYMS

BSE	Bombay Stock Exchange
BSRS	Bangladesh Shilpa Rin Sangstha
BSTI	Bangladesh Standards and Testing Institution
BTRC	Bangladesh Telecommunication Regulatory Commission
BoI	Board of Investment
bcf	Billion Cubic Feet
CBU	Completely Built Unit
CC	Close Circuit
CCCI	Chittagong Chamber of Commerce and Industry
CD	Customs Duty
CGT	Capital Gains Tax
CKD	Completely Knocked Down
CNG	Compressed Natural Gas
CPB	Communist Party of Bangladesh
CPD	Centre for Policy Dialogue
CPI	Consumer Price Index
CPI	Corruption Perception Index
CPM	Critical Path Method
CPP	Captive Power Plant
CRR	Cash Reserve Ratio
CSE	Chittagong Stock Exchange
CSR	Corporate Social Responsibility
CTG	Caretaker Government
DAE	Department of Agricultural Extension
DAM	Department of Agricultural Marketing
DAP	Diammonuim Phosphate
DCCI	Dhaka Chamber of Commerce and Industry
DDA	Directorate of Drug Administration
DF	Dickey-Fuller Test
DPP	Development Project Proposal
DSE	Dhaka Stock Exchange
DSI	All Shares Price Index
DTA	Domestic Tariff Area
EC	European Commission
ECF	Extended Credit Facility
ECNEC	Executive Committee of National Economic Council
ECR	Electronic Cash Register
EEF	Equity and Entrepreneurship Fund
EGHP	Employment Generation for Hardcore Poor
EPZ	Export Processing Zone
ERD	Economic Relations Division
ETP	Effluent Treatment Plant
EU	European Union
FAO	Food and Agriculture Organization
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
FDI	Foreign Direct Investment
FFW	Food for Work
FOB	Free on Board
FPMU	Food Planning and Monitoring Unit
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GIEWS	Global Information and Early Warning System
GNI	Gross National Income

GR	Gratuitous Relief
GSP	Generalized System of Preferences
GoB	Government of Bangladesh
HFO	Heavy Fuel Oil
HIES	Household Income and Expenditure Survey
HNPSP	Health, Nutrition and Population Sector Programme
HS	Harmonised Commodity Description and Coding System
HSD	High Speed Diesel
ha	Hectare
IBFB	International Business Forum of Bangladesh
IBPC	ICT Business Promotion Council
ICOR	Incremental Capital-Output Ratio
ICD	Inland Container Depot
ICT	Information and Communication Technology
IDCOL	Infrastructure Development Company Ltd.
IEB	Institute of Engineers, Bangladesh
IFC	International Finance Corporation
IIFC	Infrastructure Investment Facilitation Centre
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
INR	Indian Rupee
IOC	International Oil Company
IOSCO	International Organization of Securities Commissions
IPFF	Investment Promotion and Financing Facility
IPO	Initial Public Offering
IPP	Independent Power Producer
IRBD	Independent Review of Bangladesh's Development
IT	Information Technology
KPSS	Kwiatkowski-Phillips-Schmidt-Shin Test
kWh	Kilowatt Hour
LDC	Least Developed Country
LGED	Local Government Engineering Department
LKR	Sri Lankan Rupee
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
L/C	Letter of Credit
MDG	Millennium Development Goal
MEWOE	Ministry of Expatriates' Welfare and Overseas Employment
MNC	Multinational Company
MP	Member of Parliament
MPO	Monthly Pay Order
MPS	Monetary Policy Statement
MRP	Machine Readable Passport
MT	Metric Ton
MTBF	Medium Term Budgetary Framework
MTMF	Medium Term Macroeconomic Framework
MW	Mega Watt
MoA	Ministry of Agriculture
MoC	Ministry of Commerce
MoF	Ministry of Finance
MoHFW	Ministry of Health and Family Welfare
MoP	Muriate of Potash
MoSICT	Ministry of Science and Information & Communication Technology

ACRONYMS

MoU	Memorandum of Understanding
mmcf	Million Cubic Feet
mmcfd	Million Cubic Feet per Day
M2	Broad Money
NBR	National Board of Revenue
NCST	National Council for Science and Technology
NEER	Nominal Effective Exchange Rate
NEP	National Education Policy
NGO	Non-government Organisation
NITTRAD	National Institute of Textile Training Research And Design
NNP	National Nutrition Programme
NPTDA	New Partnership for Trade Development Act
NPL	Non-performing Loan
NPR	Nepalese Rupee
NRB	Non-resident Bangladeshi
NSD	National Savings Bond
NTB	Non-tariff Barrier
NTPC	National Thermal Power Corporation (India)
OMS	Open Market Sale
PCB	Private Commercial Bank
PEDP II	Primary Education Development Programme Second Phase
PFDS	Public Food Distribution System
PKR	Pakistani Rupee
PKSF	Palli Karma-Sahayak Foundation
POL	Petroleum, Oil and Lubricant
PP	Phillips-Perron Test
PPA	Public Procurement Act
PPP	Public-Private Partnership
PPR	Public Procurement Rules
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSC	Production Sharing Contract
PSI	Pre-shipment Inspection
P/E	Price/Earning
QIP	Quantum Index of Production
RADP	Revised Annual Development Programme
RAKUB	Rajshahi Krishi Unnayan Bank
RBM	Result-based Monitoring
REER	Real Effective Exchange Rate
RMG	Readymade Garments
RMMRU	Refugee and Migratory Movements Research Unit
ROSC	Reaching Out of School Children
RPP	Rental Power Plant
RRC	Regulatory Reforms Commission
RTI	Right to Information
RoO	Rules of Origin
R&D	Research and Development
SARSO	South Asian Regional Standards Organisation
SASEC	South Asia Subregional Economic Cooperation
SCB	State-owned Commercial Bank
SD	Supplementary Duty
SEBI	Securities and Exchange Board of India

SEC	Securities and Exchange Commission
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprise
SPARRSO	Bangladesh Space Research and Remote Sensing Organization
SPS	Sanitary and Phytosanitary
SRI	System of Rice Intensification
SRO	Statutory Regulatory Order
SoE	State-owned Enterprise
TBT	Technical Barrier to Trade
TI	Transparency International
TIN	Tax Identification Number
TR	Test Relief
TRQ	Tariff Rate Quota
TSMU	Textile Strategic Management Unit
TSP	Triple Super Phosphate
TTI	Total Tax Incidence
TVET	Technical and Vocational Education Training
ToT	Terms of Trade
tcf	Trillion Cubic Feet
UAE	United Arab Emirates
UP	Union Parishad
US	United States
USD	United States Dollar
USITC	United States International Trade Commission
VAT	Value Added Tax
VGD	Vulnerable Group Development
VGF	Vulnerable Group Feeding
WARBE	Welfare Association for the Rights of Bangladeshi Emigrants
WFP	World Food Programme

CHAPTER 1

State of the Bangladesh Economy in FY2009-10

1.1 INTRODUCTION

FY2009-10 was the first full fiscal of the incumbent government. During this period, the main challenge faced by the government was mitigating the lagged impact emanating from the global financial and economic crises of the immediate past year. It also had to prepare itself for taking advantage of the recovery process of the global recession. Besides, the government had to remain vigilant to safeguard the economy from further deterioration originating from a second round of the crisis. To deal with the impact of the global crisis, the budget for FY2009-10 made provisions through stimulus packages, for the affected export-oriented industries and to stimulate domestic production, particularly in the agriculture sector. Although exports did suffer from the fall in global demand and the depressed prices in the international markets, Bangladesh was able to escape the second round of economic dip by the end of FY2009-10. Subsequently, the Bangladesh economy had to focus on preparing itself for the ensuing recovery phase. In doing so, stimulating investment had to be put at the top of the priority list. As may be recalled, country's investment suffered considerably, to a large extent, because of the acute and prolonged power crisis. The government took a number of short-term initiatives including commissioning rental power plants (RPPs) to improve the power situation in the near-term future. However, there was a broad consensus that long-term and sustainable solutions were required to address the emergent situation. A sizeable public investment programme (given the implementation capacity of the line ministries) was adopted for FY2009-10 with a view to improving the investment scenario. Although the overall annual development programme (ADP) implementation record was much better compared to the trends of the recent past, the Power Division, a key actor, was unable to achieve its ADP targets. This had a detrimental impact on private sector investment since potential crowding in opportunities were lost as a consequence. At the same time, no notable headway could be made with regard to the envisaged public-private partnership (PPP) initiatives, which was given emphasis in the budget for FY2009-10, one of the reasons being the delay in putting in place the policy framework and guidelines for the PPP.

To deal with the impact of the global crisis, the budget for FY2009-10 made provisions for the affected export-oriented industries and stimulation of domestic production

In the agriculture sector, although rice production registered a 3 per cent growth in FY2009-10 over the high benchmark growth of 8.2 per cent in the previous year, food security continued to be a concern due to depressed public procurement of foodgrains and also the low level of imports, which resulted in significant reduction in public stock at the end of the fiscal year. On the other hand, industrial production could not pick up during the fiscal year 2009-10 due to low export demand.

Food security continued to be a concern due to depressed public procurement of foodgrains and low level of imports

The strain on the recovery was to some extent relieved by a number of positive developments in FY2009-10. In line with the global price situation, inflationary pressure declined compared to the previous year. The stock market experienced buoyancy in FY2009-10 with higher market capitalisation - partly due to lack of alternative investment opportunities in the economy. Commendable success was achieved by the National Board of Revenue (NBR) in terms of revenue mobilisation. Higher revenue collection, coupled with restrained public expenditure (revenue and development), contributed to containing fiscal deficit to only 0.21 per cent of the gross domestic product (GDP) in FY2009-10. Macroeconomic stability was further strengthened with high remittance flow that helped in maintaining surplus both in the current account and in the balance of payment (BOP). This helped maintain a healthy foreign exchange reserves. In the backdrop of these mixed developments, the Bangladesh economy managed to attain a growth of 5.8 per cent which was very close to the target of 6.0 per cent.

The strain on the recovery was to some extent relieved by a number of positive developments in FY2009-10

1.2 MACROECONOMIC BENCHMARK AT THE BEGINNING OF FY2009-10

FY2008-09 ended with some setback primarily on account of the initial wave of adverse impact arising from the global financial and economic crisis

It may be recalled that FY2008-09 ended with some setback primarily on account of the initial wave of adverse impact arising from the global financial and economic crisis. Export growth slowed down to 9.9 per cent from 15.9 per cent in the previous year; further deceleration was apprehended. Overseas employment became an issue of concern as there were some signs of retrenchment of guest workers in some of the host countries. In the end, however, a healthy growth of 22.4 per cent in remittance was recorded, thanks to the large stock of workers who managed to stay in the host countries, particularly in the Middle East, in spite of the crisis. Revenue earnings from NBR declined, mainly on account of reduced import duties. The pace of overall revenue mobilisation decelerated significantly recording only 8.6 per cent growth over the previous year. Gross investment stagnated, at the low level of 24.4 per cent of the GDP. Power shortage reached a critical level while public investment declined to as low as 3.2 per cent which was the lowest ever. On the positive side, falling commodity prices in the global market had positive impact on the domestic market by way of low levels of inflation. A good Boro harvest further eased the pressure for the consumers. Trade balance improved, but for the wrong reason - imports were low, which was a reflection of depressed industrial activities. Given the global and domestic environment, the task of macroeconomic management in FY2008-09 was indeed a challenging one. In view of this, achievement of the 5.7 per cent GDP growth in FY2008-09 must be considered as commendable.

Box 1.1: Growth Rhetoric

The release of provisional growth estimates for FY2009-10 by the BBS ignited a debate over the reliability of the data. The Ministry of Agriculture (MoA) raised this issue, and following long discussions, the Ministry of Finance (MoF) revised the GDP growth estimates upward, by 0.5 percentage points, to make it 6.0 per cent when the budget documents were being prepared (Table 1.1). Major upward revisions were made in the agriculture (mainly crop) and industry (manufacturing) sectors, and in the import duty component. The acceleration of export receipts and improvements in public investment during the last months of the fiscal year were mentioned as the rationale for the upward revision of the GDP. Later on, BBS released the final estimate of GDP for FY2009-10 which turned out to be somewhere between the estimates of BBS's earlier and MoF's revised estimate.

Table 1.1: Various Estimates of GDP Growth in FY2009-10

(in Per cent)

Sector	BBS Preliminary Estimate	MoF Revised Estimate	BBS Final Estimate
Agriculture & Forestry	2.8	4.4	4.7
Crops	2.2	4.2	5.1
Industry	6.0	6.4	6.0
Manufacturing	5.3	5.9	5.7
Services	6.6	6.6	6.4
Import Duty	1.4	4.3	3.5
GDP	5.5	6.0	5.8

Source: BBS (2010b and 2010c); MoF (2010a).

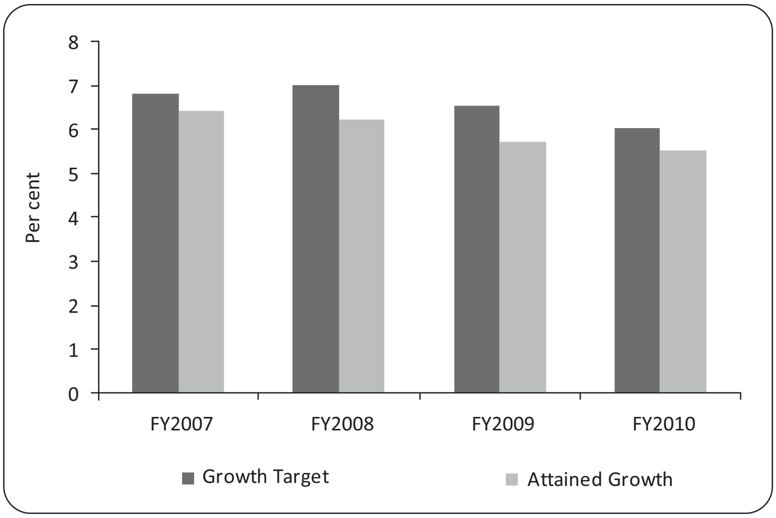
The objectives of FY2009-10 annual budget were thus spelled out in the backdrop of the aforesaid developments in the economy. Major goalposts of the budget were — revitalising public and private investment, sustaining agricultural growth, protecting external sector and strengthening revenue mobilisation. In order to realise these goals, good governance was a key factor, and this in turn was critically dependent on reforms in development administration.

1.3 GROWTH, SAVINGS AND INVESTMENT

1.3.1 GDP Growth

The initial estimate of GDP growth for FY2009-10 by the Bangladesh Bureau of Statistics (BBS) created a commotion among the policymakers (Box 1.1). This compelled the BBS to reexamine the data and come up with a new set of estimates. Final estimates of the BBS revealed that GDP posted a growth of 5.8 per cent in FY2009-10, which was 0.2 per cent lower than the targeted growth of 6.0 per cent. An impressive performance of the agriculture sector, the resilience of the services sector, some momentum in public investment, and sustained high levels of remittance flow helped the economy to attain a near-six per cent growth rate. The possibility of a better performance of the economy was undermined by the lagged impact of global recession and lack of adequate infrastructural support for the manufacturing sector. As may be recalled, over the last four years GDP growth rates were consistently lower than the targets set in respective budgets (Figure 1.1). Had the targets in last four years been met, GDP growth in FY2009-10 would have been 2 per cent higher than what was actually achieved.

Figure 1.1: Targeted and Attained GDP Growth Rates: FY2006-07 — FY2009-10

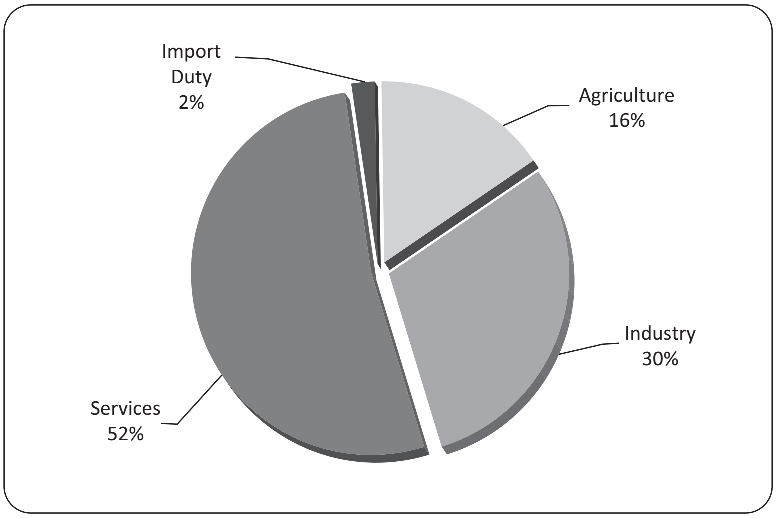


Source: Estimated from BBS (2010b) data.

1.3.2 Sources of Growth

Despite the robust performance of country's agriculture sector, the tangible sectors of the economy[1] posted a moderate growth of 5.4 per cent, while intangible sectors recorded a somewhat higher growth of 6.1 per cent. The manufacturing sector failed to achieve the projected targets due to lagged impact of the global recession. In the incremental GDP of FY2009-10, the industrial sector contributed only 29.7 per cent, whereas the services sector continued to be the front-runner with a share of 52.4 per cent. The agriculture sector responded positively to the policy initiatives of the government, and contributed a share of 15.8 per cent to the incremental GDP (Figure 1.2). Overall, the agriculture sector posted an impressive 4.7 per cent growth. Within the agriculture sector, the crop sector had posted a commendable growth of 5.1 per cent (Table 1.1), and contributed much to ensuring food security in the country. The sector played a crucial role in keeping the inflationary pressure on food prices experienced during the last few months of FY2009-10, at a tolerable level.

Figure 1.2: Sources of Incremental Growth



Source: Estimated from BBS (2010b) data.

It is to be noted that the industrial growth of 6 per cent in FY2009-10 was lower than growth rate of 6.5 per cent registered in FY2008-09. The sector's performance was hampered by lack of infrastructure, particularly by severe power outage and natural gas shortage, as well as the ongoing economic crisis. Within the industrial sector, growth rate of the manufacturing sub-sector (contributing 17 per cent in the incremental GDP) experienced significant slowdown. The sector posted a growth of only 5.7 per cent in FY2009-10 against 6.7 per cent in FY2008-09.

[1]'Tangible' sectors of the economy, as defined by the BBS, include Agricultural sector (both Agriculture & Forestry and Fisheries), Mining & Quarrying, and Manufacturing. The rest of the sub-sectors are defined as 'Intangible.'

Performance of the services sector has been consistently good. In FY2009-10, the sector recorded a 6.4 per cent growth compared to 6.3 per cent in FY2008-09. Among the nine sub-sectors of this sector, only three experienced lower growth performance compared to the previous fiscal year; these are: wholesale and retail trade, transport and communication, and financial intermediaries.

1.3.3 Per Capita Income

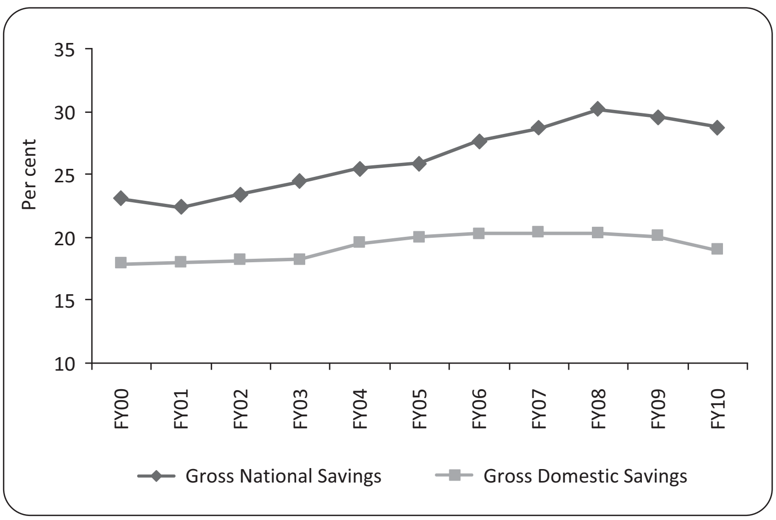
The projected growth would indicate a per capita GDP growth of about 4.5 per cent over the previous fiscal year

Per capita GDP of Bangladesh was estimated to be about USD 685 in FY2009-10, while per capita gross national income (GNI) was estimated to be about USD 751. In Taka terms (1995-96 constant prices), the projected growth would indicate a per capita GDP growth of about 4.5 per cent over the previous fiscal year. The per capita GNI growth was expected to be higher at 5 per cent during the same period. The growth in GNI was primarily attributed to high remittance flow in FY2009-10. However, it should be noted here that these averages conceal the considerable gap in income distribution in Bangladesh. At the same time, it is also pertinent to mention here that an increase in incremental share of agriculture sector in GDP might have helped contain the rise in income inequality.

1.3.4 Savings

Share of domestic savings in GDP has stagnated in the recent past. In FY2009-10, domestic savings as a percentage of GDP experienced substantial deceleration from 20.1 per cent in FY2008-09 to 19 per cent (Figure 1.3). Price hike of essential items in the second half of FY2009-10, particularly of food items, was perhaps a contributing factor to this decline.

Figure 1.3: Savings Rate as Percentage of GDP



Source: Estimated from BBS (2010b) data.

At the same time, due to a slowdown in remittance inflow during the latter half of FY2009-10, national savings as a share of GDP have decelerated to reach 28.8 per cent of GDP, as against 29.6 per cent in FY2008-09. This fall was equivalent to a reduction of 0.8 per cent of GDP in FY2009-10. It is to be noted here that, a wide gap exists in Bangladesh between national and domestic savings, equivalent to 9.8 per cent of GDP. Continuation of this trend, however, may result in further deterioration in the income distribution scenario of the country because remittance, though critically important to poverty alleviation in Bangladesh, is an inequalising factor in the society.

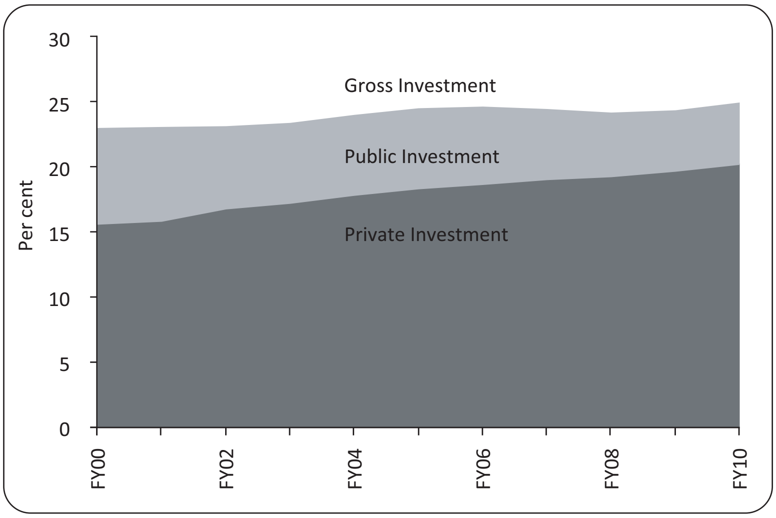
1.3.5 Investment

Gross capital formation, in terms of FY1995-96 prices, registered lower growth rate in FY2009-10, posting 5.8 per cent compared to 6.2 per cent in FY2008-09. This was much lower than the relevant general trend which hovers between 8 to 9 per cent. As mentioned earlier, investment in FY2009-10 had suffered from both lack of infrastructure and lagged impact of global recession. There was a marginal improvement in gross investment as percentage of the GDP, recording 25 per cent in FY2009-10 compared to 24.4 per cent of GDP in FY2008-09

(Figure 1.4). This was higher than the pessimistic target of the Medium Term Macroeconomic Framework (MTMF) which was set at 23.7 per cent of the GDP.

Improvement in the implementation pace of ADP is underwritten by somewhat higher realisation of public investment. Public investment stood at 4.8 per cent of GDP in FY2009-10, insignificantly higher than 4.7 per cent recorded in FY2008-09. The share of private investment in GDP which covers four-fifths of total investment in the country also increased to 20.2 per cent in FY2009-10 from 19.7 per cent in FY2008-09. The proposed modality to boost investment through projects mainly under the PPP initiative, held back any substantive improvement in the investment scenario (Box 1.2).

Figure 1.4: Investment as Percentage of GDP



Source: Estimated from BBS (2010b) data.

Box 1.2: Unrealised Public-Private Partnership (PPP)

The PPP component of the FY2009-10 budget was unveiled with great excitement, but was hardly able to take off the ground. With a PPP investment target of Tk. 7,000 crore, government had earmarked an amount of Tk. 2,500 crore separately under the PPP budget. Later on, Tk. 500 crore was slashed from the PPP budget in the revised budget for FY2009-10. However, the PPP budget has remained mostly unutilised in spite of some progress being made in terms of putting in place the regulatory framework.

At the end of FY2009-10, the government was finalising the PPP Policy Guideline following the submission of the report by the committee set up to review the earlier draft prepared by the Board of Investment (BoI). The envisaged guideline was likely to incorporate some provisions of the Private Sector Infrastructure Guidelines 2004 relating to transparency modalities with regard to profit-sharing allocation of risks, responsibilities, mode of operation in terms of structure of ownership (Build-Own Operate (BOO), Build-Operate-Transfer (BOT), Build-Own-Operate-Transfer (BOOT)). In FY2009-10, the PPP policy guideline did not see the light of the day in spite of repeated promises.

The Centre for Policy Dialogue (CPD) in its interim review of macroeconomic performance of FY2009-10 made a number of recommendations related to the envisaged PPP policy guideline (CPD 2010).

- To harmonise the dichotomy of public and private interests, appropriate legislation should be enacted in order to provide both the parties (government and civil society) necessary legal coverage.
- The government could contemplate on developing a legal framework to put the PPP agenda in effect. Lessons can be drawn from other countries such as Mauritius which has both (a) PPP Act laying out the principles guiding public-private relations; and, (b) a comprehensive document dictating the PPP programmes of action.
- According to the Private Sector Infrastructure Guidelines 2004, institutional framework and organisational structure for designing projects (which includes seven stages starting from identification to construction of the project) are generally quite cumbersome. To accelerate the process of project implementation, the new policy guideline needs to engineer a comprehensive framework in order to ensure competent administration, regular monitoring and sound accountability.
- Furthermore, the envisaged policy guideline should provide transparent time-lines dependeing on project categories. A separate PPP office, vested with adequate power and endowed with human resources, will need to be set up in order to generate the required momentum.
- Government will need to design an appropriate PPP strategy which should have clear guidelines for financial participation of the government, incentives and risk-sharing arrangement with private investors, and institutional framework for implementing the PPP.
- The PPP strategy should also have clear cut guidelines for appraisal of the proposed PPP projects and the procedure that will be followed for approval of the identified projects. The procedure for both appraisal and approval of different projects according to scale and size (three slabs had been identified for this purpose) should also be spelt out clearly and distinctly.

National savings rate as percentage of GDP remains higher (28.8 per cent) than the gross investment rate (25 per cent), indicating the availability of investible surplus. The surplus was estimated to average about Tk. 26,000 crore (3.8 per cent of GDP). This gap primarily originates from the lack of investment demand and limited scope to channel remittances towards investment.[2] Compared to countries such as India and Vietnam, investment scenario in Bangladesh looks rather depressing; these countries invest about 40 per cent of their respective national incomes. Bangladesh will need to substantially improve both savings rate and investment to attain higher GDP growth rate.

Compared to countries such as India and Vietnam, investment scenario in Bangladesh looks rather depressing

The incremental capital-output ratio (ICOR) which indicates efficiency of capital and levels of productivity was high at 4.24 in FY2009-10. In recent years the ICOR has tended to remain at the same level. In absence of significant rise in investment and consequent productivity growth, it will not be possible for Bangladesh to accelerate her growth rates. Thus, the need for ensuring higher rates of investment to attain higher GDP growth rate and the necessity of taking adequate measures to raise capital productivity cannot be overemphasised. This also underscores the need for the government to go for higher allocation of resources in large scale infrastructure development projects which could crowd in private sector investment. In view of this, a prudent and investment-friendly interest rate policy is critically important. In this regard, of the interest rate implications for attracting savings generated from the interest are also something which should inform policy choices. However, from policy perspective, maintaining a realistic spread between lending and deposit rates will be the important concern.

Two factors helped maintain macroeconomic stability with lower fiscal deficit: commendable revenue mobilisation and underutilisation of ADP allocation

1.4 PUBLIC FINANCE

Fortunately, FY2009-10 has been the second year in a row without any major incidence of natural disasters in Bangladesh. At the same time, as was the case in FY2008-09, prices in the global market were relatively low, owing to slump in global demand. As a result, public expenditure also happened to be lower than the target and trend levels. Two other factors also helped maintain macroeconomic stability with lower fiscal deficit: (a) commendable revenue mobilisation efforts, especially by the NBR; and (b) underutilisation of ADP allocation, even though ADP implementation was relatively better in FY2009-10 compared to the historical trends.

1.4.1 Revenue Earnings

Against the targeted increase of 23.1 per cent in total revenue collection, revenue mobilisation was only 15.4 per cent higher in FY2009-10 compared to FY2008-09. In case of revenue earnings two different trends were observed. First, NBR has maintained impressive growth performance. Second, achievements in non-NBR tax collection and non-tax collection were far from satisfactory. Revenue-GDP ratio has, however, improved from 10.5 per cent in FY2008-09 to 10.9 per cent in FY2009-10. Tax-GDP ratio on the other hand stood at 9.1 per cent against 8.6 in FY2008-09, showing some positive achievement.

Revenue-GDP ratio has improved from 10.5 per cent in FY2008-09 to 10.9 per cent in FY2009-10

NBR Revenue

In order to finance the higher expenditure target for FY2009-10, the budget for the fiscal year relied heavily on resource mobilisation by the NBR. Accordingly the

[2] There is, however, a debate with regard to the actual size of this gap. It is often argued that the practice of including all of the remittance flow as savings is somewhat misleading, since a part of remittance goes for consumption as well. If this be the case, national savings would be lower than what is generally estimated.

target set for the NBR was set at the high levels of Tk. 61,000 crore for FY2009-10, which was 21.5 per cent higher than the actual collection of FY2008-09. NBR, however, was able to achieve a growth of 18.9 per cent over the previous year, (Table 1.2), with total collection amounting to Tk. 59,719 crore at the end of the fiscal year.[3]

Table 1.2: Targeted and Actual Growth in NBR Tax Components

(in Per cent)

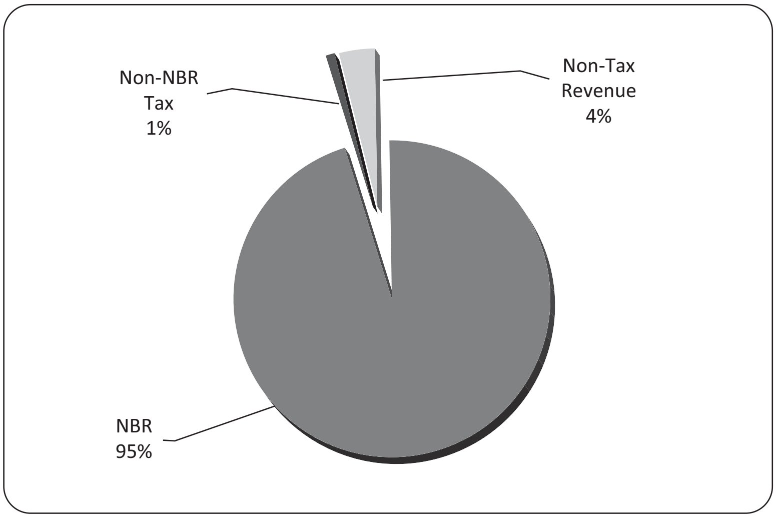
Component	Actual Growth in FY2009	Growth in FY2010	
		Budget	Actual
Income Tax	15.1	23.3	20.8
VAT	13.1	19.2	20.6
Import Duty	-3.7	23.6	5.0
Supplementary and Excise Duty	10.1	22.8	26.5
Electricity and Others	-5.4	6.7	11.8
Total NBR	**9.6**	**21.5**	**18.9**

Source: MoF (2010b).

In case of income tax collection in FY2009-10, though the target could not be achieved, the actual collection was significantly higher, at 20.8 per cent compared to FY2008-09. This robust growth was also possible due to an addition of 0.13 million new taxpayers (0.8 million in total) in FY2009-10 over the previous year, while income tax rates remained unchanged.

Among the other major heads, collection of import duty fell short of the target by a significant margin, realising only 5.0 per cent growth against the target of 23.6 per cent. This has happened in the face of lower imports that have taken place during FY2009-10, due to the depressed investment situation prevailing in the domestic economy, and also lower levels of imports of food items. On the other hand, supplementary duty (SD) collection by the NBR surpassed the target and attained a 26.5 per cent growth[4] (10.1 per cent growth was recorded in FY2008-09).

Figure 1.5: Incremental Contribution in Revenue Earning by Major Heads



Source: MoF (2010b).

Non-NBR Tax and Non-tax Revenue Collection

Both non-NBR tax and non-tax revenue collection fell short of their respective targets in FY2009-10 by a significant extent; the increase posted in FY2008-09 was not notable. In FY2009-10, non-NBR tax and non-tax revenue collection[5] rose only by 3.4 per cent and 3.1 per cent respectively, against the targets of 11.4 per cent and 32.5 per cent.

Overall, total revenue was Tk. 4,937 crore short of target in FY2009-10.[6] Of this, a shortfall of Tk. 3,444 crore was attributed to the non-tax revenue collection, Tk. 1,281 crore to the NBR tax collection and Tk. 212 crore to the non-NBR tax collection. On a different note, achieved revenue growth in FY2009-10 was primarily driven by the NBR; in the total incremental revenue in FY2009-10[7] NBR's share was about 95.4 per cent (Figure 1.5). This has

[3]Data on NBR revenue collection has been taken from the Ministry of Finance for the sake of consistency between earnings, expenditure and deficit figures. According to the data released by the NBR itself, total revenue earnings by the Board for FY2009-10 was actually Tk. 62,007.5 crore, which would indicate a higher than targeted NBR revenue collection for the fiscal year. Traditionally, revenue collection data released by the NBR and the MoF does not match, and this time around a mismatch to the tune of Tk. 2,288.5 crore was observed.

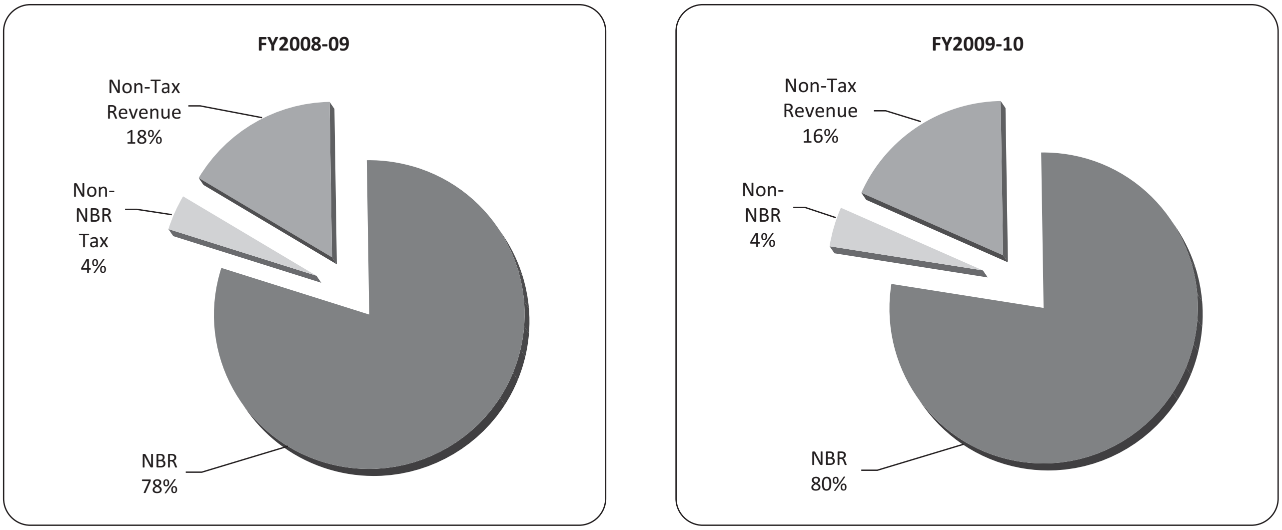
[4]Target growth for SD collection was set at 22.8 per cent for FY2009-10.

[5]During FY2008-09, 14.7 per cent and 3.2 per cent growth were achieved in non-NBR tax and non-tax revenue collection respectively.

[6]In FY2008-09, total revenue earnings fell short by Tk. 4,815 crore.

[7]Revenue earnings in FY2009-10 was Tk. 9,958 crore higher than in FY2008-09.

Figure 1.6: Comparative Share of Revenue Components in Revenue Earnings: FY2008-09 and FY2009-10



Source: MoF (2010b).

resulted in an increased NBR share of 80.1 per cent in the total revenue collection, which was 77.8 per cent in FY2008-09 (Figure 1.6).

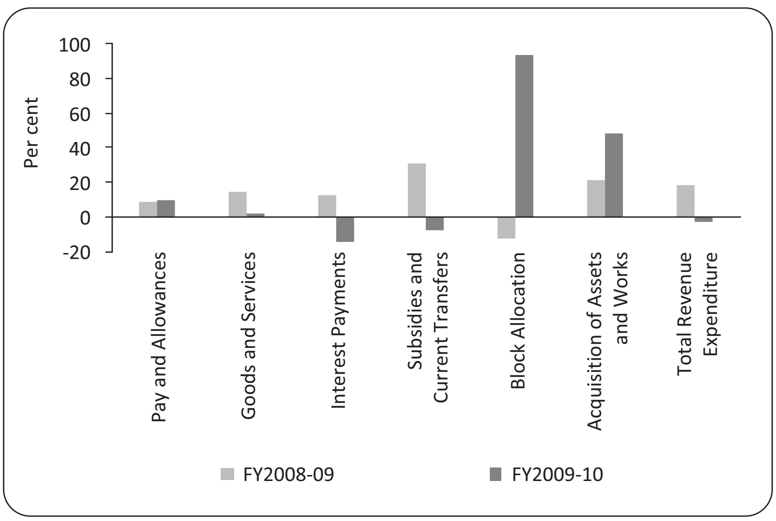
It is to be noted that the revenue structure of Bangladesh has been moving, albeit slowly, towards a more progressive one over the recent years. Further progress in this regard was made when the share of income tax in total revenue increased from 20.8 per cent in FY2008-09 to 21.8 per cent in FY2009-10.

1.4.2 Revenue Expenditure

Revenue expenditure in FY2009-10 was lower compared to budgetary allocations. This has benefited the economy in a number of ways. No extraordinary or urgent expenditure had to be incurred on account of disaster management. Notwithstanding the higher food import than in FY2008-09, prices remained lower than the peak of 2008. Lower import prices arising from the suppressed demand situation in the global market kept the subsidy requirement lower in the economy. Consequently, total revenue expenditure[8] in FY2009-10 stood at Tk. 62,511 crore which was Tk. 10,468 crore less than what was anticipated in the budget.[9] Actual revenue expenditure of FY2009-10 in fact declined by 2.3 per cent compared to FY2008-09 (Figure 1.7).

Revenue expenditure in FY2009-10 under all three major heads[10] was lower than projections made in the budget. Against

Figure 1.7: Growth in Revenue Expenditure: FY2008-09 and FY2009-10



Source: MoF (2010b).

[8]Refers to 'Augmented Non-development Revenue Expenditure' (including Acquisition of Assets and Works) without adjusting for recoveries. Budget for FY2009-10 targets Tk. 1,205 crore as recoveries. However, actual recovery figures were not available.

[9]The FY2009-10 budget envisaged revenue expenditure of Tk. 72,979 crore.

[10]'Pay and Allowances,' 'Interest Payments,' and 'Subsidies and Current Transfers' – these three heads together constituted 81.9 per cent of the total revenue expenditure of FY2009-10 (84.2 per cent in FY2008-09).

the projected increase of 15.3 per cent, expenditure on Pay and Allowances increased by 9.8 per cent in FY2009-10 compared to the previous fiscal year. On the other hand, expenditure on Interest Payments and Subsidies and Current Transfers recorded a decline since FY2008-09, and achieved negative growth rates of (-) 14.1 per cent and (-) 7.5 per cent respectively[11] in FY2009-10 (Figure 1.7).

Surplus in the revenue balance eased the task of keeping the budget deficit at a manageable level during FY2009-10

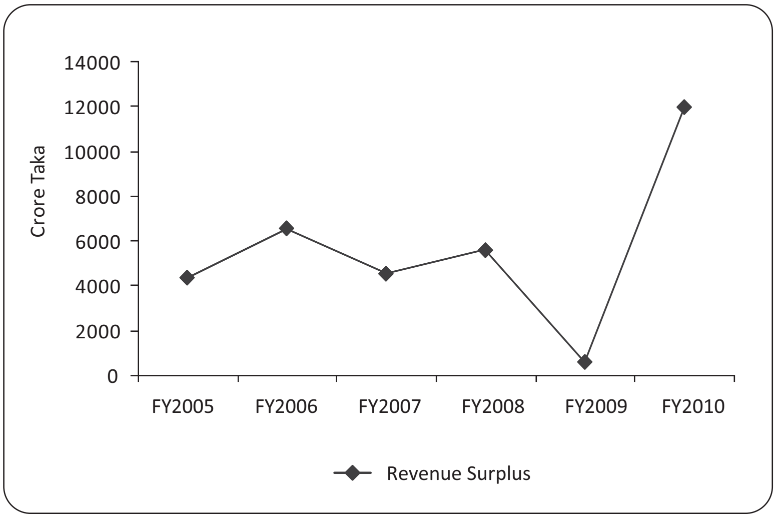
Expenditure on block allocation was set to increase significantly as per the FY2009-10 budget. This was due to an allocation of Tk. 2,500 crore for PPP projects and implementation of the new pay-scale. Total block allocation kept in the budget for FY2009-10 was of Tk. 4,288 crore.[12] However, as the allocation for PPP projects remained unspent, an amount of only Tk. 358 crore was spent in FY2009-10 from the block allocation.

1.4.3 Revenue Surplus

Reasonable achievements in revenue collection, thanks to the impressive performance of the NBR, and lower-than-anticipated revenue expenditure resulted in a significant revenue surplus[13] (as opposed to the historical trend) in FY2009-10. Against a revenue surplus of only Tk. 604.9 crore in FY2008-09, revenue surplus stood at Tk. 12,014 crore in FY2009-10 (Figure 1.8). This was, as a matter of fact, the highest ever.

To some extent, the surplus in the revenue balance eased the task of keeping the budget deficit at a manageable level during FY2009-10.

Figure 1.8: Trend in Revenue Surplus: FY2004-05 – FY2009-10



Source: MoF (2010b).

1.4.4 Annual Development Programme (ADP)

An ADP of Tk. 30,500 crore was undertaken for FY2009-10, which was later revised downward to Tk. 28,500 crore in the revised ADP (RADP).[14] At the end of the fiscal year an amount of Tk. 25,921 crore was actually spent on account of the ADP. This implies that in monetary terms, 85 per cent of the original ADP was actually implemented in FY2009-10.[15] This was a significant improvement over FY2008-09 when the implementation rate was 77 per cent. Only 73.6 per cent of the original project aid was spent in FY2009-10 (65.2 per cent in FY2008-09) as opposed to 93.3 per cent expenditure of the allocated local resources spent in FY2009-10 (87.3 per cent in FY2008-09).

85 per cent of the original ADP was actually implemented in FY2009-10

Among the top five ministries which received relatively high allocations in the original ADP compared to other ministries, the Ministry of Primary and Mass Education and the Local Government Division performed exceptionally well by

[11] Targeted growth rates were 2.9 per cent for Interest Payments, and 4.5 per cent for Subsidies and Current Transfers.
[12] Actual expenditure on block allocation was Tk. 184 crore in FY2008-09.
[13] Revenue surplus is accounted by deducting the revenue expenditure from the revenue earnings.
[14] Original ADP of FY2009-10 was 54.8 per cent larger than the implemented ADP of FY2008-09. The RADP was 44.7 per cent larger than the implemented ADP of FY2008-09.
[15] Including allocations for unapproved projects.

Table 1.3: Incremental Contribution of Ministries/Divisions in ADP Allocation and Expenditure

(in Per cent)

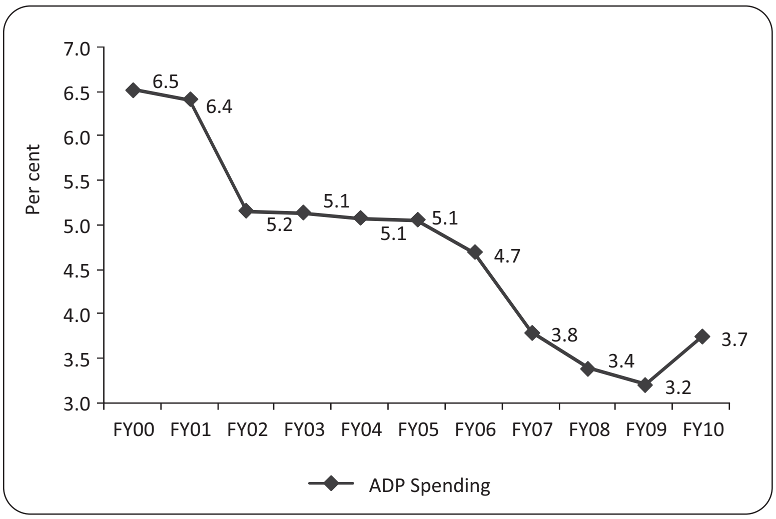
Ministry/Divisions	Incremental Share in Allocation Growth (Original ADP)		Incremental Share in Expenditure Growth	
	FY2009	FY2010	FY2009	FY2010
Top Five Ministries				
Local Government Division	36.3	26.6	35.0	30.0
Ministry of Communication	34.1	15.0	-9.7	18.7
Power Division	33.4	-7.0	-12.1	-5.1
Ministry of Health and Family Welfare	14.4	13.2	16.5	6.4
Ministry of Primary and Mass Education	-13.3	9.4	5.3	10.9
Other Ministries	-4.9	42.8	64.9	39.0

Source: IMED (2010).

spending of 96.5 per cent and 103.8 per cent[16] of their respective allocations. The Ministry of Health and Family Welfare (MoHFW) and the Ministry of Communication[17] demonstrated below average performance with expenditures of 78.6 per cent and 79 per cent of their respective allocations. Power Division was one of the worst performers, with an actual expenditure of only 63.3 per cent of the allocated resources. In recent years, despite the need for investment in power infrastructure, the inability of the Power Division to utilise the allocated funds has, in fact, held back the overall delivery of the ADP. Indeed, in the last two years (FY2008-09 and FY2009-10), the Power Division's incremental contribution to the overall growth in ADP expenditure was negative (Table 1.3).

Overall, the 33 ministries under the Medium Term Budgetary Framework (MTBF), however, performed quite well with an average resource utilisation rate of 94.1 per cent. This has been the first time when ministries under MTBF have demonstrated reasonably higher than average rate of implementation since MTBF came into force in FY2005-06.

Figure 1.9: Actual ADP Spending as Per cent of GDP



Source: Estimated from IMED (2010); MoF (2010a) data.

ADP expenditure in FY2009-10 marked a noteworthy growth of 31.6 per cent over the actual expenditure of FY2008-09. As a result, ADP as a percentage of GDP improved, albeit marginally, in FY2009-10 and stood at 3.7 per cent (as against 3.2 per cent in FY2008-09) (Figure 1.9).

However, the level of ADP delivery remains far from adequate given the overall low level of investment size in Bangladesh (24.3 per cent of GDP). It should also be kept in mind that, besides the quantum and rate of implementation, the quality of project implementation under the ADP is also an important issue that needs to be taken into consideration in the particular context of Bangladesh.

1.4.5 Budget Deficit and Financing

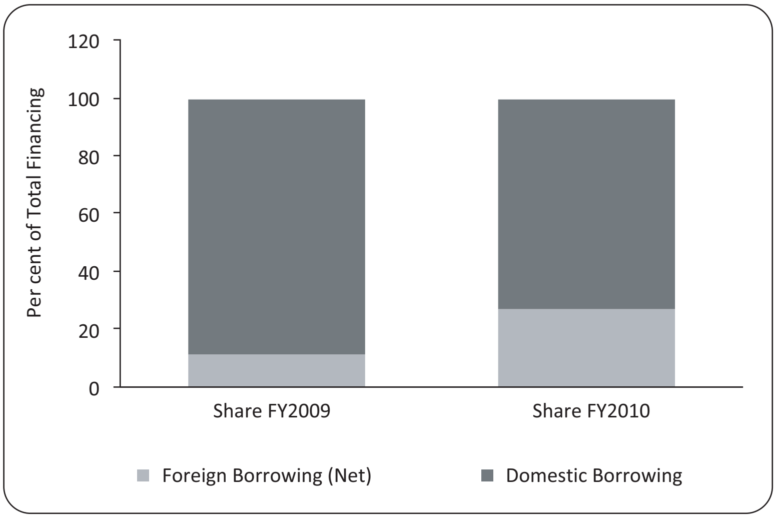
With significant revenue surplus, less than anticipated revenue expenditure, and lower than targeted ADP expenditure, budget deficit in FY2009-10 was significantly lower than projected. In the budget for FY2009-10, a deficit of Tk. 29,228 crore was estimated. Total deficit at the end of the fiscal year, however, stood at Tk. 18,412.3 crore which was lower by Tk. 10,815.7 crore. This

[16]Expenditure of the Local Government Division exceeded the actual allocation by Tk. 246.2 crore.
[17]At present, under two distinct headings: Roads and Railway Division, and Bridges Division.

implies a decline in budget deficit by (-) 19 per cent compared to FY2008-09. It is to be noted that budget deficit in FY2009-10 was only 0.21 per cent of the GDP (3.29 per cent in FY2008-09) whereas the projection for the matched figure was set at 4.3 per cent.

A compositional change in financing the deficit was observed in FY2009-10, reliance on foreign borrowing increased substantially. In FY2009-10 the share of net foreign borrowing in the total deficit financing increased from 11.5 per cent in FY2008-09 to 27.4 per cent in FY2009-10 (Figure 1.10). Foreign financing increased significantly in FY2009-10, by 93.8 per cent, albeit over a low benchmark figure of FY2008-09, and stood at Tk. 5,044.1 crore.

Figure 1.10: Composition of Deficit Financing: FY2008-09 and FY2009-10



Source: MoF (2010b).

In securing local resources in financing the deficit, the government resorted solely to non-bank borrowing despite the prevailing lower inflationary pressure. This reliance was observed notwithstanding the fact that non-bank borrowing tends to be more costly compared to bank borrowing and imposes a burden on the government's exchequer through higher interest payment. As a matter of fact, net bank borrowing during FY2009-10 has been negative (Tk. -2,092.5 crore), while non-bank borrowing posted a remarkable growth of 148.3 per cent compared to FY2008-09. Net financing from the sale of National Savings Directorate (NSD) certificates was almost two and half times[18] of the net sale recorded in FY2008-09.

However, future payment on debt servicing is likely to benefit from the lower budget deficit experienced during the last two years. In fact, FY2009-10 was the second year in a row when budget deficit declined from the previous fiscal year. On the other hand, foreign debt servicing, which as a percentage of GDP has been declining over the last several years, may rise because of the significant growth in foreign financing observed in FY2009-10.

1.5 MONETARY SECTOR

Bumper foodgrain production coupled with falling global prices led to a decline in inflation rate in Bangladesh since September 2008

Global commodity prices have experienced unprecedented volatility since FY2004-05 due to loss of production of major crops in some of the important food producing countries, and diversion of foodgrains for production of ethanol in a number of developed countries including the United States (US) and the European Union (EU). The situation had eased during the second half of 2008 in the face of global financial crisis which contributed to a sharp decline in the aggregate demand in the developed and developing countries. Bangladesh also experienced inflationary pressure in line with the global trend. Bumper foodgrain production coupled with falling global prices led to a decline in inflation rate in Bangladesh since September 2008 when 12-month average inflation rate reached as high as 10.06 per cent, and food and non-food inflation were at 12.63 per cent and 6.01 per cent respectively. After a short spell of respite as evidenced by lower inflation, the country has once again started to feel the pinch of high inflation as FY2009-10

[18] 234.6 per cent growth.

set off. This had adverse impact on the day-to-day lives of the common people. Though Bangladesh had successfully navigated the headwinds of the financial crisis and remained largely unaffected by the first wave of the global economic slowdown mainly due to her limited openness to short-term capital flows, robust performance of export sector and remittance flows, creeping inflationary pressure continued to be a challenge for the economy during the year.

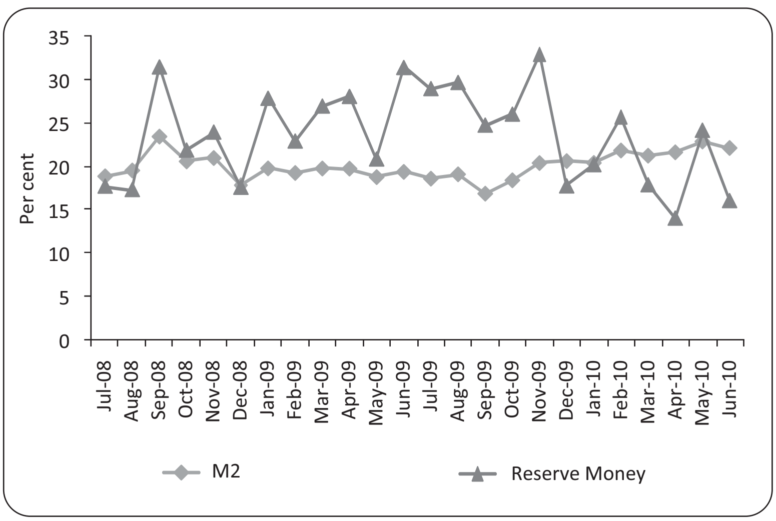
Bangladesh Bank in its Monetary Policy Statement for the first half of FY2009-10, emphasised primarily on growth of credit to support a targeted GDP growth of 6.5 per cent

The emerging challenges in an increasingly uncertain global economic environment required that the monetary policy stance of the country played a key role in stabilising inflation, ensured high rates of economic growth while maintaining an exchange rate which would balance the conflicting interests of exporters and consumers. Taking note of the trends in the global commodity markets, the Bangladesh Bank in its Monetary Policy Statement (MPS) for the first half of FY2009-10 (July-December 2009) emphasised primarily on growth of credit to support a targeted GDP growth of 6.5 per cent; an attempt to reduce money supply was undertaken through raising the cash reserve ratio (CRR). The MPS of Bangladesh Bank for the second half of FY2009-10 (January-June 2010) essentially continued to follow the monetary policy stance of the immediate past period. The following sub-sections provide an overview of the changes with regard to a number of important indicators pertaining to the monetary sector during FY2009-10.

1.5.1 Money Supply and Domestic Credit

Figure 1.11 shows the trend of broad money (M2) and reserve money during FY2008-09 and FY2009-10. At the end of June 2010, M2 rose by 22.18 per cent as opposed to a growth rate of 19.43 per cent in June 2009, and against the target of 15.5 per cent by June 2010 set by the Bangladesh Bank. The growth of reserve money in June 2010 was 16.03 per cent, a significant decline from the 31.45 per cent experienced in June 2009, but much higher than the target of 7 per cent by end of June 2010. The main determinant of this increase in money supply, i.e. net foreign assets component, had experienced an increase of 41.33 per cent during the same period.

Figure 1.11: Growth Rate of Money Supply and Reserve Money



Source: Estimated from *Major Economic Indicators*, various issues.

In May 2010, Bangladesh Bank increased the rate of CRR by 0.5 percentage point in order to dampen the rise of inflation.[19] The decision to increase the CRR was basically a contractionary monetary policy with a view to making credit more expensive. This policy stance was criticised by a number of relevant stakeholders on the ground that it could reduce credit to the private sector. Notwithstanding this rise, growth in domestic credit was higher at 17.89 per cent in June 2010 as opposed to the central bank's target of 15.6 per cent by June 2010. The increase was mainly due to the expansion in credit to the private sector.

[19]Similar measures were taken in 2006 when the central bank resorted to increasing the CRR by 0.5 percentage points (from 4.5 per cent) and statutory liquidity ratio (SLR) by 2 percentage points (from 16 per cent), in order to put a restraint on the money supply.

Past experiences in Bangladesh indicate that a cut in policy rates did not necessarily increase the appetite for credit in the private sector. For example, during the recent past global financial crisis when the interest rate was reduced globally in order to boost the investment and effective demand, Bangladesh Bank also reduced the repo and reverse repo rates in March 2009 by 0.25 basis points, to 8.5 per cent and 6.5 per cent respectively, from 8.75 per cent and 6.75 per cent with the objective of stimulating credit flow to productive activities. This initiative, however, had little success. One could infer from this that in the context of Bangladesh, interest rate was not a major motivating factor for credit demand. In contrast, factors such as effective tax measures and supporting business environment which includes improved infrastructure, adequate availability of energy, and political stability are much more important considerations in terms of attracting investment. The increase in CRR came at a point of time when larger economies around the world started to recover from the setback of the financial crisis. In view of improvements in their economic activities, a number of these countries increased interest rates as a safeguard against inflationary pressure on the economy.

Factors such as effective tax measures and supporting business environment are more important considerations in terms of attracting investment

Bangladesh Bank, through tightening of monetary policy, expects to put some restraint on bank loans going to unproductive sectors as this had a tendency to contribute to inflationary pressure within the economy. However, such a policy ought to be seen as a short-term measure. Credit expansion in the productive sectors may need to be stimulated in view of the uptake of the export and production-oriented sectors and increased disbursement of industrial term loan in FY2009-10.

Tightening of monetary policy ought to be seen as a short-term measure

Domestic credit experienced an increase of 17.89 per cent in FY2009-10 over FY2008-09. The increase in domestic credit during FY2009-10 could mainly be attributed to other public and private sector credit which increased by 20.8 per cent and 24.2 per cent respectively over this period. Increase in credit to the private sector is also reflected in the increase in term loan and working capital, though a major share of this loan may have gone to finance captive power generation.

Industrial term loan disbursement stood at Tk. 25,875.66 crore in FY2009-10 registering an increase of 29.56 per cent when compared to FY2008-09 (Appendix Table 1.1). Except for foreign banks which reflected a negative growth of 76.7 per cent, all other banks showed an increase in term loan disbursement over FY2009-10 compared to the previous fiscal year. Local private commercial banks (PCBs) posted highest growth in disbursement, of almost 55 per cent, with 46.1 per cent growth in loan recovery over the period under consideration.

The central bank has made disbursement of agricultural credit mandatory for all commercial banks

Disbursement of working capital evinced a significant increase of 31.4 per cent, and the recovery also showed a positive growth of 23.59 per cent in FY2009-10. The state-owned commercial banks (SCBs) registered a negative growth of 10.78 per cent in FY2009-10 in case of working capital disbursement compared to FY2008-09. Foreign banks have recorded the highest growth both in case of disbursement of working capital (72.1 per cent) and recovery (almost by 100 per cent) in FY2009-10 compared to the previous year.

The central bank has made disbursement of agricultural credit mandatory for all commercial banks. In light of this, disbursement of agricultural credit in FY2009-10 stood at Tk. 11,116.88 crore compared to Tk. 9,284.46 crore in FY2008-09, indicating a growth of 19.7 per cent. This was mainly due to the additional allocations of the specialised banks such as Bangladesh Krishi Bank (BKB) and

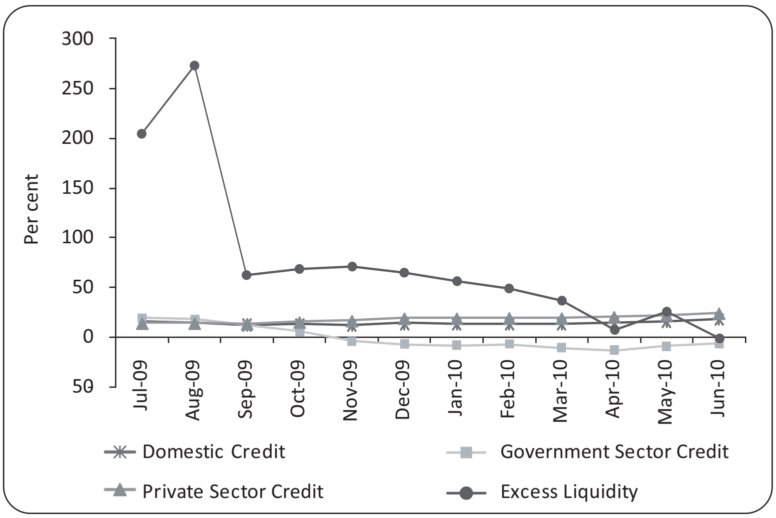
Rajshahi Krishi Unnayan Bank (RAKUB). BKB disbursed a total of Tk. 4,567.17 crore and RAKUB disbursed Tk. 1,060.12 crore, the highest amongst all financial institutions. Crop loan had been highest among all categories of agricultural credit, which contributed to achieve higher food production. Thus, both government and private commercial banks contributed to the enhanced agricultural credit.

Crop loan had been highest among all categories of agricultural credit, which contributed to achieve higher food production

1.5.2 Excess Liquidity

One of the uncomfortable features of the monetary sector in the first few months of FY2009-10 had been the increase of excess liquidity with the scheduled banks which started to increase in FY2008-09. However, during the later months of FY2009-10 the excess liquidity situation eased somewhat primarily because of increased domestic demand. When FY2009-10 is compared with FY2008-09, the growth rate of excess liquidity is negative at (-) 0.8 per cent as opposed to 167.6 per cent in FY2008-09 over FY2007-08. The impact of decline in excess liquidity was reflected in call money rate which went as high as 6.6 per cent in June 2010 compared to 1.7 per cent in June 2009.

Figure 1.12: Growth of Excess Liquidity and Domestic Credit



Source: Estimated from *Major Economic Indicators*, various issues.

Higher growth in domestic credit and lower level of excess liquidity with banks indicate that investment had picked up to some extent after a dull investment scenario during FY2008-09 due to a combination of factors such as anti-corruption drive of the Caretaker Government (CTG), global financial crisis, lack of infrastructural facilities, particularly supply of gas and power, and uncertainties as regards the direction of the country in the near future. Though an increase in private sector credit was observed in FY2009-10 (Figure 1.12), this could be due not only to increase in industrial credit, but also for private consumption, particularly during the festivals.

1.5.3 Loan Default Scenario

In FY2009-10, total classified loan stood at Tk. 23,378.91 crore, registering an increase of 1.8 per cent over FY2008-09. Development financial institutions and foreign banks accounted for an increase of 12.5 per cent and 6.1 per cent respectively in FY2009-10 over the previous fiscal year. Except for the PCBs and SCBs, which were able to make good progress in reducing classified loans by (-) 3.6 per cent and 1.2 per cent respectively during the period under review, none of the other financial institutions were able to show any significant improvement in reducing respective classified loans. In terms of its percentage share in total outstanding loan, net classified loan in all commercial banks has been declining over the last few years. In June 2010 it reached to 1.7 per cent compared to 8.7 per cent in June 2009. On the other hand, the share of total classified loan in total outstanding loan was 12.3 per cent at the end of June 2009. Though it declined to 10.4 per cent at the end of June 2010, the objective of bringing it down to a single digit is yet to be achieved. The high rate of non-performing loan (NPL) with the banks, particularly with the SCBs, reflects the need for significant improvement in services provided by these institutions, in terms of loan quality and efficiency. Evidently, conducting feasibility study of the projects and supervision of loan

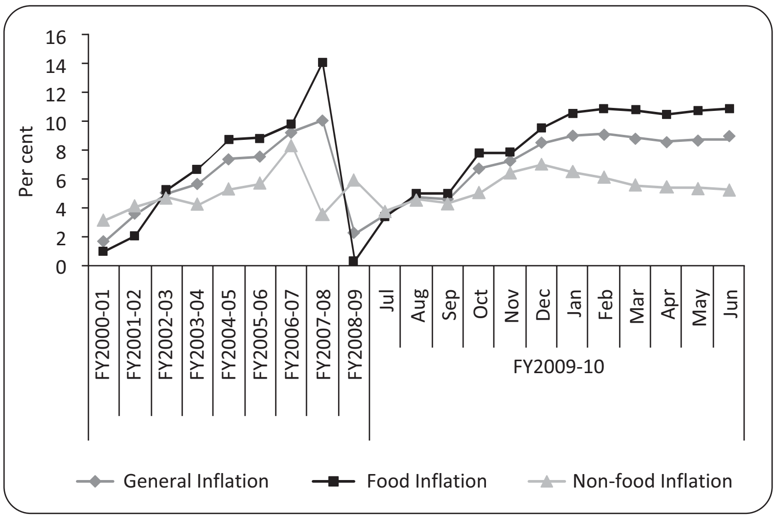
Though total classified loan declined to 10.4 per cent at the end of June 2010, the objective of bringing it down to a single digit is yet to be achieved recovery process will have to be significantly strengthened if the amount of NPL is to be reduced. From this perspective, the central bank has instructed the commercial banks to follow up cases of classified loans more closely to correct the existing situation.

1.5.4 Inflation

After a comfortable level of inflation in FY2008-09, the inflationary pressure bounced back once again in FY2009-10

After a comfortable level of inflation in FY2008-09 (thanks to the fall in global commodity prices), the inflationary pressure bounced back once again in FY2009-10. It was increasing almost throughout the fiscal year, and reached at 8.7 per cent in June 2010 compared to 2.3 per cent in June 2009 on a point-to-point basis (Figure 1.13). The 12-month average inflation rate reached to 7.3 per cent in June 2010 as opposed to 6.7 per cent in June 2009 (see Appendix Table 1.1). Food inflation, as always, was above the curve (10.9 per cent on a point-to-point basis, and 8.5 per cent on a 12-month average basis) compared to non-food inflation (5.2 per cent on a point-to-point basis, and 5.5 per cent on a 12-month average basis) in June 2010. Thus, the inflationary trend in FY2009-10 indicates that even though average inflation remained low during the initial months of FY2009-10, the rate of inflation gained pace in the later months. This could have been the result of a number of factors such as implementation of the pay-scale of the government employees, faster rate of ADP implementation during the second half of FY2009-10, continuation of high price of rice (which pushed up food inflation), and high foreign exchange reserves and robust remittance flow into the economy.

Figure 1.13: Point-to-point Inflation Rates



Source: Estimated from BBS (2010a) data.

However, growth in money supply and inflation did not always follow the same direction (Appendix Figure 1.1). Consequently, it is difficult to correlate these two factors, particularly in the absence of any rigorous empirical work towards establishing a relationship between these two.[20] Theoretically, inflation has been associated primarily with interest rate and money supply. Over time, various theoretical models have been developed to rationalise the use of interest rate policies to control inflation rates (Taylor 1993; Svensson 1999). In a bid to facilitate economic growth and control inflation, Bangladesh Bank has been using various tools from time to time, such as repurchase agreement (repo), reverse repo, CRR and SLR. However, striking a balance between inflation and interest rate has always been a challenge for central banks around the globe. Nevertheless, Bangladesh Bank has been pursuing an accommodative monetary policy in line with domestic and international market developments.

Bangladesh Bank has been pursuing an accommodative monetary policy in line with domestic and international market developments

As is known, inflation in Bangladesh is determined mostly by international prices. Though a good harvest of rice is essential for output stability and food security, general price levels tend to rise in tandem with rise in global prices since other

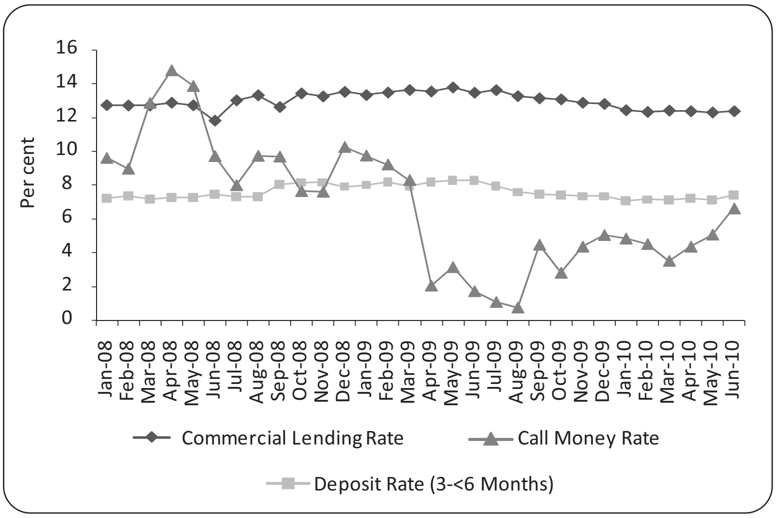
[20] A number of studies have examined various aspects of inflationary situation in Bangladesh (Younus 2009; Ahmed and Mortaza 2005; Mujeri *et al.* 2009). However, these studies have not identified any specific determinants of inflation in Bangladesh.

essential commodities such as wheat, pulses, onion and sugar are mostly imported. Current inflationary pressure tends to be mostly due to supply constraints, and not arising from any significant monetary expansion.

1.5.5 Interest Rate

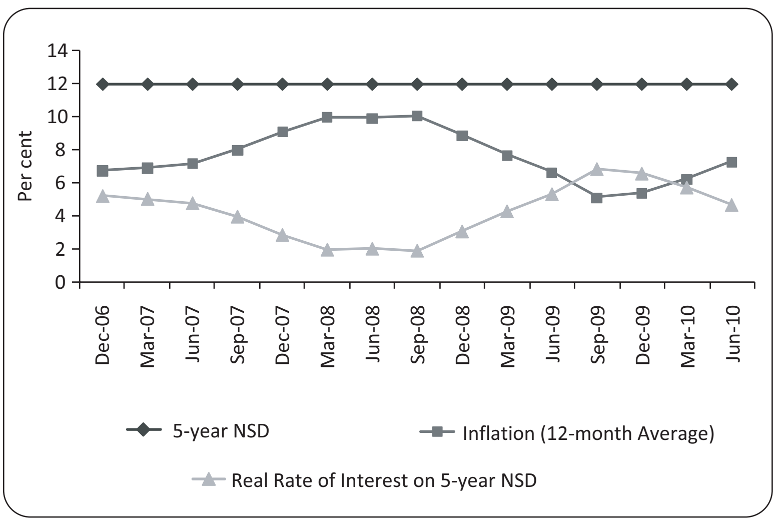
Interest rate has continued to be a debated issue in Bangladesh for quite some time now, since there exists high spread between lending and borrowing rates. In 2008, Bangladesh Bank went as far as to put a cap on the lending rate at 13 per cent. In June 2010, commercial lending rate came down to 12.4 per cent compared to 13.5 per cent in June 2009 (Figure 1.14). Deposit rate had also come down to a 7.4 per cent as of June 2010 compared to 8.3 per cent in June 2009. Though a marginal improvement in terms of reduced interest rate spread was observed in FY2009-10 compared to the previous fiscal, the cut in deposit rate resulted in a shift by small investors to buy more NSD certificates since these guaranteed higher rates of return. NSDs had been a source of good return on funds though the real rate of interest has been on the decline due to inflationary pressure (Figure 1.15). Net sales of NSD certificates increased significantly by about 23 per cent in FY2009-10. Investors also found stock market lucrative since investment in stocks tended to give very high return. The reasons for high interest rate spread in Bangladesh are mainly low efficiency in the banks and high risk of lending. Banking system is yet to be automated fully, and efficiency level in the system is rather low. This increases cost of operation and disbursement and supervision of loans. Besides, since the possibility of loan default is also high, banks are not comfortable to reduce lending rates further which could help narrow down the spread.

Figure 1.14: Lending and Deposit Rates



Source: Estimated from *Major Economic Indicators*, various issues.

Figure 1.15: Real Rate of Interest



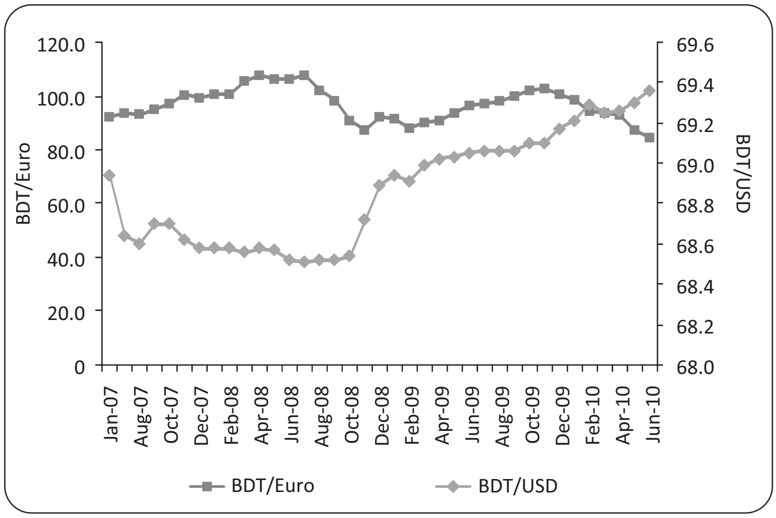
Source: Estimated from *Major Economic Indicators*, various issues.

1.5.6 Exchange Rate

Exchange rate management in Bangladesh context is a difficult task because of the multidimensionality of its impact on the economy and the trade-offs that it entails. Bangladesh has been maintaining a stable exchange rate for a long period. It is often alleged that the policy to maintain stability of exchange rate and protect the benefit of exporters and remitters, may have contributed to higher foreign exchange reserves in Bangladesh in recent years.

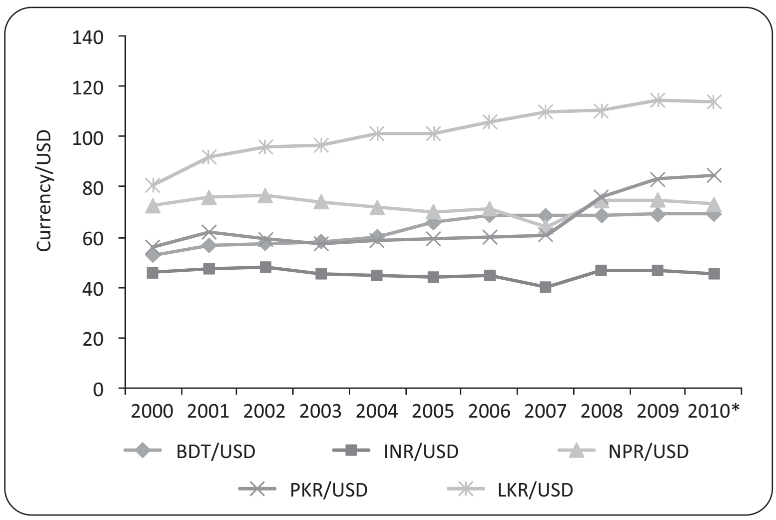
The exchange rate between Bangladesh Taka (BDT) and the United States Dollar (USD) has remained fairly stable in FY2009-10. The BDT depreciated by a small amount against USD to Tk. 69.36 as of June 2010, when compared to Tk. 69.05 in June 2009 (Figure 1.16). There is no Euro/BDT market in Bangladesh and Euro/BDT rate is calculated from the traded rates of USD/BDT. The BDT has appreciated against Euro from Tk. 96.78 in June 2009 to Tk. 84.71 as of June 2010. The BDT has also appreciated against the Indian Rupee (INR), Nepalese Rupee (NPR), Pakistani Rupee (PKR) and Sri Lankan Rupee (LKR) (Figure 1.17). As for the real effective exchange rate (REER) of BDT against USD, it has traditionally been lower than the nominal effective exchange rate (NEER), and there was no exception to this in FY2009-10.

Figure 1.16: Exchange Rates



Source: Estimated from www.onada.com data.

Figure 1.17: Movement of Currencies against USD



Source: Estimated from www.oanda.com data.
Note: *Up to June 2010.

1.5.7 Policy Implications

Monetary sector policies of a country are driven by both domestic and global factors. The purpose of monetary policy in countries such as Bangladesh is not only to achieve growth, but to eradicate poverty and reduce inequality. At present Bangladesh Bank is striving to achieve these objectives through encouraging increased credit to sectors such as agriculture and small and medium enterprises (SMEs). These initiatives are considered to be critical to fulfil the objectives of meeting the needs of those who are lagging behind and are important agents for change in the country. At the same time, the central bank also has a role in helping achieve high growth through higher investment, managing exchange rates to encourage exporters, importers and remitters, utilising foreign exchange reserves prudently, using excess liquidity productively, and containing the inflation growth rate. Along with pursuing the accommodative monetary policy, institutional reforms in the financial sector will also need to be continued. This is needed to instil dynamism and improve efficiency in the market.

Inflation started to pick up in the later part of the fiscal year

The overall performance of the monetary sector has been mixed in FY2009-10. Though inflation rate experienced downward trend in the first few months, it has started to pick up in the later part of the fiscal year. Foreign exchange reserves also reached a record high level and domestic credit had increased significantly. Future monetary policy stance of Bangladesh Bank will have to take measures to keep inflation rate down since the increasing domestic prices, rise in global commodity prices and high foreign exchange reserves may put further pressure on the inflationary situation in the country.

The current inflationary pressure is mainly due to supply side constraints, and hence contractionary monetary policy is likely to have limited impact in terms of containing inflationary trends in the economy. The average inflation for the FY2009-10 was targeted at 6.5 per cent by Bangladesh Bank in its MPS for the period of January-June 2010 (Bangladesh Bank 2010b). Though Bangladesh Bank has stated that the monetary policy stance of the government is to sustain broad-based economic growth and contain inflation within 'tolerable moderate levels,' restraining the rising inflationary trends is likely to prove to be a daunting task in the coming months. It will warrant prudent use of weapons from the government's armoury of monetary management in the short and medium-term, keeping an eye on the fast changing domestic investment scenario and volatilities in the global market.

Contractionary monetary policy is likely to have limited impact in terms of containing inflationary trends in the current situation of the economy

1.6 REAL SECTOR

1.6.1 Agriculture and Food Security

In FY2009-10, five major features were observed with respect to the agriculture sector and food security situation in the country. These were: (i) attainment of self-sufficiency in rice production and highest ever level of production of foodgrains; (ii) improvement in delivery mechanism for public support and agricultural inputs to the farmers; (iii) increase in per capita availability of foodgrains; (iv) vulnerability of *haor* areas due to early flash flood; and (v) dampened enthusiasm of potato growers because of low price.

In FY2009-10, a major feature with respect to the agriculture sector and food security situation was attainment of self-sufficiency in rice production and highest ever level of production of foodgrains

Self-sufficiency in Rice Production

According to the final estimates of the BBS, production of Aus rice in FY2009-10 was 1.7 million metric tonnes (MT), which was 9.8 per cent lower than the actual production in FY2008-09, and 31.4 per cent lower than the target. On the other hand, production of Aman rice in FY2009-10 was 12.2 million MT which was 5.1 per cent higher than the actual production in FY2008-09, but 4.2 per cent lower than the targeted production. Production of Boro rice in FY2009-10 has experienced some negative shocks, but also witnessed some positive developments. Negative shocks included damage to seedlings because of fog and cold at the beginning of the season, damage of 51,000 hectares (ha) of paddy fields in *haor* areas due to early flash flood, and diversion of rice producing land to tobacco production in a number of districts in the northern and western parts of Bangladesh. On the other hand, positive developments included balanced use of fertiliser in response to reduction in administered price of non-urea fertilisers, good sunlight and weather condition[21], and use of relatively young rice seedlings and in lesser number as advocated by agronomists.[22] Despite all the aforesaid factors, total production of Boro rice was 18.3 million MT in FY2009-10, which was 3 per cent higher than FY2008-09, and 3.5 per cent lower than the revised target. Wheat production was 0.9 million MT in FY2009-10 which was 6.1 per cent higher than that of FY2008-09, but 12 per cent lower than the target. Thus, total production of foodgrains (rice and wheat) in FY2009-10 was 33.2 million MT.[23] In

Production of Boro rice in FY2009-10 has experienced some negative shocks, but also witnessed some positive developments

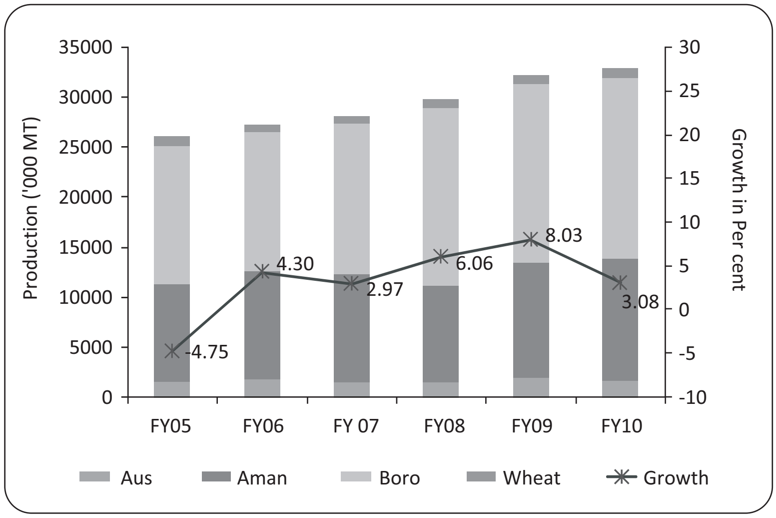
[21]This was helpful to enhance photosynthesis by Boro rice plants which helped attain higher productivity.

[22]The so called system of rice intensification (SRI) which ensures better crop growth and yield.

[23]According to BBS (2009), total production of foodgrains in FY2008-09 was 32.16 million MT, comprising 31.31 million MT of rice (Aus: 1.89 million MT; Aman: 11.61 million MT; Boro: 17.81 million MT), and 0.85 million MT of wheat. In FY2008-09, compared to FY2007-08, production of foodgrains was 8.03 per cent higher while rice production was 8.25 per cent higher.

other words, total rice production (32.3 million) in FY2009-10 was 3 per cent higher than last year, but 6.1 per cent lower than the revised target of FY2009-10. Total production of foodgrains in FY2009-10 is 3.1 per cent (Figure 1.18) higher than that of last fiscal year, but 6.3 per cent lower than the revised target. It may be noted here that the annual compound growth rate in production in the 2000s (FY2001-02 to FY2008-09) was 3.2 per cent for rice and 2.6 per cent for total foodgrains, and negative (-11.3 per cent) for wheat. Continuing rising trend in production in FY2009-10 has led to the highest ever level of foodgrain production in Bangladesh. This has enabled Bangladesh to attain self-sufficiency in rice production in FY2009-10.

Figure 1.18: Estimated Production of Foodgrains in FY2009-10



Source: Estimated from Bangladesh Bureau of Statistics (BBS) data.

Delivery Mechanism for Public Support and Agricultural Inputs

Introduction of a number of important measures resulted in notable improvement in the transfer mechanism for public support and input delivery to farmers. Measures that were introduced and implemented by the government in FY2009-10 included introduction of Agro-inputs Assistance Cards for farmers, disbursement of diesel subsidy directly to farmer's bank account, free electricity for irrigation to compensate for the early drought in the monsoon season, new mechanism for fertiliser delivery, and collateral-free credit for tenant farmers. The government also continued 20 per cent subsidy for electricity used by irrigation pumps, and raised the amount of agricultural credit for the farmers.

Total production of foodgrains in FY2009-10 is 3.1 per cent higher than that of the last fiscal year

Agro-inputs Assistance Cards

The MoA distributed Agro-inputs Assistance Cards (Krishi Upakaran Sahayata Card) to 18.2 million farmers across the country in FY2009-10. This will from now on be used to support small and medium-sized farmers directly, both in kind and cash. The card contains detailed personal information about the farmers along with their requirement of inputs such as seeds, fertiliser, pesticides, agricultural credit and the provision for irrigation subsidy. It is to keep record of the amount of subsidy given to the farmers in each season as well. The government has provided a unique identity number to each of the cardholders. A national farmers' database is being planned to be set up based on these cards. It was also decided that input subsidy will be delivered to cardholders only through banks. This initiative will be helpful in enhancing efficiency and transparency in the distribution mechanism, and needs to be appreciated.

Input subsidy delivered through banks using Agro-inputs Assistance Cards will be helpful in enhancing efficiency and transparency in the distribution mechanism, and needs to be appreciated

Farmer's Bank Account

As a complementary measure to the Agro-inputs Assistance Card, Bangladesh Bank has directed the SCBs and specialised banks to allow farmers to open accounts with an initial deposit of Tk. 10 to get input subsidies without hassle. Opening of such an account does not require keeping a minimum balance as security, and no one has to identify the account holder either. According to the Bangladesh Bank data more than nine million farmers have opened bank accounts in FY2009-10. Given the large number of people to be covered under this programme, logistical support will need to be expanded considerably.

Subsidy for Diesel and Electricity Used in Irrigation

The initiative to increase subsidy for diesel-operated irrigation system in Boro rice cultivation and continuation of subsidy on electricity for irrigation are commendable measures

The initiative to increase subsidy for diesel-operated irrigation system in Boro rice cultivation and continuation of 20 per cent subsidy on electricity for irrigation are indeed commendable measures. The government has decided to provide diesel subsidy to 9.1 million Boro rice cultivating marginal, small and medium farmers.[24] Accordingly, the government has distributed Tk. 750 each in FY2009-10 to all the deserving farmers through their respective bank accounts.

Subsidy for Agricultural Machinery Purchase

The MoA introduced subsidy for purchase of agricultural machinery to raise productivity and encourage the use of modern equipments. A new project titled *Enhancement of Crop Production through Farm Mechanisation*, with an allocation of Tk. 150 crore, was introduced in FY2009-10. Under the project, farmers of 237 upazilas in 25 districts were to receive 25 per cent subsidy on the cost of buying agricultural machineries (tractors, power tillers, thrashers for rice and wheat, and transplanters) to boost crop production and reduce post-harvest losses. However, the government eventually reduced the allocation for this project and revised this downward to Tk. 15 crore for FY2009-10. Another project to install deep tube-wells (2nd phase) with an estimated cost of Tk. 248 crore was approved in FY2009-10 with a view to irrigate 37,500 ha of land which will help produce an additional 0.19 MT of crops.

A new project titled Enhancement of Crop Production through Farm Mechanisation was introduced in FY2009-10

Distribution and Price of Fertilisers

The MoA implemented a new policy for appointing fertiliser dealers and rearranged the fertiliser distribution system to ensure proper and timely delivery of fertiliser. As per the new policy, one dealer was appointed in each union and each municipality area. In addition, five to nine retailers were appointed for each union who purchased fertilisers from the dealers and then sold those to farmers. Farmers could purchase fertiliser from both dealers and retailers. Following the decline in international prices of non-urea fertilisers, the government refixed prices of triple super phosphate (TSP), muriate of potash (MoP) and diammonium phosphate (DAP) in November 2009.[25] Thanks to the efficacy of the new system, there was no complaint about fertiliser availability in FY2009-10. As is known, international prices of DAP and TSP had increased significantly though the prices of MoP and urea decreased moderately between July 2009 and June 2010.[26] The rising trend in the international prices of urea, TSP and DAP may increase the subsidy burden for the government in view of the substantial financial support that is already being provided by the government. It should be noted in this context that the government has increased the allocation for fertiliser subsidy to Tk. 3,387 crore in the revised budget for FY2009-10.

The MoA implemented a new policy for appointing fertiliser dealers and rearranged the fertiliser distribution system to ensure proper and timely delivery of fertiliser

[24] Amongst the farmers, 8.3 million Boro rice growing small (owning 0.50-2.49 acres of land) and marginal (having 0.05-0.49 acres of land) farmers using diesel for irrigation will get Tk. 800 per head. On the other hand, 0.8 million Boro rice cultivating medium farmers (having 2.50-7.49 acres of land) who have irrigated their land with diesel-operated machines will get Tk. 1,000 per head.

[25] At Tk. 22, Tk. 25, and Tk. 30 per kg respectively from the previous prices of Tk. 40, Tk. 35 and Tk. 45 per kg.

[26] In June 2010, international prices of per MT TSP and DAP were USD 347 and USD 448 respectively, while, MoP and urea were sold at USD 319 and USD 229. Between July 2009 and June 2010, prices of TSP and DAP increased by 55 per cent and 53 per cent respectively, while prices of MoP and urea decreased by 51 per cent and 6 per cent respectively.

Agricultural Credit

The amount of agricultural credit disbursed to the farmers increased significantly in FY2009-10. Total amount of agricultural credit disbursed by commercial and specialised banks was Tk. 11,116.88 crore in FY2009-10 which was 19.7 per cent higher than that of the previous fiscal year (see Section 1.5 for details). An amount of Tk. 500 crore has been made available to the sharecroppers in 150 upazilas as collateral-free loans, at a low interest rate of 10 per cent through a dedicated refinancing scheme with the BRAC.

Food Import and Public Food Distribution Situation

Commercial import of rice was negligible in FY2009-10 but significant increase in import of wheat has increased total import of foodgrains. Bangladesh has traditionally been a net food importing country. External sources of foodgrains comprise of food aid and commercial import.[27] In recent years, commercial import of rice and wheat has been carried out mainly by the private sector. In FY2009-10, commercial import of rice was only 88,100 MT against 0.58 million MT of FY2008-09. During this period, total import of foodgrains and wheat was 3.45 million MT and 3.36 million MT which was respectively 14 per cent and 39.35 per cent higher than that of FY2008-09 (Table 1.4). Increased demand for wheat and wheat products in the country and low level of domestic production explain the underlying reasons for increased import of wheat during this year. It may be recalled here that current wheat production (about 0.9 million MT) was only about 50 per cent of the historically highest production of wheat attained in FY1999-00 (1.8 million MT). Production of wheat has declined in the country due to change in climate, lack of comparative advantage and lack of opportunities for producing alternative crops (maize) with higher return.

Table 1.4: Food Import in FY2008-09 and FY2009-10

('000 MT)

Category of Import	FY2008-09			FY2009-10		
	Rice	Wheat	Total Foodgrains	Rice	Wheat	Total Foodgrains
Food aid	35.0	87.0	122.0	3.6	43.6	47.0
Public commercial import	396.0	295.0	691.0	51.5	457.1	508.0
Private import	187.0	2031.0	2218.0	36.6	2862.0	2899.0
Total	**618.0**	**2413.0**	**3031.0**	**91.7**	**3362.7**	**3454.0**

Source: Food Planning and Monitoring Unit (FPMU), Ministry of Food and Disaster Management, Government of Bangladesh (GoB).

Distribution under PFDS

Total distribution of food under the Public Foodgrain Distribution System (PFDS) decreased due to lower level of distribution under non-priced channel even though distribution under priced channel increased substantially. In FY2009-10, as has been the practice, the government distributed rice and wheat under the PFDS through priced and non-priced (targeted) channels. In FY2009-10, the amount of foodgrains distributed under various PFDS channels was about 1.96 million MT against 2.13 million MT in the previous year (Table 1.5).

Table 1.5: Channel-wise Distribution of Foodgrains in FY2009-10

('000 MT)

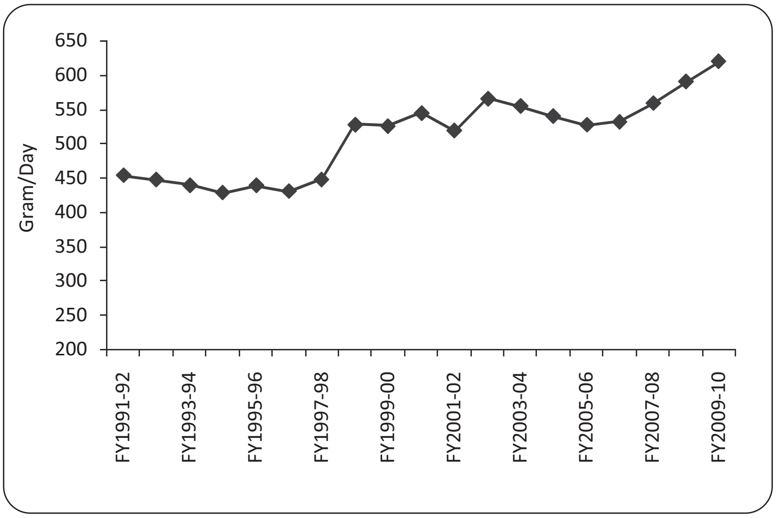
Channel	FY2007-08	FY2008-09	FY2009-10
Priced			
Essential Priority	210	219	246
Other Priority	21	22	21
Large Employee Industries	12	10	15
Open Market Sale (OMS)	268	195	309
Sub-total	*511*	*446*	*591*
Non-priced			
Food for Work (FFW)	154	395	376
Test Relief (TR)	76	368	368
Vulnerable Group Development (VGD)	268	279	272
Vulnerable Group Feeding (VGF)	188	507	249
Gratuitous Relief (GR)	38	43	37
VGF (Relief)	232	-	-
Others	95	92	69
Sub-total	*1051*	*1684*	*1371*
Total	**1562**	**2130**	**1962**

Source: Food Policy Monitoring Unit (FPMU), Ministry of Food and Disaster Management, Government of Bangladesh (GoB).

[27] Food aid comes through public import, but commercial import is carried out by both public and private sectors.

In other words, in FY2009-10 total distribution under PFDS was 7.9 per cent lower than that of the previous year. Distribution through non-priced channel was 18.6 per cent (1.37 million MT) lower than that of the last year. On the other hand, distribution under priced channel in FY2009-10 was 0.59 million MT, which was 32.5 per cent higher than the previous fiscal year. With a view to ensuring food security for the low-income industrial workers, the government sold about 43,050 MT of rice at the subsidised price of Tk. 16/kg to garments and industrial workers in Narayanganj, Gazipur, Narsingdi and Khalispur (in Khulna).

Figure 1.19: Per Capita Availability of Foodgrains



Source: For FY1991-92 to FY2007-08, WFP (2009); for FY2008-09 and FY2009-10, CPD estimates based on data collected from Food Policy Monitoring Unit (FPMU), Bangladesh.

Per Capita Availability of Foodgrains

Improvement in domestic production of rice and increase in import of wheat has led to higher per capita availability of foodgrains in FY2009-10 (Figure 1.19). Per capita availability of foodgrains was 453 gram (gm) per day in FY1991-92 which declined to about 430 gm per day in the mid-1990s, and thereafter gradually increased to 544 gm per day in FY2000-01. It declined again to 519 gm per day in FY2001-02 and showed some fluctuations for several years. Since FY2005-06, per capita availability of foodgrains has been gradually on the rise. According to CPD estimates, it has increased to 590 gm per day in FY2008-09, and to 620 gm per day in FY2009-10. Given such achievement, it appears that time has come to make renewed efforts towards ensuring a nutritionally balanced diet for citizens by fixing cereal production target at the current level and increasing production of other crops. To this end, increase in rice yield will enable the country to release some of the rice producing acreage for production of other crops.

Vulnerability of *Haor* Areas due to Early Flash Flood

According to an estimation by the SPARRSO, about 51,000 ha of Boro rice area was damaged by the flash flood in haor areas

Pre-monsoon heavy rainfall and flash flood damaged Boro rice in *haor* areas and led to increased vulnerability of the people in the affected areas. In early April of 2010, Boro rice in *haor* areas, especially in Sunamganj, Kishoreganj and Netrokona districts, were damaged due to pre-monsoon heavy rainfall and flash flood from upstream hilly lands of the neighbouring country, India. Due to the rise in river water level, flood protection embankments collapsed, and thousands of hectares of Boro rice crop got submerged. According to an estimation by the Bangladesh Space Research and Remote Sensing Organization (SPARRSO), about 51,000 ha of Boro rice area was damaged by the flash flood. *Haor* areas generally tend to be single-cropped. As a consequence, total damage of rice crops by the flash flood will have serious negative impact on the food security situation in those areas. With a view to helping the affected people, the government took a number of initiatives which included postponing credit repayment for a year and providing seeds and fertiliser at subsidised price for the next Boro season. However, apart from these initiatives, the government should also take some medium-term initiatives to minimise production risks in the *haor* areas. To this end, there is a need to develop crop varieties which could be harvested by mid-April. Development of cold-tolerant and early maturing varieties will be needed for diversification. Bangladesh may take help from South Korea in this respect, who has advanced research capacity for the development of cold-tolerant rice varieties. Proper maintenance of the embankments will also help reduce the risk of flood damage. Most importantly, allocations under targeted safety net and employment generation programmes in these areas should be increased.

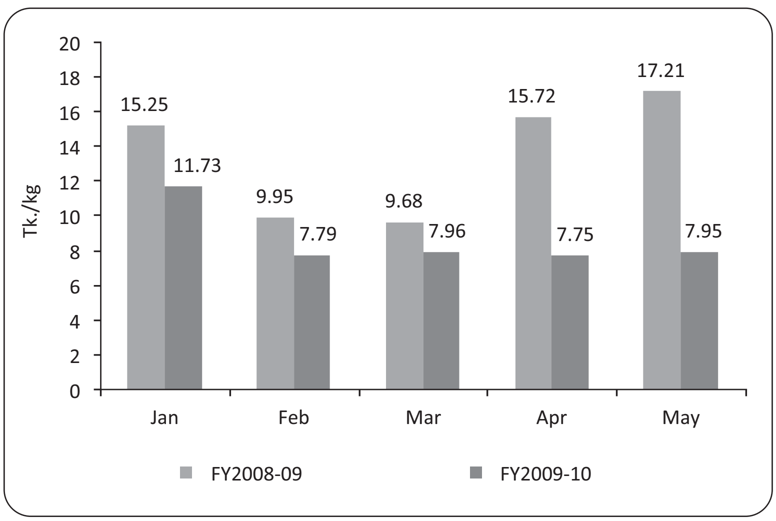
Low Price Discourage Potato Growers

In FY2009-10 Bangladesh recorded highest level of potato production in her history. However, lower levels of price in FY2009-10 which followed the higher prices of the previous year, created a disincentive for the potato growers. According to the BBS, total production of potato in FY2009-10 was 7.93 million MT which was 50.5 per cent higher than that of FY2008-09, and 19.3 per cent higher than that of FY2007-08. It may be noted here that the annual compound growth rate in potato production between FY2001-02 to FY2008-09 was 9.7 per cent. The increase in potato production in FY2009-10 was due to the increase in both acreage and yield. In FY2009-10, area under potato production was 4.35 lakh ha (9.85 per cent higher than that of FY2008-09, and 8.2 per cent higher than that of FY2007-08), while yield was 18.25 MT/ha (37 per cent higher than that of FY2008-09, and 10 per cent higher than that of FY2007-08). High price of potato (about Tk. 30 per kg) prior to the planting time (September-October 2009) induced farmers to increase acreage under potato cultivation. Favourable weather and availability of adequate non-urea fertilisers at subsidised price contributed towards balanced fertiliser use and helped to achieve higher level of potato yield.

Despite the record highest potato production in FY2009-10, low price created a disincentive for the potato growers

In spite of the bumper harvest, potato farmers were rather disappointed. Farm-level price of potato during the harvesting period was much lower in FY2009-10 than the previous year. Average farm-level price of potato in January 2010 was Tk. 11.73 per kg but declined to Tk. 7.79 per kg in February; the price then rose to Tk. 7.96 per kg in March and fell to Tk. 7.75 per kg in April and then again rose somewhat to Tk. 7.95 per kg in May 2010 (Figure 1.20). In contrast, the average farm-level price of potato for the same period was consistently higher last year. It may also be noted here that the average cost of production of potato was between Tk. 10 to Tk. 12 per kg in FY2009-10.

Figure 1.20: Comparison of Farm-level Prices of Potato in Bangladesh: FY2008-09 and FY2009-10



Source: Estimated from Department of Agricultural Marketing (DAM) data.

Lower price aside, inadequate storage capacity also aggravated the situation. Bangladesh has 350 cold storages with a total capacity of about 2.4 million MT. About 4 million MT of potato is usually stored in households for the purpose of sale in the first half of the year. Thus, there was a lack of storage facility for about 1.6 million MT of potato. In FY2009-10, storage capacity emerged as a severe problem. Taking advantage of the emergent situation, cold storage operators increased the tariff for storage from Tk. 220 to Tk. 260 per sack (80 kg).

In order to reduce the existing price risk in potato farming, it is essential to formulate an appropriate policy. There is a cyclical pattern of cultivation and production of potato in Bangladesh. Bumper harvest is normally followed by lower production due to low price, poor storage capacity and inadequate marketing facilities. In this backdrop, the government can do the followings: (i) encourage investors to establish new cold storages in major potato growing areas[28] by providing credit at lower cost, offering tax holiday, and reducing import duty on machineries used in cold storages; (ii) ensure adequate electricity supply in cold storages; and (iii) give priority to potato growing farmers for space management in cold storages. Government could also think of setting up cold storages on PPP basis.

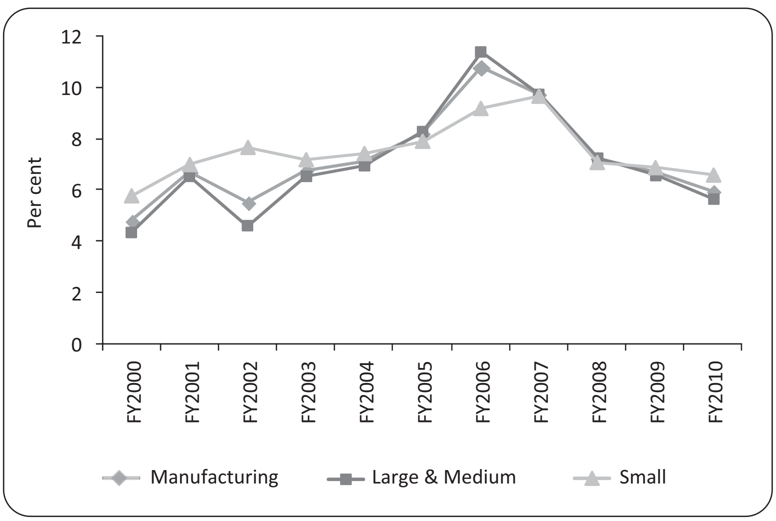
Export potential of potato from Bangladesh to Malaysia, Sri Lanka, Singapore, Thailand and Middle East is quite good

To stimulate export, the government raised cash incentive for potato exporters from the existing level of 10 per cent to 20 per cent, with effect from April 2010. This had a positive impact on potato exports. Potato exports in April 2010 (4,182 MT) was 18 per cent higher than in March 2010. In the February-April period of 2010 Bangladesh exported about 9,000 MT of potato, mainly to Malaysia and Singapore. To encourage potato export, the cash incentive scheme should be continued in the next year. The government could think about introducing the provision of cash incentive to be linked to traceability pre-condition. Thus, it should be made mandatory that identity number of the farmer be put on all potato sacks to be exported. This will help Bangladesh to export potato to supermarkets in the developed countries and fetch higher price. Available information suggests that export potential of potato from Bangladesh to Malaysia, Sri Lanka, Singapore, Thailand and Middle East is quite good.

1.6.2 Industrial Sector

Industrial sector has passed through a turbulent period in FY2009-10 confronting challenges from both domestic and external sources. Due to the lagged impact of the global economic slowdown, particularly on export-oriented sectors, and the continuing shortfall in the supply of energy and power, industrial activities slowed down in FY2009-10. Consequently, manufacturing sector attained its lowest level of growth in FY2009-10 (5.92 per cent) compared to the last seven years (Figure 1.21).

Figure 1.21: Growth of Manufacturing Sector



Source: Estimated from MoF (2010a) data.

Industrial Production

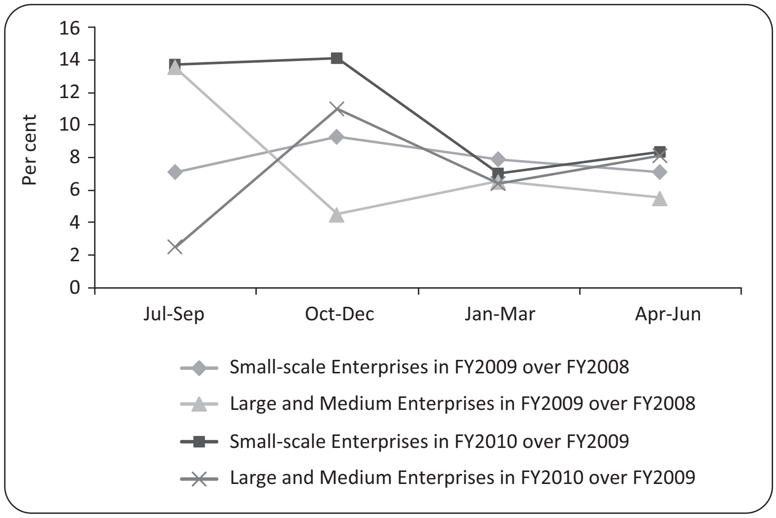
Growth of manufacturing industries in FY2009-10 varied across different sizes of enterprises. According to the *Bangladesh Economic Review 2010*, growth of large and medium-scale manufacturing enterprises was estimated to be 5.6 per cent, which was 0.9 percentage points lower compared to the previous year. Growth of manufacturing enterprises estimated on the basis of monthly data of the quantum index of production (QIP) showed a similar trend.[29] Growth of small-scale enterprises, on the other

[28] It is to be noted that ten major potato growing districts (Bogra, Chandpur, Comilla, Dinajpur, Joypurhat, Munshiganj, Nilphamari, Naogaon, Rajshahi and Rangpur) produce more than 70 per cent of the total potato production in the country.

[29] Large and medium manufacturing enterprises have registered a growth of 6.9 per cent in FY2009-10 which was 0.53 percentage points lower compared to the previous year.

hand, was estimated to be 6.6 per cent which was 0.3 percentage points lower compared to the previous year. However, with a growth rate of 10.7 per cent, the QIP of small-scale enterprises exhibited a significant upward move by 2.9 percentage points. Quarterly movements of QIP of both the categories of industries revealed some fluctuations particularly in the early half of the FY2009-10 (Figure 1.22). This is partly related to the continued slowdown of global demand in the FY2009-10 in view of the financial crisis.

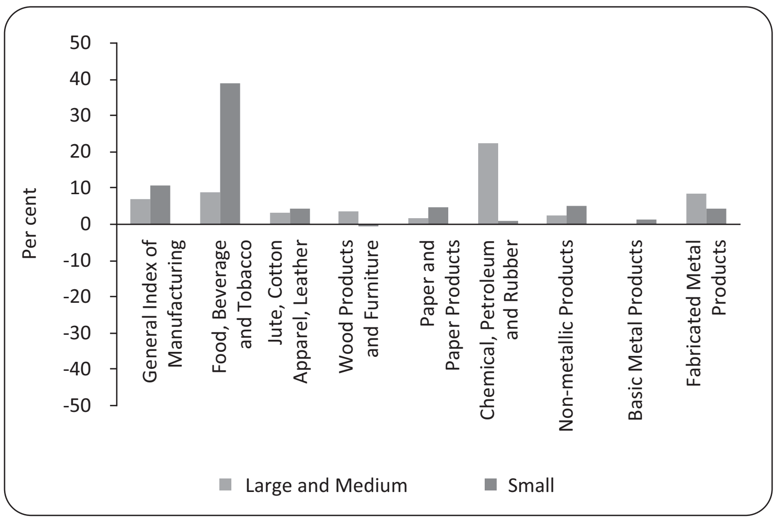
Figure 1.22: Quarterly Changes in QIP for Large and Medium and Small-scale Enterprises



Source: Estimated from *Major Economic Indicators*, various issues.

Growth of large and medium and small enterprises during FY2009-10 was largely influenced by their performances in the crisis-affected international market and the relatively stable domestic market (Figure 1.23). Export-oriented enterprises of these categories have achieved insignificant growth in FY2009-10, particularly industries belonging to the category of jute, textiles, leather and apparels wear. This is corroborated by the weak export performance of knitwear and woven wear apparels in FY2009-10 (posted a rise of 0.84 per cent and 1.6 per cent respectively).[30] Factors such as volatility in the global market prices for cotton, yarn and raw jute, and depreciation of Euro were partly responsible for such slowdown. Performance of domestic market-oriented industries such as food, beverages, tobacco, chemical-related industries and non-metallic products was better in FY2009-10. This was observed both in large and medium and small-scale enterprises. A relatively stable domestic market with modest inflationary pressure and higher domestic demand has contributed to the moderate level attained growth by these industries.

Figure 1.23: Change in QIP for Different Industries: FY2009-10 over FY2008-09



Source: Estimated from *Major Economic Indicators*, various issues.

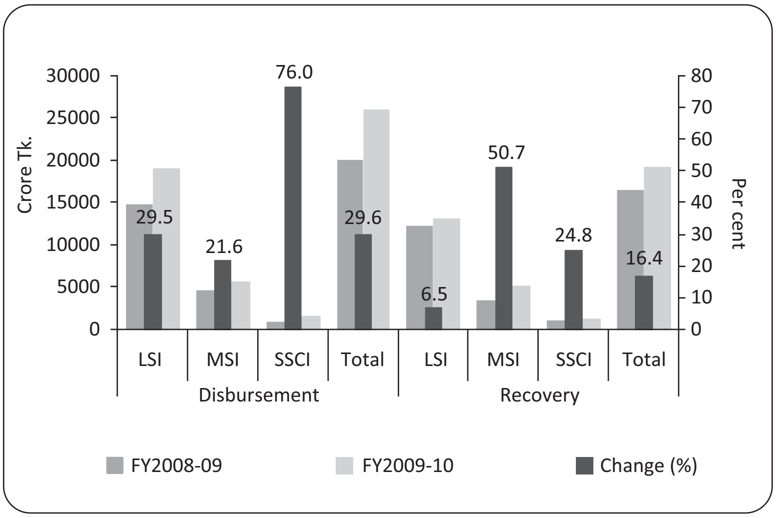
Investment in Manufacturing Sector

The investment trend in the industrial sector can partly be assessed by the disbursement of industrial term loan. In FY2009-10, disbursement of industrial term loan rose by 30 per cent[31] and amounted to Tk. 25,626 crore. Given the moderate growth of the manufacturing sector during FY2009-10, high growth of

[30] However, export performance of jute and jute goods, leather and leather products (not footwear) was relatively better during FY2009-10.

[31] During FY2009-10, total private investment amounted to Tk. 136,280 crore with a growth rate of 12.7 per cent. This growth of private investment is the lowest in the last five years.

Figure 1.24: Disbursement of Industrial Term Loans



Source: Estimated from *Major Economic Indicators*, various issues.

Note: LSI: Large-scale Industries; MSI: Medium-scale Industries; SSCI: Small-scale and Cottage Industries.

industrial term loan portrays entrepreneur's confidence in the upcoming period. This could be because of gradual improvement of global economies in the recent period. Weak investment performance in FY2008-09 (growth rate was -0.9 per cent) was another reason for the relatively high growth rate in the industrial term loan in FY2009-10 (lower reference point). This rise is also partly attributed to the recent drive by the government to enhance financial support to the SMEs. As a result, small-scale credit rose to 76 per cent in FY2009-10 (Figure 1.24).[32] Though recent initiatives of the central bank has contributed to such increase in distribution of small-scale credit, the lending rate for credit facilities is still very high (see Box 1.3).

Box 1.3: Financing the SMEs: Findings from the CPD Field Survey

Financing of SMEs received some impetus this year, thanks to a number of initiatives of the government in support of domestic market-oriented industries. Policies adopted in view of the global economic recession also helped in this respect. Bangladesh Bank had undertaken a number of measures in support of SMEs in FY2009-10 which included establishment of a separate department called the SME and Special Programme Department[33], and preparation of a SME financing guideline called SME Credit Policies and Programme. The guideline focuses on an 'area-based approach' for disbursement of credit by commercial banks[34], and sets a target of Tk. 24,000 crore to be disbursed in 2010.[35] Bangladesh Bank had also organised a roadshow on 'SME Financing, Raising Awareness about Agricultural Credit, Anti-Money Laundering and Encouragement to Send Remittance through Banking Channel' under a campaign titled *Teknaf to Tetulia*. This helped raise awareness among the common citizens about banking facilities available for them.

CPD carried out an area-based rapid assessment to examine the impact of recent initiatives of Bangladesh Bank on financing SMEs. The assessment was carried out in Narayanganj both at bank level (one branch of a SCB and one of a PCB), and at borrowers' level (24 borrowers were interviewed). The survey reveals that branches of both SCB and PCB have, in general, put emphasis on financing SMEs. However, there was serious weakness with regard to complying with the provisions of the central bank guidelines. Major observations emanating from the survey are: (a) higher rate of interest is charged by PCBs; (b) absence of upper ceiling on the interest rate (this can go as high as 17 per cent); (c) ambiguity in the definition of SMEs particularly when applied by the SCBs; (d) inadequate number of SME centres set up by SCBs; and (e) restrictive guidelines designed by the banks for selecting prospective borrowers (e.g. minimum two years of experience, health insurance, fire insurance, trade license, etc.). It was also noted that compliance with the required provisions involved an additional fiscal burden equivalent to 1 to 2.5 per cent of the actual credit disbursed to SMEs.

In order to ensure better accessibility for SMEs, following steps were recommended: (a) ensure strict adherence to the central bank's definition of SMEs; (b) make fixed capital available to SMEs, particularly to newly established enterprises; (c) reduce the rate of interest for SMEs - at least an upper ceiling is necessary; (d) raise awareness among prospective borrowers through establishment of adequate number of SME Centres; (e) ensure appropriate grace period for repayment of loan (e.g. 2-6 months); and (f) employ skilled fieldworkers for building awareness, identifying potential borrowers and monitoring SME credit.

Source: CPD Survey on SME Financing 2010.

[32] The share of small-scale credit in overall disbursement of term loan has increased from 3.9 per cent in FY2008-09 to 5.3 per cent in FY2009-10.

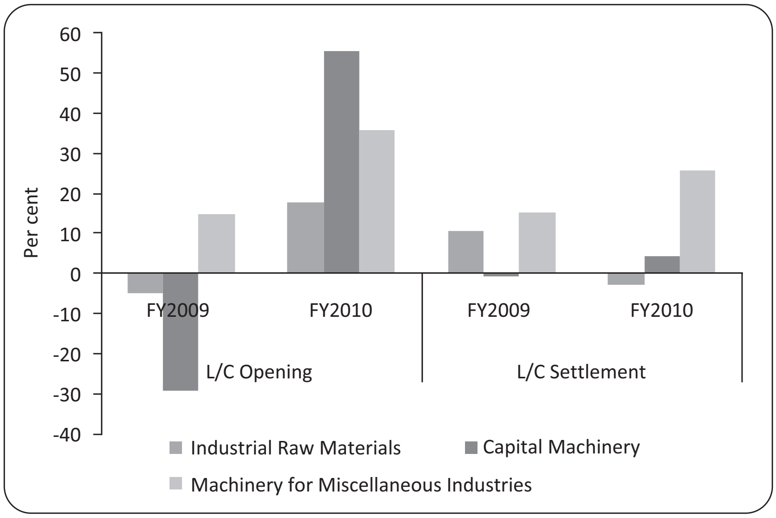
[33] Earlier it was under the Department of Agricultural Credit and Special Programmes.

[34] Other major aspects of the guideline are: clearly specified definition of SMEs, reservation of fund for small enterprises, putting priorities in case of funding to industries and services, financing women-led enterprise at 10 per cent rate of interest, identification of potential sectors for financing in major upazilas of 64 districts, and providing specific monitoring guideline of financing SMEs by Bangladesh Bank.

[35] At least 40 per cent of the total credit disbursement for SMEs is targeted to small enterprises.

Import of intermediate products and capital machineries in FY2009-10 was relatively low compared to that of the previous year, which was indicative of sluggish industrial uptake. However, opening of letters of credit (L/Cs) for importing industrial raw materials, capital machineries and machineries for miscellaneous industries in FY2009-10 was considerably high (Figure 1.25) indicating positive attitude to future prospects.

Figure 1.25: Growth of Opening and Settlement of L/Cs

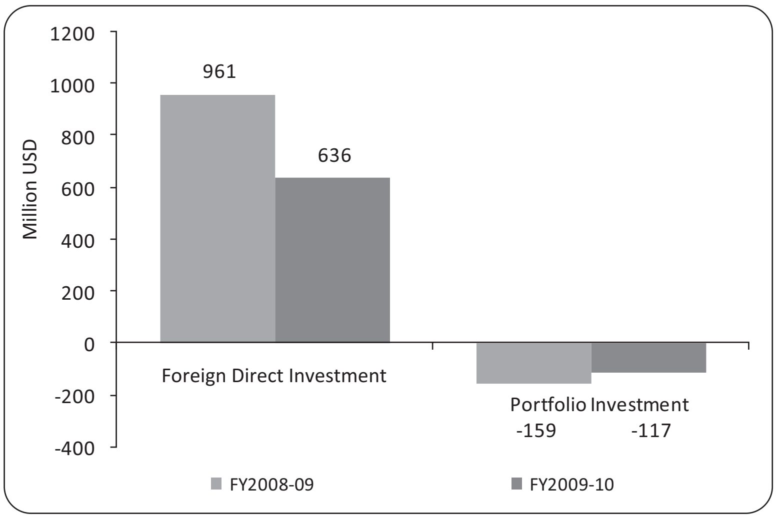


Source: Estimated from *Major Economic Indicators*, various issues.

1.6.3 Foreign Direct Investment and Portfolio Investment

Aggregate foreign direct investment (FDI) inflow was dismally low during FY2009-10. However, higher FDI flow to export processing zones (EPZs) has reinforced the need to address power and infrastructural issues on an urgent basis. Inflow of FDI in FY2009-10 amounted to USD 636 million which was a reduction by 33.8 per cent over the previous year (Figure 1.26). Foreign investment in the Domestic Tariff Areas (DTAs) was largely constrained by weak infrastructural facilities, particularly inadequate supply of electricity and gas. Investment in the EPZs, on the other hand, amounted to USD 220 million during FY2009-10 demonstrating high growth over the previous year (an increase of 50 per cent).[36] While investors are keen to invest in several EPZs such as Dhaka, Chittagong, Adamjee and Karnaphuli (Figure 1.27), they have not been equally keen to invest in the other EPZs owing to lack of infrastructural facilities, poor connectivity with the main seaport, and dearth of skilled workforce in these areas. Portfolio investment in FY2009-10 was negative at (-) USD 117 million. This indicates that a substantial amount of dividend was repatriated and foreign investors have liquidated a part of their assets. Although the share of portfolio investment in the capital market was still very low, at less than 3 per cent of market capitalisation, given the experience of the recent past, the government will have to remain vigilant and sharp, and monitor the stock market on a continuing basis.

Figure 1.26: Net FDI and Portfolio Investment: FY2008-09 and FY2009-10



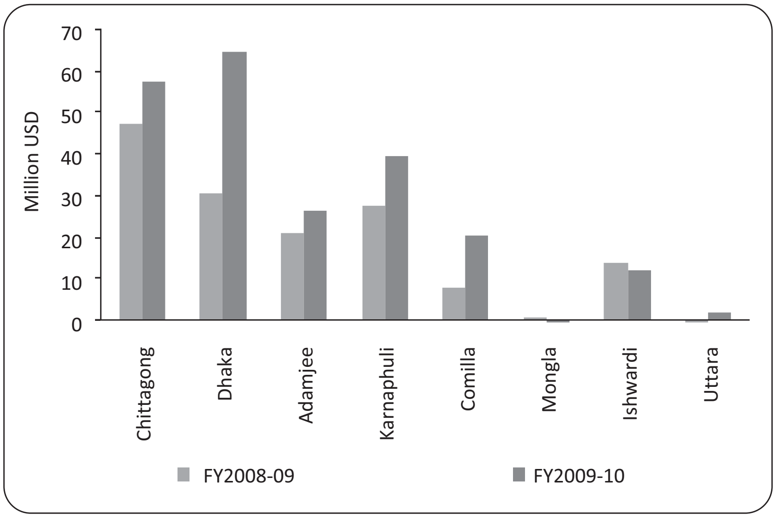
Source: Estimated from *Major Economic Indicators*, various issues.

The power, energy and gas sector, traditionally the major target for FDI flow to Bangladesh, is not being able to attract large amount of FDI over the last few years. This trend continued in FY2009-10 when FDI in this sector amounted to only USD 48 million.[37] The share of this sector in overall FDI flow went down to 7

[36] It may be required to take note of the fact that data on FDI published by various publications by Bangladesh Bank and Bangladesh Export Processing Zone Authority (BEPZA) need to be reconciled (See Box 1.4 for details).

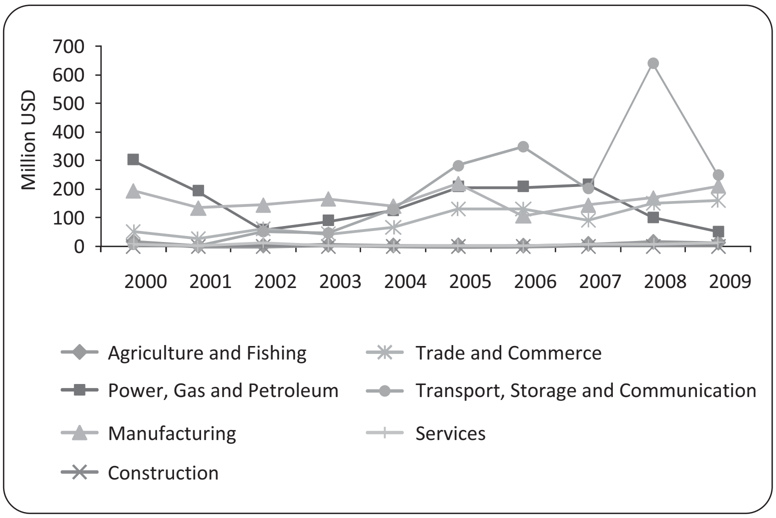
[37] During FY2009-10, the highest amount of FDI was received by transport and communication sector (USD 250.1 million), followed by manufacturing sector (USD 211.3 million). Investment in the construction sector (USD 0.74 million) received increasing attention from foreign investors in recent years.

Figure 1.27: FDI in Different Export Processing Zones



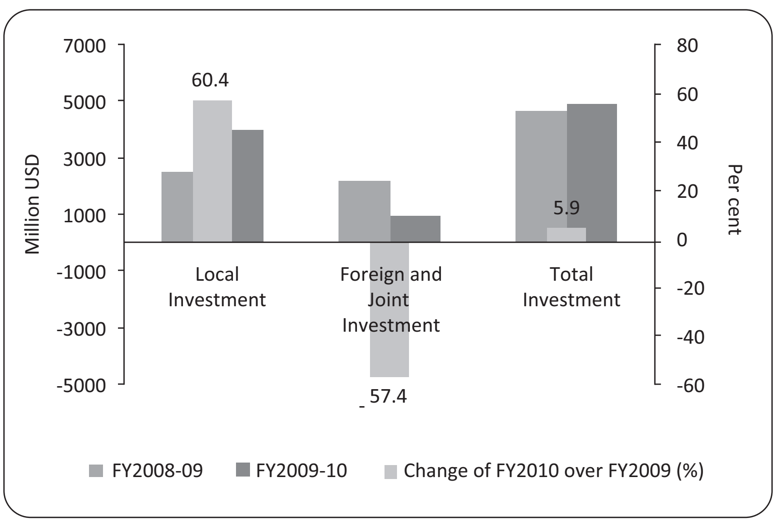
Source: Estimated from Bangladesh Export Processing Zone Authority (BEPZA) data.

Figure 1.28: Sector-wise FDI Inflow in Bangladesh



Source: Estimated from Bangladesh Bank data.

Figure 1.29: Registration of Domestic and Foreign Investment with BoI



Source: Estimated from Board of Investment (BoI) data.

per cent in 2009, which was more than 20 per cent in early part of the decade (Figure 1.28). The roadshows organised in New York and Singapore to attract FDI in the energy sector is yet to generate the expected result in terms of concrete investment proposals. The BoI will need to be more proactive in projecting the opportunities that Bangladesh is able to offer to FDIs. Whilst shortage of power and energy is a cause for lower levels of FDI, indeed, it was crucial that new FDIs in the power and energy sector be given highest attention to stimulate investment in other sectors.

Registration of new investment with the BoI has increased by 6 per cent and reached a total of USD 4.9 billion in FY2009-10 (Figure 1.29). This is mainly attributed to significant rise in the registration of domestic investment (60 per cent); registration of new FDIs, on the other hand, was negative at (-) 57 per cent. However, increased registration of domestic investment and better infrastructural facilities may attract foreign investment in the coming years. Investors from China, Saudi Arab, Hong Kong and South Korea have registered themselves for investment mainly in printing and packaging, tannery and rubber, chemical, and engineering sectors.

It is pertinent to note here that a substantial amount of foreign exchange is going out of the country, on account of FDI, in the form of payment of royalties, profit and dividend, and earnings of oil, gas and power companies. Transfer of income by power generation companies is likely to rise further in the coming years. Net FDI received by Bangladesh during July-December 2010 was indeed negative (- USD 40.7 million) (Table 1.7). Since a number of multinational companies (MNCs), particularly telecom companies, transferred a part of their respective profit in the form of intra-company loan to their subsidiaries, net FDI was likely to be a negative number of larger magnitude. As a matter of fact, the *FDI Act of Bangladesh* does allow repatriation of profit in full amount. It is to be expected that with the rise in cumulative FDI, outflow on account

Box 1.4: FDI Data: Need for Reconciliation

Data on the inflow of FDI to the country is reported and published by the Bangladesh Bank and the BEPZA. One has to recognise that FDI data published by Bangladesh Bank is often confusing and misleading (Table 1.6). FDI data published in the *Major Economic Indicators* under balance of payment did not match with the data presented in the *Monthly Economic Trends*. This happens because of non-reporting of FDI flow to EPZs in the *Major Economic Indicators* published by the GoB. On the other hand, FDI flow published in *Foreign Direct Investment in Bangladesh: Survey Report* has serious discrepancy with the data in Bangladesh Bank's annual publication *Annual Balance of Payments*. Bangladesh Bank may like to review all the relevant documents where FDI flow is reported, and ensure consistency in definition and estimates.

Table 1.6: Differences in FDI-related Data Reported in Different Documents of Bangladesh Bank

(in Million USD)

Component	FDI Survey (A)		Balance of Payment (B)		Difference between (A) and (B) = (C)		Major Economic Indicators (D)	Monthly Economic Trends (E)	Difference between (E) and (D) = (F)
	FY2007-08	FY2008-09	FY2007-08	FY2008-09	FY2007-08	FY2008-09	FY2009-10	FY2009-10	
Total	768.69	960.59	650.19	1034.07	118.5	-73.42	636.00	602.05	-33.95
Equity capital	545.69	535.42	380.52	713.55	165.17	-178.13			
Reinvestment earnings	197.71	336.61	231.88	277.15	-34.17	59.46			
Intra-company loans	25.29	88.56	37.80	43.37	-12.51	45.19			

Source: Estimated from Bangladesh Bank data.

Table 1.7: FDI Inflow and Outward Transfer

(in Million USD)

Component	FY2006-07	FY2007-08	FY2008-09	FY2009-10 (July-December)
FDI Inflow				
A. Total inflow	792.74	768.69	960.59	342.22
Equity	464.50	545.69	535.42	113.47
Reinvested earnings	281.00	197.71	336.61	178.05
Intra-company loans	47.24	25.29	88.56	50.70
Outward Transfer				
B. Total outward transfer	575.83	653.05	879.93	382.96
Royalties and license fees	6.47	7.89	22.66	5.66
Profit and dividends	165.41	173.33	207.39	104.70
Earnings of oil, gas and power companies	403.95	471.83	649.88	272.60
C. Net FDI inflow after deducting outward transfers (A-B)	216.91	115.64	80.66	-40.74

Source: Estimated from Bangladesh Bank data.

of FDI will also rise. Hence it is important to encourage companies to invest their retained surplus in the country. Outward flow arising through 'transfer pricing' also needs to be appropriately monitored. There are indications that this has been on the rise in recent years. The GoB should think about introducing appropriate rules and regulations to address this.

Healthy reserves of over USD 10 billion have allowed Bangladesh Bank to sanction foreign currency loans for investment purposes. Private investors are now allowed to take loan in foreign currency for implementing offshore investment projects, though on a limited scale. The central bank is also thinking of developing a 'Sovereign Wealth Fund' with an initial capital of USD 500 million to provide credit to local investors for investing abroad.[38] However, Bangladesh Bank should apply due diligence in terms of selection of projects and disbursement of credit from this fund.

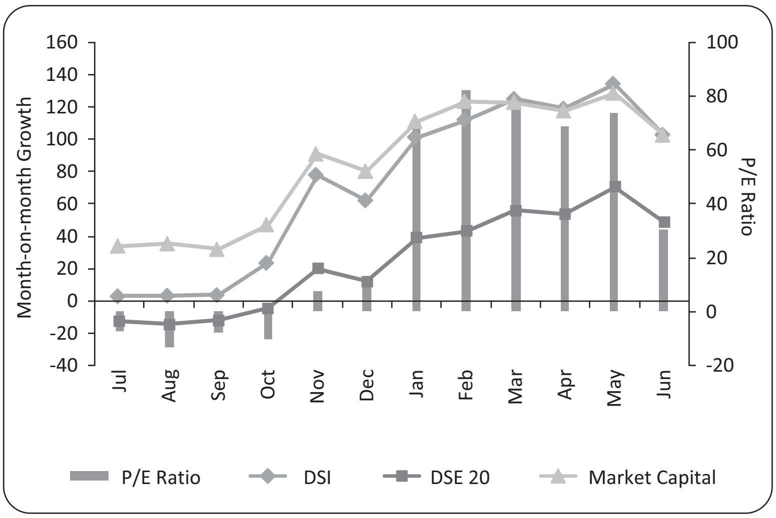
Bangladesh was awarded 'BB-' for long-term and 'B' for short-term by Standard and Poor's and 'Ba3' by Moody's

It is to be noted that Bangladesh has recently come under purview of two sovereign credit rating agencies. Bangladesh was awarded 'BB-' for long-term and 'B' for short-term by *Standard and Poor's* and 'Ba3' by *Moody's*. These ratings are expected to transmit positive signals to the foreign investors.

1.6.4 Capital Market

Slow pace of growth in industrial production over the last few years, particularly during the first half of FY2009-10, has led the capital market to grow significantly. Between June 2009 and June 2010, All Shares Price Index (DSI) registered a growth of 102.83 per cent (index value was 5111.63 at the end of June 2010). DSE 20 index gained 48.5 per cent (index value was 3650.04 at the end of June 2010), and market capitalisation rose by 102.47 per cent (Figure 1.30) (amounting to USD 38.51 billion at the end of June 2010 which was equivalent to about 40 per cent of the GDP). These developments may be attributed to a number of factors. Firstly, the period witnessed the highest number of floating of initial public offerings (IPOs), including a large MNC, the Grameenphone. In all, 21 new IPOs were floated in FY2009-10, which contributed to the depth of the capital market.[39] Secondly, the bullish market attracted a huge number of small investors (in April 2010, total number of Beneficiary Owner (BO) account holders reached about 2.5 million). The number of new BO accounts that were opened in the Dhaka Stock Exchange (DSE) between April 2009 and April 2010 was 0.32 million (corresponding figures for the same period of the previous two years were 0.34 and 0.31 million respectively). Most of these investors were small, with limited knowledge about the equity market and how it works.[40] Some analysts have argued that the market was becoming overheated and investment in the market was becoming increasingly risky (Box 1.5). The sharp rise of price-earning (P/E) ratio has reinforced this argument (P/E ratio for DSE was 29.9 in January 2010, which fell to 24.08 in June 2010; for some companies it was as high as 75 and above).[41]

Figure 1.30: Trends of Major Indicators of Capital Market at DSE



Source: Estimated from Dhaka Stock Exchange (DSE) website data (accessed on 5 August 2010).

FY2009-10 witnessed the highest number of floating of IPOs, including a large MNC, the Grameenphone

[38] Bangladesh Bank in its strategic vision for 2010-2014 has emphasised on setting up such a fund in order to ensure good returns from investment of its resources. However, due attention to liquidity and risk concerns must inform the decision of the Bangladesh Bank in this regard.

[39] With the investiture of Grameenphone, trends with regard to market power, in terms of market capitalisation have changed quite significantly. Although the financial sector contributed more than half of the market share before, now the sector's share has come down to below 40 per cent. Grameenphone has now emerged as a major player, along with banks, in the secondary market.

[40] According to anecdotal information, small investors control around 30-40 per cent of daily trade; institutional investors account for about 30 per cent; and long-term investors are responsible for the rest 30 per cent of daily trade at DSE.

[41] The P/E ratio in the Bombay Stock Exchange (BSE) was found to be stable, and hovered around 19-21 between January 2009 and April 2010.

Box 1.5: Market Efficiency of Dhaka Stock Exchange

In an efficient market, stock prices usually reflect the relevant information concerning the real economy. Macrolevel information and trends with regard to production, inflation, money supply as well as company-level insider information (e.g. expansionary or contractionary production decisions of companies) influence price behaviour of the stocks in the market (Beechey *et al.* 2000). To find out the efficiency in the capital market of Bangladesh, a time series analysis was carried out by using available secondary data. Independent variables of this exercise were monthly data of QIP for general manufacturing, flow of remittances, CPI, M2 and commercial deposit rates (for less than 3 months) for the period from July 2005 to December 2009. One period lag of DGEN (DSE General Index) was considered as the dependent variable taking cognisance of the anticipatory behaviour of the investors in the capital market. Due to lack of availability of information on other real economic variables, particularly QIP and other insider information, data for the latest months could not be used. The results of the estimated model show that none of the variables have strong relationship with lagged value of DGEN, except M2. This is an indication of the inefficiency of the market in the short-run (Table 1.8). An extension of the analysis to examine the long-term relationship also leads to similar conclusions. The findings of this exercise are in line with some of the earlier studies (such as, Ahmed and Imam 2007) on efficiency of the Bangladesh capital market.

Table 1.8: Market Efficiency of DSE

Indicator	OLS		Auto-correlation Adjusted	
	Coefficient	P-value	Coefficient	P-value
Dependent variable	One month lag of DGEN		One month lag of DGEN	
Constant	(-) 5.48	(0.01)	(-) 5.98	(0.08)
Ln (QIP General Manufacturing)	(-) 0.89	(0.02)	(-) 0.24	(0.18)
Ln (Remittance)	0.21	(0.30)	0.01	(0.88)
Ln (CPI)	0.20	(0.00)	0.13	(0.61)
Ln (M2)	1.36	(0.00)	1.24	(0.00)
Ln (Commercial Deposit Rate (less than 3 months))	(-) 0.75	(0.03)	(-) 0.27	(0.40)
Number of observation	65 (Jul 2005 to Dec 2010)		65 (Jul 2005 to Dec 2010)	
R-squared	0.76		0.93	
Durbin-Watson d-statistic (6, 65)	0.34		1.74 (transformed)	

Source: CPD estimates.

The buoyancy in the capital market has given rise to significant volatility in the market. Following the methodology of Rahman and Hossain (2008), volatility was calculated to see the stability of the market both over the short and long-terms. The 'volatility index' for DSI during July 2009 to May 2010 was 1.6 (Table 1.9), which has gradually increased recently (for BSE this index ranges between 1 to 1.3). Such lack of stability and volatility to some extent are also observed for indices such as DGEN, market capitalisation, total trade and total volume in recent times (Figure 1.31). The volatile nature of the market can be explained by various economic and non-economic factors. These include global recession in 2009, offloading of Grameenphone shares, inconsistency in the Securities and Exchange Commission's (SEC) decisions with regard to margin loan facility, face value harmonisation, and apprehensions about capital gains tax (CGT).[42] As is evident from Table 1.10, the high growth of market capitalisation over time, compared to that of the issued capital, confirms rising market volatility owing to accelerated growth on the demand side. To stabilise the market, demand for new shares in the capital market needs to be addressed through offloading of shares of state-owned enterprises (SoEs) (26 SoEs are on the waiting list for offloading), issuance of the proposed infrastructure bonds, and raising of

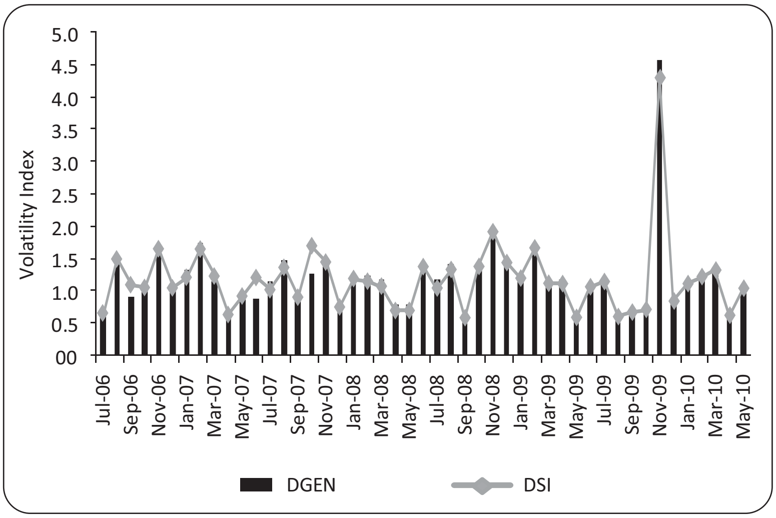
Table 1.9: Inter Temporal Volatility of Major DSE Indicators

Indicator	July 2005 to May 2010	July 2006 to May 2010	July 2007 to May 2010	July 2008 to May 2010	July 2009 to May 2010
Total Trade	15.12	16.05	14.80	14.83	13.08
Total Volume	23.10	23.86	22.15	19.21	16.09
Value in Taka	20.95	22.15	18.61	12.38	15.03
Market Capitalisation	1.02	1.20	1.19	1.23	1.38
DSI	1.14	1.35	1.38	1.48	1.62
DGEN	1.16	1.37	1.43	1.54	1.70

Source: Estimated from Dhaka Stock Exchange (DSE) data.

[42]However, a part of this unusually high level of volatility could also be attributed to the faulty estimation system of the indices followed by DSE.

Figure 1.31: Pattern of Volatility of Major DSE Indices



Source: Estimated from Dhaka Stock Exchange (DSE) data.

Table 1.10: Yearly Growth of Market Capitalisation (Demand Side) and Issued Capital (Supply Side)

Period	Growth of Issued Capital	Growth of Market Capitalisation	Growth of Demand-Supply Gap (Difference between Issued Capital and Market Capitalisation)
June 2007	93.48	119.88	136.04
June 2008	74.35	97.63	109.31
June 2009	59.89	35.09	24.73
June 2010	31.95	102.47	140.25

Source: Estimated from Dhaka Stock Exchange (DSE) data.

equity from the capital market. This could also be helpful for funding of large power projects under the PPPs.

SEC was not always successful in keeping the volatility in the capital market under check. The Commission has tried to correct market fundamentals from time to time by applying various instruments including changing the margin loan ratio and discouraging trade of overvalued shares (through 'over the counter' or 'spot market' trading). There is obviously an urgent need to significantly strengthen SEC's surveillance and monitoring role. The SEC may consider some operational restructuring following the model of Securities and Exchange Board of India (SEBI). It may be noted that the SEBI is directed by a Chairman, usually a person from the reputed public or private sector. 13 different committees (each is made up of 3-19 members) foresee different activities of all stock market operations in India. The SEC should also strengthen its independent research and monitoring capacity. Major regulatory decisions should be made on the basis of a broad-based consultation with concerned stakeholders. There is a need for SEC to more carefully scrutinise and examine the quality of audited reports submitted by the listed companies. Expansion of capital market educational programme up to local levels may be considered by the SEC to raise awareness about the functioning of the stock market. Setting up a separate judiciary mechanism for settlement of disputes in the capital market could help bring more transparency in SEC's operation. In view of the ongoing volatility in market behaviour and the signs of overheating, it is high time that policymakers take concrete steps to address the emerging concerns regarding the stock market of the country. Any foot dragging could prove to be both costly and dangerous.

With demand from both consumers and producers rising, any significant reduction in the power shortage is yet to be observed

1.6.5 Energy

As was the case in FY2008-09, power crisis continued to stand in the way of economic activities and hinder the prospect of higher production and investment in FY2009-10. The government gave highest priority to improve the power situation and undertook a number of immediate and medium-term initiatives to address the emergent problems and improve the situation. However, with demand from both consumers and producers rising, any significant reduction in the power shortage is yet to be observed.

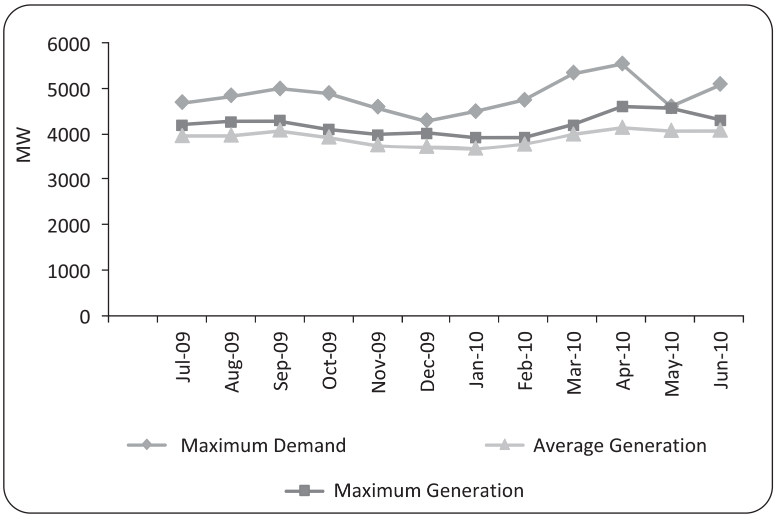
Power Sector

State of the Electricity Generation

Despite a number of new initiatives taken to increase electricity generation of the country, the average generation remained more or less unchanged in FY2009-10.

This is due to firstly, most of the initiatives are yet to be operationalised; secondly, several existing plants were stopped for technical reasons; and thirdly, gas crisis forced some plants to remain underutilised. On the other hand, the demand for electricity evinced a rising trend, particularly in the month of September and then between February and March.[43] From the beginning of April maximum generation has registered some increase; however, average generation did not show a significant improvement over the same period (Figure 1.32).

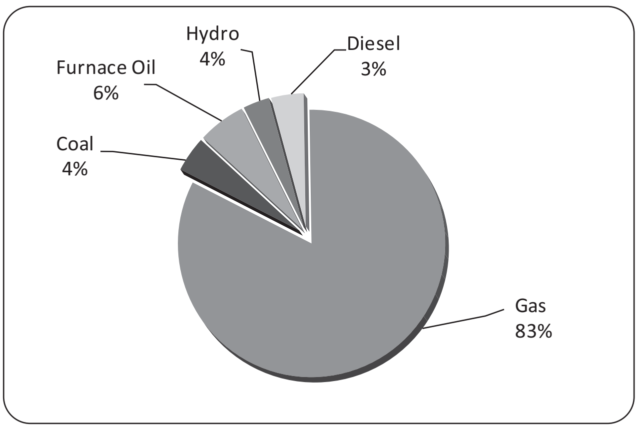
Figure 1.32: Maximum Demand, Maximum Generation and Average Generation of Electricity during FY2009-10



Source: Estimated from Bangladesh Power Development Board (BPDB) data.

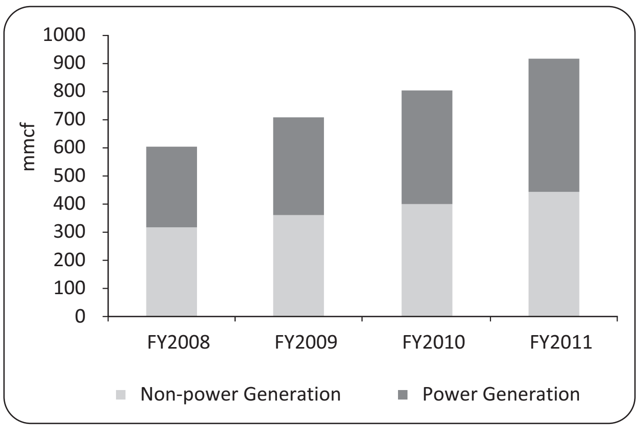
The current electricity crisis was fuelled by increased demand for gas in electricity generation as well as for consumption by other sectors of the economy. The demand of gas for these two purposes increased by 13.5 per cent and 16.8 per cent respectively in FY2009-10 (Figures 1.33A and 1.33B). Slow pace of increase in gas supply and frequent disruption of production in many old plants and transmission lines have also contributed to the crisis. On the other hand, dependence of electricity generation on gas continues to be very high at about 83 per cent. As would be noted, lack of investment in gas extraction and new exploration had contributed to the current gas shortage; no tangible efforts have been taken to explore the coal resources of the country either. In view of this, the government had to resort to costly choices such as quick rental plants to solve the power crisis, with attendant consequences.

Figure 1.33A: Current Use of Fuel for Electricity Generation



Source: Estimated from Bangladesh Power Development Board (BPDB) data.

Figure 1.33B: Projected Gas Demand for Power Generation



Source: Estimated from Petrobangla data.

Challenges of Implementing the Recent Power Plan

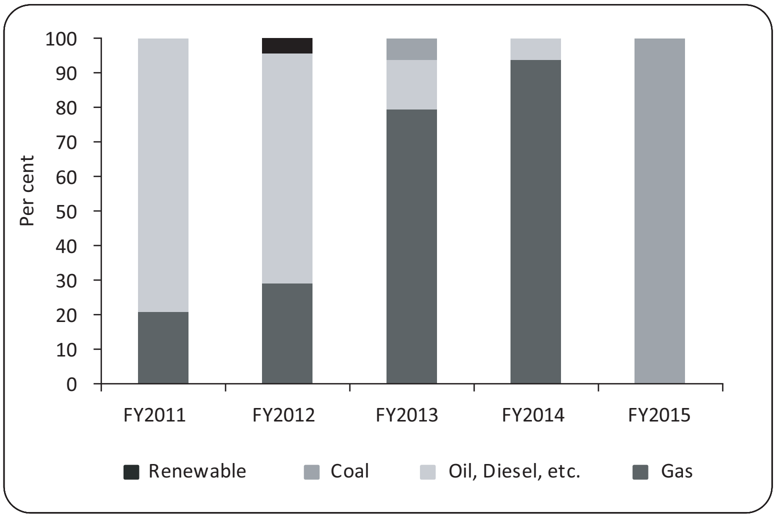
The government has recently formulated a plan for the development of the power sector which will commission 'quick rental' and 'peaking' plants with the participation of both public and private sectors. Under this plan, additional 9,424 mega watt (MW) of electricity is expected to be produced by 2015.[44] During the

[43]These figures do not include the supposite demand that would have been estimated in case of adequate availability.

[44]According to this plan, 790 MW, 920 MW, 2,269 MW, 1,675 MW, 1,170 MW and 2,600 MW of electricity were to be added annually to the national grid between 2010 and 2015.

initial years, i.e. in FY2010-11 and FY2011-12, power is planned to be generated primarily by oil and diesel-fired 'rental,' 'quick rental' and 'peaking' plants; in FY2012-13 and FY2013-14 gas-based power generation should take over; finally, from FY2014-15 coal-fired plants are expected to be implemented. The cost of implementing the plan is estimated to be about USD 12 billion. In the context of shortage of gas supply, the government had to opt for HSD (High Speed Diesel) or HFO (Heavy Fuel Oil)-fired seven 'quick rental' plants, with a total generation capacity of 790 MW in 2010. Gradually, with the increase in gas supply, it is planned to be taking over as fuel for electricity generation for most of the new plants by 2014 (Figure 1.34). In 2015, two coal-fired mega plants, each having a generation capacity of 1,300 MW, under the PPP or independent power producer (IPP) initiative, are expected to be established. Most of the coal to be used for power plants will be imported.

Figure 1.34: Share of Fuel for Electricity Generation during 2011 – 2015



Source: Estimated from Bangladesh Power Development Board (BPDB) data.

The government also signed an agreement with India in January 2010 to import 250 MW of electricity. To facilitate the import of electricity from India, the country needs to install a 45 km long transmission line from the border to its national grid. The estimated installation cost is about Tk. 1,100 crore. Another significant step is the plan to have joint collaboration between Bangladesh Power Development Board (BPDB) and National Thermal Power Corporation (NTPC) of India to install two thermal power plants in Khulna and Chittagong with a capacity of 1,320 MW. Initiatives are also being taken to develop a 2,000 MW nuclear power plant at Rooppur in Pabna district with support from the Russian government. No doubt, implementation of these plans will require substantial funding, careful sequencing of activities and building of the required infrastructure. Many of the related activities will need to be initiated in FY2010-11 with adequate resource allocations in the budget.

Table 1.11: Estimated Fiscal Burden from the Power Generation Plan of the GoB

(in Crore Tk.)

Year	Fiscal Burden[a]	Fiscal Burden[b]	Fiscal Burden[c]
FY2010-11	3775	3570	2505
FY2011-12	5070	4525	3370
FY2012-13	5070	4220	3370
FY2013-14	4605	3550	3065
FY2014-15	4605	3250	3065

Source: CPD estimation.

Note: Production in the proposed Meghnaghat is considered to be 400 MW and the probable starting time for 20 MW capacity (3 yearly) rental plant in Bogra is taken as July 2010.

a. Assuming tariff rate to be increased by 3.66 per cent annually over the next five years;

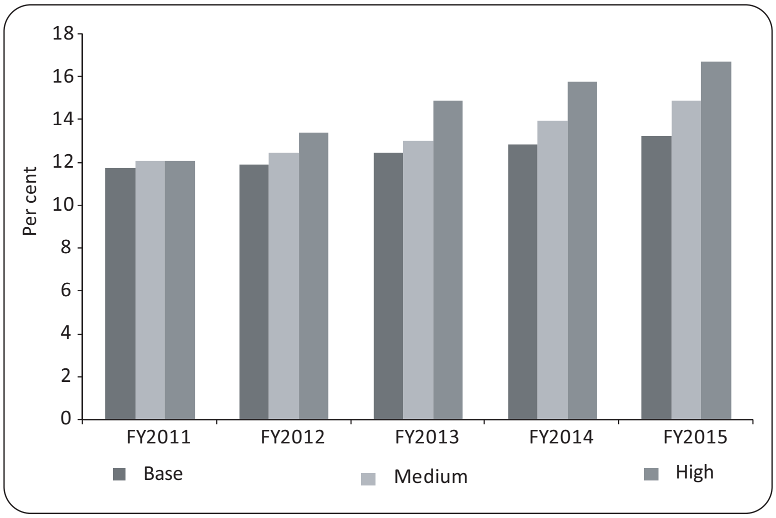
b. Assuming tariff to rise by 5.75 per cent (average of the past three years) annually for the period;

c. Assuming tariff rate to be increased by 12 per cent annually over the next five years (up to FY2014-15).

The amount of subsidy for power has to be increased by Tk. 2,500 crore to Tk. 4,500 crore annually over the next five years for the implementation of the plan that has been designed and approved by the government. CPD has estimated the tariff burden to be borne by the government for implementing the plan, under three possible scenarios. First, if the tariff remains the same over the next five years (at the present rate of Tk. 3.66 per kilo watt (kw)), the burden will be in the range of Tk. 3,775 crore to Tk. 5,000 crore annually. Second, if the tariff rate rises by 5.75 per cent per year (taking last three years' average) over the next five years, the annual subsidy burden will be to the tune of Tk. 3,200 crore to Tk. 4,500 crore. Third, if tariff rate increases annually by 12 per cent during FY2010-11 to FY2014-15, the subsidy burden will be in the range of Tk. 2,500 crore to Tk. 3,000 crore (Table 1.11).

Another exercise was carried out at CPD to estimate the required growth of electricity generation during the Sixth Five-Year Plan period in order to achieve the projected GDP growth. Results of this exercise reveal that the average annual growth of electricity generation should be in the range of 12.5 per cent to 14.5 per cent to meet the GDP growth targets during FY2010-11 to FY2014-15 (Figure 1.35). The recent power plan of GoB expects annual average growth of electricity generation to be about 26.6 per cent during the period under the Sixth Five-Year Plan. However, it should be kept in mind that it is the net generation capacity, and not the installed capacity that actually matters. Also, frequent disruption in power supply due to malfunctioning of old plants or grids and frequent maintenance work could lower actual availability of power. Another serious problem inhibiting power sector development in Bangladesh is undue delay in the completion of new plants. Moreover, system loss (transmission and distribution) needs to be reduced further. This calls for technical upgradation and efficiency improvement of the existing power plants, grids and transmission lines. Setting up of new plants is also necessary for additional power generation capacity. These measures are essential since the actual demand for electricity will be much higher if the entire population of the country has to be brought under the coverage of electricity. However, the most challenging part of implementing the power plan will evidently concern the ability of the government to manage the required fuels.

Figure 1.35: Required Growth in Electricity Generation to Attain the GDP during Sixth Five-Year Plan Targets



Source: Estimated based on Asaduzzaman and Billah (2008); and BIDS (2010).

Setting up of new plants is also necessary for additional power generation capacity

Reducing System Loss

System loss in power generation, transmission and distribution has been substantially reduced over the last two decades. However, there is still opportunity to reduce further, by some estimates up to another 5 per cent, over the next few years. It is a recognised fact that developing countries do tend to have high system loss in power generation, transmission and distribution. Bangladesh has been no exception in this respect. On a positive note, system loss has come down from about 40 per cent in the 1990s to less than 25 per cent in FY2009-10.[45] Because of system loss alone, the daily electricity loss is estimated to be in the range of 871-952 MW (June 2010), which is equivalent to about 49-54 per cent of the current supply shortage in Bangladesh. An amount of Tk. 6,375 crore to Tk. 8,538 crore could be saved annually had there been no such losses. Measures such as introduction of smart grids, strong enforcement mechanism, conversion of all old meters into digital ones, and obstacle-free electric lines could reduce the loss from the current 21.6-23.6 per cent to about 16.6-18.6 per cent. This could save about 202 MW of electricity per day (more than 10 per cent of the shortage). In other words, Tk. 1,355 crore per annum could be saved in the absence of such losses.

System loss has come down from about 40 per cent in the 1990s to less than 25 per cent in FY2009-10

[45]In the month of May 2010, the overall system loss stood in the range of 21.6 to 23.6 per cent of the total net generation; loss on account of distribution, transmission and 'station use' were about 14.6, 4-5 and 3-4 per cent respectively.

Gas and Coal Sector

Status of the Reserve

The quantum of proven gas reserves in the existing fields is inadequate to satisfy the growing demand of the country in future. Till date, a total of 23 gas fields have been discovered in Bangladesh which has altogether 29.2 trillion cubic feet (tcf) of gas reserves. However, only 15.4 tcf was found to be recoverable. Out of this, 8.4 tcf gas has already been exploited by June 2009, leaving only 7 tcf of recoverable gas for future use. An additional 5.5 tcf gas reserve is expected to be found in the country in future (MoF 2009). All the large proven reservation fields, including Titas, Habiganj and Bibiyana have been in operation for a long period, and do not have much reserve left for future use. Till any large proven and recoverable gas field is discovered, Bangladesh will need to strategise in a manner that ensures optimal use of the proven reserve of only 7 tcf that is left in its fields.

Till date, a total of 23 gas fields have been discovered in Bangladesh which has altogether 29.2 tcf of gas reserves; however, only 15.4 tcf was found to be recoverable

On the other hand, a total of 2,700 million tonnes of coal has been discovered so far in the five coal mines of the north and north-western districts of the country. This reserve is large and equivalent to about 37 tcf gas for energy generation. However, except Barapukuria underground coal mining, coal has confined to remain an untapped resource in Bangladesh. There is thus a need to undertake immediate decision on extraction of coal and generation of coal-based power in the country.

Extraction and Exploration

Increased extraction of gas resources has led to a faster pace of depletion of available gas reserves in the country. This situation, thus, calls for an immediate need for further gas exploration in the remaining blocks and new exploration in the offshore zones of the country. In June 2010, daily shortage of gas in Bangladesh was more than 250 million cubic feet/day (mmcfd). As may be recalled, coal mining at the Barapukuria site was started in September 2005 with the help of the Chinese Government. Till December 2008, about 1.8 million MT of coal has been extracted from the site, which has been primarily used for the Barapukuria thermal power plant of 250 MW. There is no viable alternative for Bangladesh, in the medium to long-run, for power generation other than the exploitation of the country's coal resources. However, issues such as environmental impacts and their mitigation, rehabilitation of the local populace, price of the resources, recruitment of local people, and safety measures for workers, are to be taken care of while making a decision in this regard.

There is no viable alternative for Bangladesh, in the medium to long-run, for power generation other than the exploitation of the country's coal resources

Way Forward

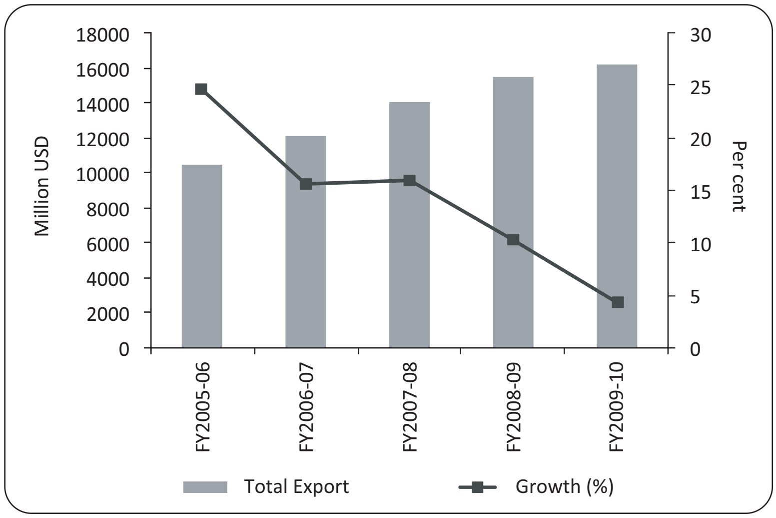
The above discussion on the energy and power sector indicates that there is a need for short and medium-term initiatives to meet the current shortfall. A number of suggestions can be drawn up from the discussion. Some of these may be summarised as follows: (a) implement the plan for gradual increase of power during FY2010-11 to FY2014-15; (b) develop the required fuel supply and storage capacity in the country; (c) ensure timely supply of power from the costly rental plants; (d) reduce the system loss further; (e) finalise the coal policy taking care of interests of the local people, workers and investors; (f) explore gas in the offshore zones and the remaining blocks of the country, and address the disputed issues with India and Myanmar; and (g) generate power through alternative and non-traditional sources, and provide fiscal and monetary incentives to encourage such initiatives.

1.7 EXTERNAL SECTOR

1.7.1 Export

Total export earnings of Bangladesh reached USD 16.2 billion registering a growth of 4.3 per cent in FY2009-10 compared to the 10.3 per cent growth during FY2008-09 (Figure 1.36). In the first two quarters of FY2009-10, performance of the external sector of the country suffered from the negative impact of the recent global financial crisis, as was manifested in the export growth. Exports started to pick up in the third quarter and gained some momentum in the fourth. This trend closely followed the performance of the readymade garments (RMG) sector, the dominant player in the export scenario.

Figure 1.36: Export Scenario of Bangladesh



Source: Estimated from EPB (2010) data.

During FY2009-10, non-RMG sector achieved a remarkable growth against the low export base in FY2008-09. To compare, the RMG sector experienced negative growth till the second quarter of the current fiscal and started to post positive growth momentum from the third quarter and onwards. As global recovery set in, orders for country's apparels also picked up. Consequently, exports rose by 4.5 per cent and 14.7 per cent in the third and fourth quarters respectively (Table 1.12). Total export figures during the first two quarters of FY2009-10 exhibited considerable volatility against the performance record in FY2008-09. However, 9.8 per cent and 19 per cent growth were registered in third and fourth quarters of FY2009-10 respectively, against 6 per cent and (-) 0.6 per cent growth posted in the matched period of FY2008-09. The total export target for FY2009-10 which was set at USD 17.6 billion could not be attained because of the slow pace of growth achievement. The signs are that exports will be able to post robust growth in FY2010-11.

Table 1.12: Quarterly Export Growth in FY2008-09 and FY2009-10

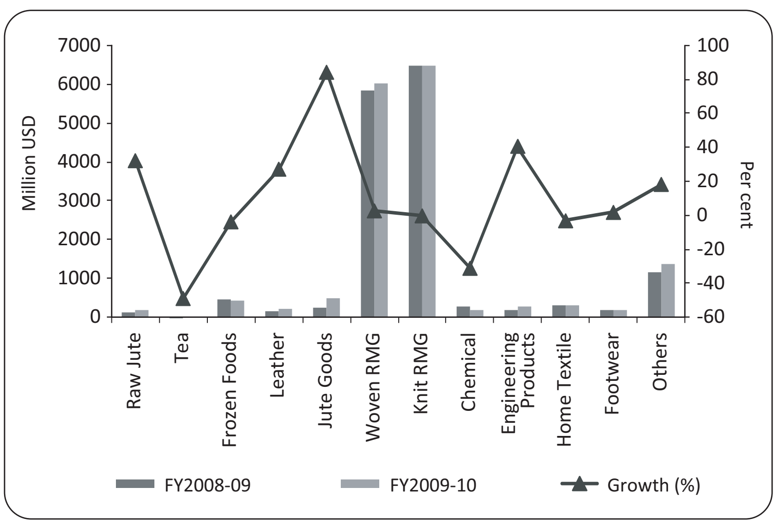
(in Per cent)

Item	FY2008-09					FY2009-10				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
RMG	44.6	5.4	12.7	3.8	15.4	-9.7	-4.7	4.5	14.7	1.2
Woven	36.7	6.3	9.9	4.0	13.2	-9.7	-5.7	9.5	16.0	2.8
Knit	52.0	4.6	15.8	3.6	17.4	-9.7	-3.8	-0.5	13.6	-0.2
Non-RMG	35.7	-22.2	-16.4	-14.8	-5.8	-18.3	23.7	33.9	36.3	15.6
Total Export	42.4	-1.6	6.0	-0.6	10.3	-11.7	1.0	9.8	19.0	4.2

Source: Estimated from EPB (2010) data.

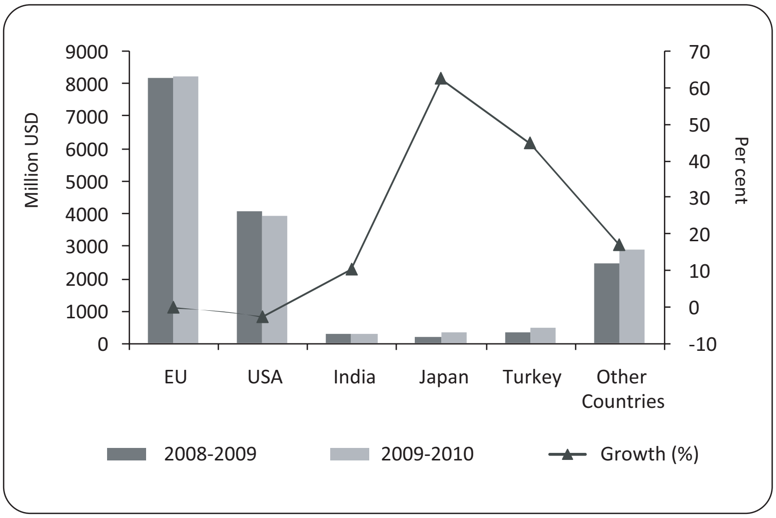
Overall, RMG export posted a 1.2 per cent growth, thanks mainly to the growth of woven wear (2.8 per cent); to contrast growth of knitwear RMG was negative (-0.2 per cent), for the first time in recent years. A number of export items were able to show some degree of buoyancy in FY2009-10 (Figure 1.37). It is important to note that, both raw jute and jute goods export in FY2009-10 has registered a spectacular

Figure 1.37: Export of Major Commodities by Bangladesh: FY2008-09 and FY2009-10



Source: Estimated from EPB (2010) data.

Figure 1.38: Major Markets of Bangladesh and Export Growth



Source: Estimated from EPB (2010) data.

Box 1.6: China as Bangladesh's Competitor in the US Market

Policy changes and stimulus packages to support export-oriented sectors, in view of the global financial crisis, have left their footprints in terms of changes in relative competitive strength in the global market for apparels (Rahman *et al.* 2010). This is demonstrated by Bangladesh's relative performance vis-à-vis China in the US market. US import of top 16 Bangladeshi apparel products (HS 6 digit level) declined by (-) 1.5 per cent during FY2009-10 compared to FY2008-09, whereas China was able to maintain a robust growth of 15 per cent for the same items. An examination at the disaggregated level suggests that China is reverting back to export of lower-end products where Bangladesh has traditionally been strong in the US market. In view of the crisis, China had earlier withdrawn duties on lower-end apparels that she had imposed to discourage exporters of these products and to induce them to go for higher value-added products. China's stimulus package of USD 760 billion included various incentives for exporters of lower-end items which enhanced their competitive strength and allowed them to offer lower prices, and put Bangladesh's exporters of those products under competitive pressure. Bangladesh will need to monitor closely the change in structural composition of apparels export from China, and should take proactive measures to retain her market share in US for these items. Bangladesh will also need to pursue more vigorously for the New Partnership for Trade Development Act 2009 (NPTDA 2009) which has been floated in the US Congress. If passed, this would allow Bangladesh and other Asia-Pacific least developed countries (LDCs) to have the African Growth and Oppotunity Act (AGOA)-parity and duty-free access for all items including apparels. Although Bangladesh has some concern with respect to certain aspects of the Bill, on the whole the country stands to gain significantly, if and when this Bill is passed.

growth of 68.03 per cent reaching USD 736.44 million compared to the set target of USD 438.29 million for FY2009-10.[46]

In terms of market diversification, in FY2009-10 Bangladesh experienced highest growth in the Japanese market (62.5 per cent). The EU and the US continued to remain the largest markets with 50.8 per cent and 24.4 per cent share respectively. The growth in the EU market remained at the same level (marginal growth of 0.1 per cent), while exports in the US declined by (-) 2.5 per cent compared to FY2008-09 (Figure 1.38). In recent years, Bangladesh's export to Turkey has increased significantly. Growth was 44.9 per cent in FY2009-10. Turkey's move towards higher end of the apparels market and the duty-free entry enjoyed by Bangladeshi export products helped to attain this impressive result.[47] Some of the renowned Turkish brands, such as Tema, and other wholesalers are increasing their procurements from Bangladesh. Export items from Bangladesh to Turkey include knitwear, woven garments, raw jute and jute goods, hides and skins, crockery, cutlery and handicrafts.[48]

It goes without saying that Bangladesh should do her best to take advantage of the opportunities emanating from the ongoing global recovery. Domestic policies need to be addressed keeping the interest of the export-oriented sectors in mind. Bangladesh will have to prepare herself to face the pressure from her competitors such as China, India and Vietnam which have taken various stimulus programmes in view of global financial crisis (for details please see Box 1.6). China's Ministry of Industry and Information Technology has already initiated a rural subsidy programme to support the growth of the textile and garment industry. Vietnamese and US officials have met to discuss ways of increasing business between those two, and are putting in place incentives to encourage bilateral trade. It is learnt that about two lakh new jobs will be created in Indonesia for relocating nine Chinese textiles and clothing

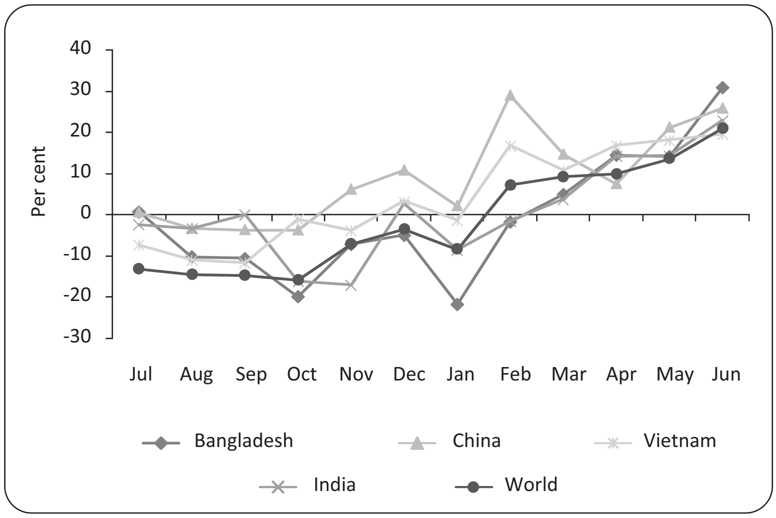
[46]This high growth was underwritten by an increase in both price and volume of export.

[47]Bangladesh receives EU-parity market access in Turkey which allows duty-free access for all items of exports from Bangladesh except for arms.

[48]A part of Bangladesh's exports (mainly apparels) is known to get entry into the EU market via Turkey through their wholesalers.

companies to Central Java (Market Publisher 2010). On the other hand, it has been forecasted that cost of Bangladesh's garment production will rise by 7 per cent following the implementation of the revised minimum wage which envisages an 80 per cent hike in the minimum wage for the country's garment workers (Market Publisher 2010). Bangladeshi entrepreneurs will need to give more emphasis on growth in productivity, product diversification (into higher-end items), and marketing to remain competitive.

Figure 1.39: Growth of US Import of Apparels from World and Some Major Source Countries: FY2009-10 over FY2008-09



Source: Estimated from the United States International Trade Commission (USITC) database.

It is worrisome to note that Bangladesh is losing her US market for RMG to India, China, Vietnam and Indonesia. Her apparels export posted a rise during the second half of the fiscal year (Figure 1.39). However, total apparels export to the US market in FY2009-10 declined marginally by (-) 1.8 per cent compared to FY2008-09. On the other hand, China, India and Vietnam posted a positive growth of 6.8 per cent, 1 per cent and 2.6 per cent respectively, although global import of the US declined by (-) 3.3 per cent over the same period. Cambodia appeared to be the most affected by the global recession, registering a decline of (-) 6.4 per cent during FY2009-10 compared to FY2008-09. In view of the ensuing recovery, Bangladesh should try to take advantage of the rising demand in the US market. Bangladesh must consolidate and strengthen her competitive position vis-à-vis Mexico and Vietnam, so that she is able to become the second largest exporter of apparels in the US, after China.

Some Emerging Concerns

One of the major concerns that afflicted export-oriented apparels sector in FY2009-10 relate to the price of yarn. The unusual hike in yarn price in early FY2009-10 undermined the export competitiveness of RMG significantly. Rise in global cotton prices due to low production in several key cotton-producing countries was the main reason behind this situation. To meet the demand, the GoB decided to allow import of yarn through Benapole land port from India. The situation was aggravated when India imposed an export ban on cotton for an indefinite period in view of low production. As a result, Bangladeshi exporters had to face cost-escalation which strained their competitive strength vis-à-vis cotton producing countries.

The unusual hike in yarn price in early FY2009-10 undermined the export competitiveness of RMG significantly

To mitigate the adverse impact of global recession, the government announced a second stimulus package on 25 November 2009. Key features of the second stimulus package included the followings: (a) providing further incentives on export earnings (at free on board (FOB) prices) from non-traditional export products and in non-primary markets (excluding US, Canada and EU); (b) increasing export incentive by an additional 5 per cent in FY2009-10 for SME exporters (those who exported more than USD 3.5 million)[49]; (c) providing grants at the rate of 10 per cent on paid electricity bills of SMEs which did not have their own captive generators, and this was to be continued till 30 June 2010;

[49]As distinct from the existing 5 per cent incentives, this is to go to the entrepreneurs (and not to backward linkage suppliers of fabrics).

Delayed implementation of stimulus package will hinder export competitiveness and performance of Bangladeshi entrepreneurs

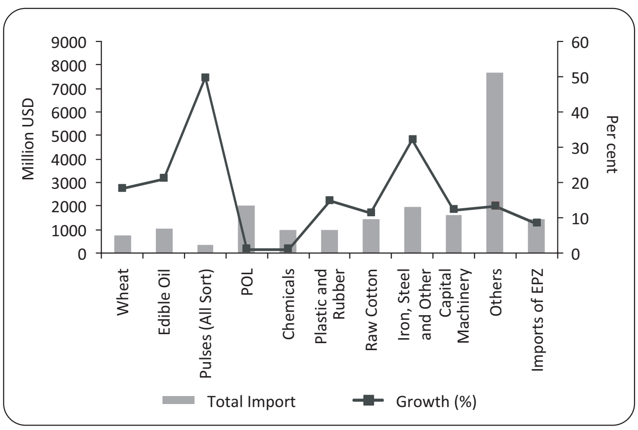
(d) increasing the loan amount from USD 1.5 million to USD 10 million for a single borrower (through consortium of multiple banks and the Export Development Fund; (e) providing cash incentives, at the rate of 5 per cent, to the ship-building and crust leather industries to help diversify exports of these sectors with high potentials. The second stimulus package for export-oriented industries is yet to be implemented in full. There is a need to expedite this, as the delayed implementation of stimulus package will hinder export competitiveness and performance of Bangladeshi entrepreneurs. Timely implementation of the stimulus package will benefit entrepreneurs, especially of small and medium units in the RMG sector, who are having to cope with high costs originating from increased wages and higher costs of raw materials.

1.7.2 Import

Bangladesh's import experienced sluggish growth in FY2009-10; total merchandise import was 5.5 per cent higher compared to FY2008-09

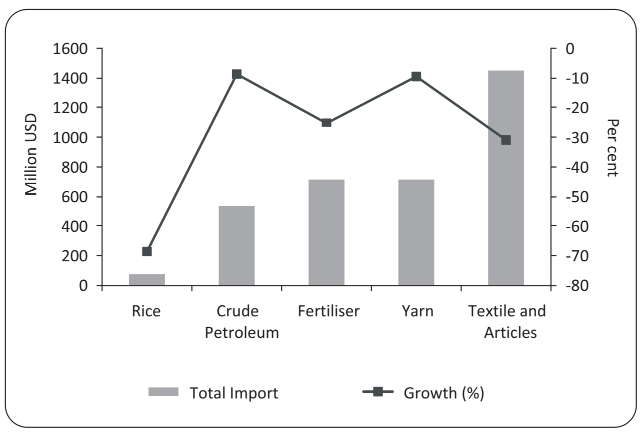
Bangladesh's import experienced sluggish growth in FY2009-10. Total merchandise import of Bangladesh in the year was USD 23.74 billion, which was 5.5 per cent higher compared to FY2008-09. The declining trend dominated imports in the first quarter of the fiscal year with considerable volatility during subsequent two quarters. The last quarter witnessed a reversal of the trends with significant upturn for most of the products other than edible oil and crude petroleum. Import share of petroleum, oil and lubricant (POL) (8.5 per cent of total import) was the highest in total import which was followed by textile and articles (8.4 per cent of the total import); iron and steel, and raw cotton accounted for 6.1 per cent and 6 per cent of total import respectively. Import of foodgrains declined by (-) 5.2 per cent, with rice import falling by (-) 68.5 per cent. Good harvest of rice during FY2009-10, and price stability following high prices in 2007 and 2008 allowed Bangladesh to avoid significant import of rice. In FY2009-10, Bangladesh imported only 0.92 lakh MT of rice, while in the previous year Bangladesh had to import 6.03 lakh MT of rice. Import cost of POL decreased significantly during the first and second quarters, with growth rates of (-) 33.5 per cent and (-) 19.4 per cent respectively when compared with corresponding figures of the previous year. This was mainly because of significant fall in the price of POL from the high levels of previous years. However, due to international oil price hike in the second and third quarters of FY2009-10, import of POL rose by 4 per cent and 110.2 per cent respectively (Figure 1.40A).[50] Import of crude petroleum declined by (-) 8.5 per cent (Figure 1.40B). A 12.3 per cent increase was observed

Figure 1.40A: Import of Some Selected Commodities with Increased Growth



Source: Estimated from Bangladesh Bank data.

Figure 1.40B: Import of Some Selected Commodities with Declined Growth



Source: Estimated from Bangladesh Bank data.

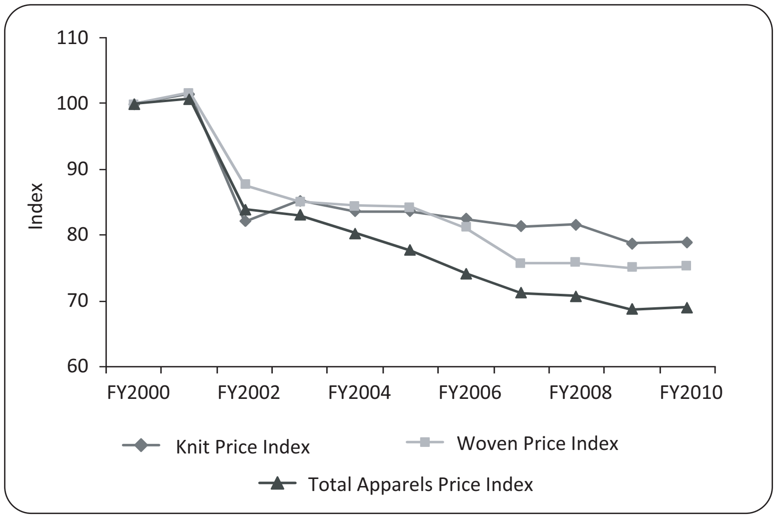
[50] USD 64.6 per barrel in June 2009 to USD 82.3 per barrel in April 2010.

in case of import of capital machineries, which augured well for investment. Even though import payments were negative in the first half of the fiscal, it bounced back in the latter half of the fiscal year in the wake of the global financial recovery. This increase in import is expected to persist in the coming months in view of higher industrial lending, growth prospect of the RMG sector and rising trends in the global commodity prices such as fuel and fertiliser.

Terms of Trade

With the rising global commodity prices (particularly fuel) and falling export prices of major commodities, Bangladesh's Terms of Trade (ToT) in FY2009-10 has worsened further. A decomposition of Bangladesh's export growth of 4.1 per cent in FY2009-10 shows that the growth was mainly volume driven: volume index increased by 4.96 per cent and price index declined by (-) 0.85 per cent. For manufacturing products, volume index increased by 5.2 per cent while price index declined by (-) 0.63 per cent. In case of Bangladesh's major export items, in FY2009-10, export of woven RMG declined by (-) 6.6 per cent in terms of volume, and by (-) 1.8 per cent in terms of price (Figure 1.41). For knit RMG, export volume declined by (-) 10.9 per cent while unit price increased marginally by 0.5 per cent.

Figure 1.41: Trends of Apparel Price Index



Source: Estimated from EPB (2010) data.

In view of the above, ToT declined even further in the recent past. Table 1.13 reveals that in 2008, to import a barrel of crude petroleum, Bangladesh had to export 3.62 dozens of RMG; by 2009, due to falling oil price, this had declined to 1.77 dozens. In 2010, this again increased to 2.94 dozens because of increase in the international oil price and falling export price of RMG. Similarly, to import one ton of rice in 2008, Bangladesh had to export 1.14 tonnes of jute, which declined to 0.98 tonnes in 2009, and further declined to 0.94 tonnes in 2010. Indeed, ToT for leading export items of Bangladesh vis-à-vis her important import items fell significantly in the post-crisis period compared to the pre-crisis period.

Table 1.13: Purchasing Power of Exports

Item	Dozens of RMG				Rise	Rise	Rise	Tonnes of Jute Goods				Rise	Rise	Rise
	2006 (Avg) (a)	2008 (Avg) (b)	2009 (c)	2010 (d)	(in times) b/a	(in times) c/a	(in times) d/a	2006 (Avg) (e)	2008 (Avg) (f)	2009 (g)	2010 (h)	(in times) f/e	(in times) g/e	(in times) h/e
1 barrel of oil (fuel)	2.29	3.62	1.77	2.94	1.60	0.80	1.29	0.11	0.17	0.11	0.13	1.50	0.90	1.19
1 ton of rice	10.76	24.42	16.44	20.60	2.30	1.50	1.91	0.53	1.14	0.98	0.94	2.20	1.80	1.77
1 ton of wheat	6.92	11.86	6.43	7.08	1.70	0.90	1.02	0.34	0.55	0.38	0.32	1.60	1.10	0.95
1 MT of soybean oil	20.75	45.75	24.13	34.00	2.20	1.20	1.64	1.02	2.14	1.44	1.55	2.10	1.40	1.52

Source: Estimated from various sources including Food and Agriculture Organization (FAO), World Bank, and Export Promotion Bureau (EPB).

1.7.3 L/C Opening and Settlement

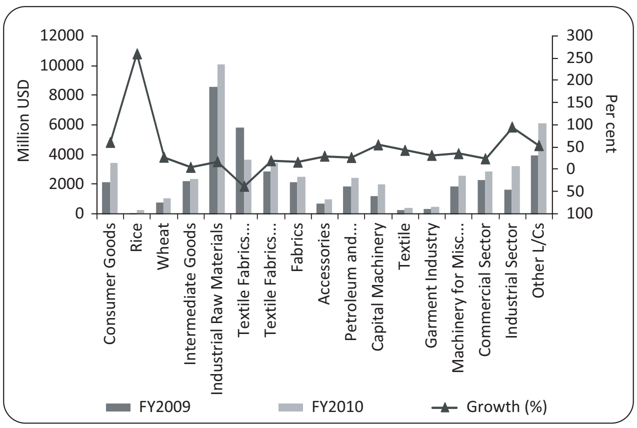
Opening of L/Cs for import have posted a remarkable rise in FY2009-10 and amounted to USD 28.6 billion, registering a growth of 31.5 per cent over FY2008-09. To compare, settlement of L/Cs in FY2009-10 was to the tune of USD 23 billion which was 7.1 per cent higher than that of FY2008-09.

Major share of opening and settlement of L/Cs belonged to industrial raw materials

Major share of opening and settlement of L/Cs belonged to industrial raw materials, with 35.1 per cent (USD 10.06 billion) in case of opening of L/Cs, and 35.8 per cent (USD 8.2 billion) for settlement of L/C. While L/C opening for industrial raw materials rose by 17.6 per cent, settlement of L/Cs declined by (-) 3.1 per cent in FY2009-10 compared to those in FY2008-09.

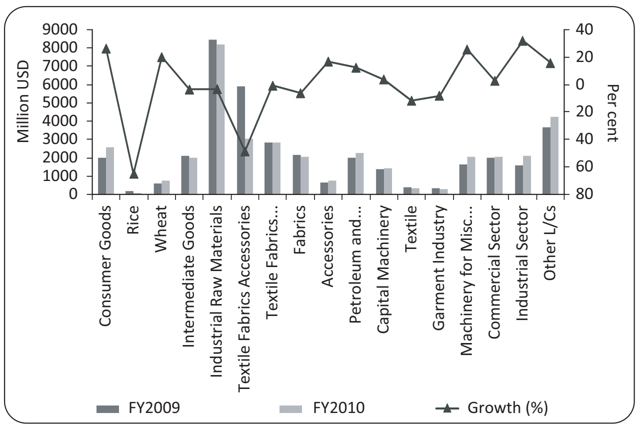
Opening and settlement of L/Cs for consumer goods increased by 60.8 per cent and 26.4 per cent respectively in FY2009-10 over FY2008-09. At a more disaggregated level, decline of L/Cs for rice can also be matched with the declining trend in import. Figures 1.42A and 1.42B indicate lower levels of L/C opening and settlement in FY2009-10. In the period, L/Cs opened for rice was worth USD 184.76 million, which was 259.4 per cent higher (USD 51.4 million) than L/Cs opened in FY2008-09. Settlement of L/Cs declined by (-) 64.6 per cent due to settlement of only USD 80.3 million in FY2009-10 compared to FY2008-09. On the other hand, opening and settlement of L/Cs for import of wheat were up by 27.5 per cent and 20.2 per cent respectively. It is to be noted here that, the volume of total foodgrain import in FY2009-10 increased by 14 per cent; rice import declined by (-) 85.2 per cent and wheat increased 39.4 per cent.

Figure 1.42A: Opening of L/Cs



Source: Estimated from Bangladesh Bank data.

Figure 1.42B: Settlement of L/Cs



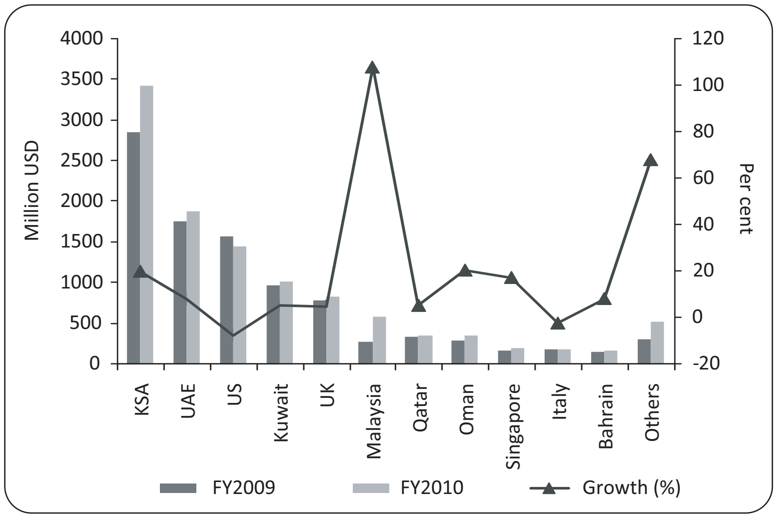
Source: Estimated from Bangladesh Bank data.

L/Cs opened for POL during this period was 26.9 per cent higher than the previous year, while settlement was 12.5 per cent higher. Both opening and settlement of L/Cs for textile fabrics accessories declined by (-) 37.7 per cent and (-) 48.3 respectively. This may have been due to the follow up impact of global financial crisis. During this period, L/C opening of capital machineries experienced a high growth of 55.2 per cent, but settlement of L/Cs posted a marginal growth of 4 per cent. Capital machinery import increased by 12.3 per cent in FY2009-10. For textile and garment industries the growth of L/C opening was 43 per cent and 31.7 respectively. Higher amount of L/Cs indicate a positive news for the economy, however, there could be a drawn down in the reserves if exports do not pick up in a significant manner, as it indicates a substantive investments being taken place in the economy. This is to be kept in mind that the surge of L/C opening will also have impact on the forex reserve.

1.7.4 Remittance Inflow and Overseas Employment

Remittance flow during the first half of FY2009-10 was excellent, though by the second half of the fiscal year growth had slowed down quite significantly. During FY2009-10, remittance earnings reached USD 11 billion, an increase of 13.4 per cent against the high benchmark growth of 22.5 per cent in FY2008-09. In November 2009 remittance flow was highest, at USD 1.05 billion. However, remittance flow started to decline in the second half of the fiscal year. Figure 1.43 shows that Kingdom of Saudi Arabia (KSA) continued to be the major source of remittance contributing 31.2 per cent of the total remittance inflow to Bangladesh. This was followed by the United Arab Emirates (UAE), US and Kuwait (with shares of 17.2, 13.2 and 9.3 per cent respectively).

Figure 1.43: Country-wise Remittance Flow to Bangladesh



Source: Estimated from Bangladesh Bank data.

Outflow of migrant workers declined by 34.3 per cent in FY2009-10 compared to FY2008-09. The monthly average figure of migrants' outflow went down to 27,049 in February FY2009-10; to compare, this was 35,850 in May FY2008-09. Although the number was decreasing, the total stock of migrant workers was on rise. As a result, remittance inflow did not slowdown and experienced robust growth. In 2009, some 475,278 workers went abroad (Table 1.14). Among these workers, the share of professional workers was only 0.30 per cent, an insignificant rise from 0.21 per cent in 2008. The share of skilled workers has come down to 28.9 in FY2009-10 from 32.2 in FY2008-09; on the other hand, the share of semi-skilled and less-skilled workers reached 16 per cent and 54.8 per cent respectively in FY2009-10 from 15.2 per cent and 52.4 per cent respectively in FY2008-09. The recent declaration of governments of the Saudi Arab[51] and Malaysia to recruit 1.4 million workers provide Bangladesh an opportunity to send more migrant workers abroad in the near future. If this does not happen, then rise in remittance flow may be reversed, and Bangladesh could experience negative growth in remittance flow over the subsequent years.

Table 1.14: Share of Classified Migrants from Bangladesh

Year	Labour Outflow	Share of Different Categories of Workers (%)				
		Professional	Skilled	Semi-skilled	Less Skilled	Total
2007	832609	0.08	19.86	22.06	58.00	100.00
2008	875055	0.21	32.16	15.18	52.44	100.00
2009	475278	0.31	28.85	16.03	54.81	100.00

Source: Estimated from Bureau of Manpower Employment and Training (BMET) data.

In Bangladesh, remittance earnings of households go mostly for consumption purpose, rather than for investment. Recently, a number of initiatives have been taken by government to encourage investment by the migrant workers. Wage Earners' Development Bond for the migrant workers and the *Expatriate Welfare Bank Bill 2010* which was introduced in the parliament to make way for setting up a separate bank for migrant workers, are noble initiatives of the government in this regard. It will need to be ensured that migrants from rural and remote areas can get benefit from these measures. Global labour market is expected to see rising demand in the near and medium-term future. Bangladesh should be

In Bangladesh, remittance earnings of households go mostly for consumption purpose, rather than for investment. Recently, a number of initiatives have been taken by government to encourage investment by the migrant workers

[51]Saudi Arab has declared to recruit 4,500 skilled Bangladeshi workers under a quota system.

prepared to realise the opportunities to be offered by a growing global market. Reduction of cost of migration, upgradation of workers' skill, reduction of cost of money transfer by workers, and investment opportunities for the migrants are some of the issues for policymakers to take up. At the international level, the government has to explore new markets, and bring its diplomatic work into play and expand its network to facilitate employment of Bangladeshi workers.

The demographic dynamics of the developed world is set to create new avenues of employment for foreign workers. Towards this a carefully crafted policy of skills development in emerging areas of demand, many of which are expected to be in medicare and health services, should be undertaken.

1.7.5 Balance of Payment

Trade balance recorded a high deficit of USD 5.2 billion in FY2009-10 compared to USD 4.7 billion in FY2008-09 (Table 1.15). However, this was not as high as the case was in FY2007-08 (USD 5.3 billion). Trade deficit on services account declined to USD 1.2 billion in FY2009-10 from USD 1.6 billion in FY2008-09. Despite a larger trade balance due to increased import, current account surplus recorded an increased amount of USD 3.7 billion in FY2009-10 from USD 2.4 billion in FY2008-09. This was due to a current transfer of USD 11.6 billion of which remittance inflow accounted for USD 11 billion.

Table 1.15: Balance of Payment

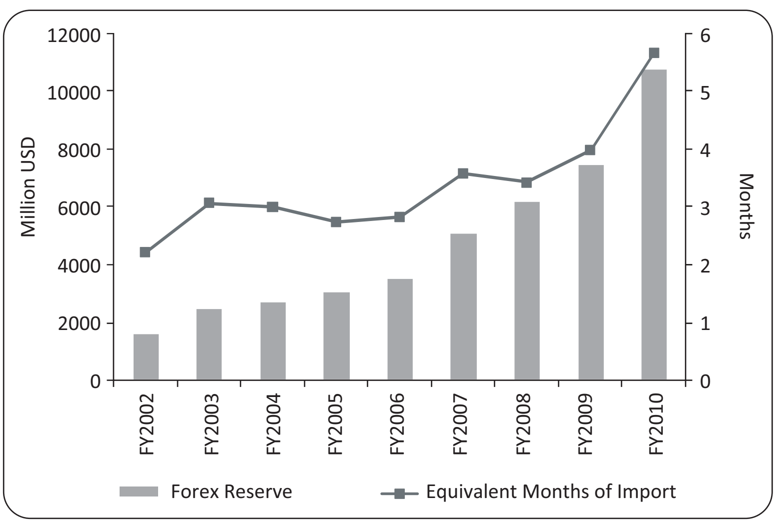
(in Million USD)

Component	FY2008-09	FY2009-10
Trade balance	-4710	-5152
Services	-1616	-1237
Current transfers	10226	11610
Official transfers	72	122
Private transfers	10154	11488
Of which: Workers' remittances	9689	10987
Current account balance	2416	3734
Capital account	451	442
Financial account	-825	-755
Errors and omissions	16	-556
Overall balance	2058	2865

Source: Estimated from Bangladesh Bank data.

Overall, trade balance indicates some deterioration. Export earnings and import payment in FY2008-09 was USD 15.6 billion and USD 20.3 billion respectively. Export earnings increased to 16.2 billion and import payments were even higher, at about USD 21.4 billion in FY2009-10. Accordingly, trade balance deteriorated further in FY2009-10 and reached USD 5.2 billion. Import payment increased because of higher import of edible oil and sugar in FY2009-10 (21.3 per cent and 57.2 respectively). In case of financial account, BOP experienced a net deficit of USD 755 million in FY2009-10 against a deficit of USD 825 million in FY2008-09. Overall balance registered a modest surplus of USD 2.9 billion in FY2009-10 against the record of FY2008-09, which was USD 2.1 billion.

Figure 1.44: Foreign Reserve Trends and Equivalent Months of Import



Source: Estimated from Bangladesh Bank data.

The BOP situation may come under pressure in FY2010-11 if remittance flow fails to maintain the current momentum and import payments go up on account of both higher demand and higher global commodity prices. The situation could aggravate further if exports fail to record significantly high growth in the coming months and years.

1.7.6 Foreign Exchange Reserve

With increased remittance flow, impressive export earnings and lower import payment, foreign exchange reserves reached USD 10.75 billion at the end of June 2009, and posted 43.9 per cent growth compared to FY2008-09. Figure 1.44 depicts the growth in forex reserves and its equivalence in terms of import. Thus, foreign exchange reserve at the end of FY2009-10 was equivalent to 5.7 months of Bangladesh's total import payment. The growing forex reserve will require prudent management both in terms of maintaining a competitive exchange rate between the BDT and other major currencies, and also call for efficient portfolio management of the reserves. About half of the foreign reserves of Bangladesh is kept primarily in USD, about one-seventh is in Euro, and the rest is kept in other currencies (CPD 2010). In view of the falling value of Euro against USD over last few months[52], the issue of prudent management of the growing reserve has become more important. It may be mentioned here that, in view of the current volatility of foreign currencies, some countries including China, India, Mexico, the Philippines, Venezuela and Ecuador are purchasing gold to diversify and consolidate their respective foreign exchange reserves. Careful management of foreign exchange reserves and proactive monitoring of the composition of the currency basket will be required if Bangladesh is to avoid losses arising from the growing volatility in the foreign exchange market.

Increased emphasis on social sector development reflects Bangladesh's commitment towards achieving the MDGs

1.8 SOCIAL SECTOR

Over the years, Bangladesh has undertaken various initiatives in the social sectors to mitigate the poverty situation and address equity concerns. Increased emphasis on social sector development in recent years also reflects Bangladesh's commitment towards achieving the Millennium Development Goals (MDGs) which provide a framework to improve the welfare of people through active policy intervention. As will be recalled, an amount of Tk. 7,745 crore was allocated in the revised budget for FY2009-10 for the line ministries dealing with health, education and technology, women advancement and children affairs, and social safety net (Table 1.16). To compare, this amount was 22 per cent higher than that of the corresponding allocation for FY2008-09.

Table 1.16: Sector-wise Allocation and Expenditure in FY2009-10

(in Crore Tk.)

Sub-sector	RADP Allocation (FY2010)	Utilisation (FY2010)		Utilisation Rate in FY2009 (%)
		Total	Allocation (%)	
Health				
M/O Health and Family Welfare	2814.41	2408.69	86.00	77.00
Education				
M/O Primary and Mass Education	2742.84	2730.43	100.00	97.00
M/O Education	1425.46	1340.22	94.00	96.00
M/O Science and Information & Communication Technology	122.56	112.71	92.00	94.00
Women Advancement and Children Affairs				
M/O Women and Children Affairs	159.56	152.71	96.00	99.00
Social Safety Net				
M/O Social Welfare	75.08	74.11	99.00	59.00
M/O Food and Disaster Management	255.24	239.46	94.00	86.00
M/O Labour and Employment	32.04	29.54	92.00	83.00
M/O Youth and Sports	117.94	112.30	95.00	86.00
Total for All	**7745.13**	**7200.17**	**94.00**	**86.00**

Source: Estimated from IMED (2010).
Note: M/O refers to Ministry of.

1.8.1 Health

86 per cent utilisation of the RADP by the Ministry of Health and Family Welfare (MoHFW) in FY2009-10 presents a fairly positive picture when compared to that of the previous year (77 per cent) and some of the other sectors' performance record in the same year. However, this still lags behind what is needed given the precarious scenario where only about half of the country's population have access to essential medicines. Besides, a growing population also means that demands on the health sector, both in terms of allocation and the quality of service will be on the rise.

[52]Value of Euro against USD has fallen roughly by 16.9 per cent between 1 January and 30 June, 2010.

Table 1.17: Progress under Various Components of the HNPSP during FY2009-10

Selected Components of HNPSP	RADP (Crore Tk.)	Release as % of RADP	Expenditure as % of RADP
Essential Services Delivery	461.0	88.5	82.2
Improved hospital services management	152.0	100.0	87.7
Pre-Service Education	53.2	100.0	99.4
In-Service Training	23.9	75.1	56.7
Micro nutrient supplementation	21.5	93.0	67.6
Maternal, child and reproductive health services delivery	225.0	98.6	67.8
Family planning field services delivery	162.0	93.8	91.4
National Nutrition Programme (NNP)	191.0	95.0	89.1
Physical facilities development	664.5	96.2	89.0
Research and development (health)	2.3	95.7	90.5

Source: Estimated from Ministry of Health and Family Welfare (MoHFW) data.

The Health, Nutrition and Population Sector Programme (HNPSP) is at present the single most important government intervention in the health sector. The project will end in 2011. A review of the programme performance indicates that in FY2009-10, the programme was able to register a mixed performance under various components of the programme (Table 1.17).

As available data suggests, there is an urgent need to raise the quality of implementation of initiatives under the In-Service Training component of the HNPSP. Given the less-than-standard quality of health services, particularly in the rural and remote areas, the need to prepare better trained health professionals cannot be overemphasised. This is also true for the service delivery in case of maternal, child and reproductive health sector for which only 68 per cent of the RADP allocation could be utilised in FY2009-10. If the present trends continue over the coming years, attainment of health-related MDGs by 2015 will come under challenge. In view of the fact that Bangladesh has only five physicians and two nurses per 10,000 people, recruitment of health professionals to fill up the vacant positions in the health sector ought to be given highest priority.[53]

RADP utilisation by the Ministry of Primary and Mass Education and the Ministry of Education in FY2009-10 stood at 100 per cent and 94 per cent respectively

It is encouraging to note that allocation for the health sector (Tk. 8,149 crore) in the budget for FY2010-11 was 17 per cent higher than that made in the previous fiscal. However, an MDG cost estimate by the GoB shows that Bangladesh will need to spend as much as Tk. 17,210.5 crore in FY2010-11 alone to be on the track in terms of achieving the health-related MDGs. This reinforces the need for enhanced government allocation in the sector which could complement household expenditure on health, and also underscores the need to raise efficacy of the service delivery in this regard.

1.8.2 Education

RADP utilisation by the Ministry of Primary and Mass Education and the Ministry of Education in FY2009-10 stood at 100 per cent and 94 per cent respectively. This performance can be attributed to the notable progress registered by various new and ongoing quality enhancement and stipend projects implemented in this period.

FY2009-10 was the first year of extension of the nationwide umbrella programme titled Primary Education Development Programme Second Phase (PEDP II)

As is known, FY2009-10 was the first year of extension of the nationwide umbrella programme titled Primary Education Development Programme Second Phase (PEDP II) which is under implementation by the Ministry of Primary and Mass Education since 2003. The programme will end in June 2011. According to official statistics, about 97 per cent of the allocated budget for FY2009-10 (Tk. 1,694 crore) could be utilised till June 2010.[54] As for cumulative expenditure till the end of FY2009-10, this stood at more than 94 per cent which manifests an impressive utilisation rate for the programme. It is also encouraging to see that the

[53]According to *The Health Bulletin 2009*, published by the MoHFW and released in February 2010, there were 33,000 vacant posts in the public health sector. However, information from various sources suggests that initiatives are underway to recruit 14,000 health professionals, including 4,133 doctors, 2,639 nurses, and 6,391 health assistants.

[54]Utilisation rate for the programme in FY2008-09 was 97.5 per cent.

government has allocated an additional Tk. 1,576 crore for the next fiscal. Given the previous track record, it is hoped that the allocated funds will be successfully spent during the remaining period of the project.

Apart from the PEDP II, the progress with regard to the Reaching Out of School Children (ROSC) project, which is considered to be a significant initiative towards attaining the MDG of ensuring universal primary education for all, has been impressive during the period under review. Available information suggests that expenditure under the project during FY2009-10 was about 97 per cent of the allocated Tk. 110 crore. Furthermore, approximately 92 per cent of the total expenditure was incurred in providing grants and education allowances to learning centers and students.

Table 1.18: Status of Major Education Projects for the Secondary Level in FY2009-10

(in Lakh Tk.)

Name of the Project (Implementation Period)	Total Project Cost	Cumulative Progress (up to June 2010) as % of Total Project Cost	ADP Allocation for FY2009-10	RADP Allocation for FY2009-10	Release as % of RADP Allocation	Expenditure as % of RADP Allocation
Teaching Quality Improvement in Secondary Education Project (01/07/2005 to 30/09/2011)	64471.00	61.24	6500.00	10100.00	100.00	97.32
Secondary Education Sector Development Project (01/01/2007 to 30/06/2013)	79333.00	42.56	6400.00	20450.00	100.00	83.36
Secondary Education Quality and Access Enhancement Project (01/07/2008 to 30/06/2014)	118177.00	27.37	14000.00	24069.00	100.00	93.34
Transformation of Existing Non-government Schools into Model Schools in Selected 306 Upazila Headquarters (01/01/2009 to 31/12/2013)	46577.00	0.03	900.00	6.00	100.00	97.00
Higher Secondary Female Stipend Project (Phase IV) (01/07/2008 to 30/06/2011)	20448.79	63.98	7000.00	9685.00	100.00	99.85
Life Skills Based Reproductive Health Education for In-school Youth and Adolescents through Peer Approach (01/01/2006 to 31/12/2010)	564.00	70.489	100.00	110.00	87.80	87.68
Secondary Education Stipend Programme (01/07/2009 to 30/06/2012)	68793.00	20.42		14100.00	100.00	99.65
Establishment of 11 Secondary Schools and 6 Colleges (Government) in Dhaka Metropolitan City (01/07/2009 to 30/06/2012)	43500.00	0.00				
Capacity Development for Madrasah Education (01/07/2009 to 31/12/2010)	810.00	42.72	789.00	56.09	56.08	

Source: Estimated from Ministry of Education data.

The introduction of the National School Feeding Programme in FY2009-10 was a positive step by the government towards increasing enrolment at the primary level. As has been planned, initially a total of 87 highest poverty-prone upazilas were to be selected based on the new poverty map. It may be noted here that two similar programmes namely Food for Education Programme (2007-2010) and School Feeding Programme (January 2009 to June 2013) are already in operation in some poverty-prone and remote areas of Bangladesh, which are being administered by the government with assistance respectively from the World Food Programme (WFP) and the European Commission (EC). The government is also looking forward to introduce Child Friendly Learning Centers in 209 upazilas in 44 districts. Estimated cost for the project for the period of January 2010 to December 2012 is expected to be Tk. 342.19 crore. It is expected that with such positive attitude of the government towards uplifting the quality of education in the country, it will be possible to achieve relevant MDG targets in time.

The government has given priority to improve enrolment and quality of secondary school students

In addition to various programmes undertaken for quality enhancement in the primary education sector, the government, through the Ministry of Education, has given priority to improve enrolment and quality of secondary school students by both initiating new projects and continuing several ongoing programmes in FY2009-10 (Table 1.18).

According to government data, about 93 per cent of the total RADP allocation for FY2009-10 could be utilised by the end of fiscal year. However, greater importance has been put on the Secondary Education Sector Development Project and the project on Capacity Development for Madrasah Education. Besides this, timely implementation of the work with regard to establishment of secondary schools and colleges in Dhaka city also needs to be ensured as no progress could be made on this project in FY2009-10. On the other hand, progress of the project with regard to stipends for female students at the Higher Secondary level appears to be on track. This project is expected to be a useful means towards eliminating gender divide in the education sector.

One significant step by the government in FY2009-10 was the approval of the National Education Policy 2010

Apart from the above mentioned performance under various components of the education sector, one significant step by the government in FY2009-10 was the approval of the National Education Policy (NEP) 2010 (Box 1.7). The final version of the draft is expected to be adopted by the National Parliament towards the end of 2010. To attain the objective of significantly improving Bangladesh's education system, effective implementation of the NEP will need to be ensured both in terms of its width and breadth.

Box 1.7: National Education Policy 2010

Major Milestones

- 8 April 2009: Setting up of National Education Policy Formulation Committee
- 2 September 2009: Submission of Draft NEP by the Committee
- 31 May 2010: Approval of NEP 2010 by the Cabinet
- Late 2010: Final NEP 2010 to be adopted by the National Parliament

Key Features of the NEP 2010

Pre-primary and Primary Education

- One-year long pre-primary education will be introduced for 5+ children;
- Adivasi (indigenous) teachers and textbooks on Adivasi languages will be arranged so that Adivasi children can learn their respective mother tongues;

(Box 1.7 contd.)

(Box 1.7 contd.)

- Education up to Class VIII will be primary and it will be free, universal and compulsory;
- Students will get stipends on the basis of Class V exam results;
- All students will have the scope to learn their respective religions.

Secondary Education
- Level of secondary education will be from Class IX up to XII;
- At secondary level of general, madrasah and vocational mediums, common curriculum and texts will be followed for Bengali, English, Mathematics, Information Technology (IT) and Bangladesh Studies;
- At the end of Class X, a terminal examination will be held at upazila, municipality and thana level on a common question paper and students will be given stipends on the basis of their results.

Higher Studies
- All three-year degree courses will gradually be turned into four-year Honours courses at all educational institutions;
- *Non-government Teachers Commission* will be formed for teachers' selection in non-government educational institutions and to provide them with trainings;
- To decentralise the National University, its centres will be set up at all divisional headquarters, and later these centres will be turned into approved universities for respective areas.

Vocational and Technical Education
- At the end of Class VIII, students passing the Primary Certificate Examination will be able to opt for vocational education, if they so want;
- To expand vocational and technical education, institutes will be set up in each upazila while numbers of polytechnic institutes, textile institutes and leather institutes will also be increased.

Facilities for Teachers
- To encourage meritorious students take up teaching profession, the issues of dignity and status of teachers will deeply be considered to restructure the system;
- Steps will be taken to enact an *Integrated Education Act* and form a *Permanent Education Commission*.

Source: Draft NEP 2010.

It is also pertinent to note here that allocation for the education sector in the national budget for FY2009-10 accounted for about 2 per cent of GDP. Based on the nature of economic development in countries around the world, there is little doubt with respect to the existence of a strong link between expenditure on education and development of a country. Hence, unless greater financial resources are mobilised and allocated to this vital sector, the goal of developing the required human resources to meet the country's needs will not be achieved. It is, therefore, recommended that investment in education is substantially increased in the years to come.

1.8.3 Social Safety Net

Progress with regard to most of the cash allowance programmes for the poor and vulnerable had been significantly positive in FY2009-10

Safety net programmes are designed to provide subsistence support to the resource-poor and vulnerable groups. With a view to implementing 63 social safety net programmes under the heads of social security and social empowerment, the national budget for FY2009-10 proposed an allocation of Tk. 173.3 crore (2.52 per cent of GDP).[55] Later on, the budget was revised and the amount stood at Tk. 167 crore (2.4 per cent of the revised GDP).

Progress with regard to most of the cash allowance programmes for the poor and vulnerable had been significantly positive in FY2009-10, both in terms of release of the fixed amount of monthly allowance and attainment of the targeted number

[55] This registered more than 25 per cent increase over the revised allocation for the previous year.

> In view of the pervasiveness of both poverty and natural disasters, foodgrain distribution through PFDS is considered by the poor as a critically important support

of enlisted beneficiaries.[56] Of particular interest in this context is the impressive utilisation rate registered by the line ministries responsible for implementing various social safety net programmes (Table 1.16). One may recall that performance of these ministries was quite disappointing in the previous year.[57] Apart from the regular allocations, a stimulus package worth of USD 725 million for FY2009-10 was announced in June 2009 to strengthen the social safety net programmes in view of the global financial crisis.[58] It may be noted here that the budget for FY2010-11 has proposed to increase the number of these programmes from 63 in FY2009-10 to 82 in FY2010-11 with nine new programmes introduced. To put this into practice, the government has proposed an allocation of Tk. 19,497 crore which is 14.8 per cent of the total budget.

Public Food Distribution System (PFDS)

Distribution of foodgrains through both monetised and non-monetised channels in FY2009-10 was about 8 per cent lower than that of FY2008-09 (Table 1.19). This appears to be a disquieting performance in view of the fact that the total revised allocation of foodgrains for distribution under PFDS for the period under review (set at 2.68 million MT) was 0.55 million MT higher than previous year's actual distribution. At the end of the fiscal year, actual distribution fell short of target by about 27 per cent, particularly due to the fact that a large part of the allocation under OMS was not required to be distributed (including non-distribution of initially planned one lakh ton of wheat).[59]

In view of the pervasiveness of both poverty and natural disasters in Bangladesh, foodgrain distribution through PFDS is considered by the poor as a critically

Table 1.19: Channel-wise Distribution of Foodgrains in FY2009-10

('000 MT)

Sector	Channel	Revised Budget (FY2009-10)			Cumulative Distribution (1 July 2009 - 30 June 2010)			Distribution of Total Revised Budget (%)		
		Rice	Wheat	Total	Rice	Wheat	Total	Rice	Wheat	Total
Monetised	Essential Priority	157.0	122.0	279.0	152.0	93.7	245.6	96.8	76.8	88.0
	Other Priority	20.0	25.0	45.0	16.7	4.3	21.0	83.4	17.2	46.6
	Large Employers	18.0	4.0	22.0	9.7	5.6	15.3	54.1	139.0	69.5
	OMS, Fair Price Cards, Garments	500.0	100.0	600.0	308.6	0.0	308.6	61.7	0.0	51.4
	Others	0.0	0.0	0.0	0.7	0.0	0.7	N/A	N/A	N/A
	Sub-total	*695.0*	*251.0*	*946.0*	*487.0*	*103.6*	*590.6*	*70.1*	*41.3*	*62.4*
Non-monetised	FFW	200.0	175.0	375.0	265.9	110.2	376.1	132.9	63.0	100.3
	TR	150.0	250.0	400.0	164.8	203.3	368.2	109.9	81.3	92.0
	VGF	550.0	0.0	550.0	248.3	0.1	248.3	45.1	N/A	45.2
	VGD	100.0	165.0	265.0	66.8	205.6	272.4	66.8	124.6	102.8
	GR	64.0	0.0	64.0	37.0	0.0	37.1	57.8	N/A	57.9
	Others	45.0	30.0	75.0	38.8	30.1	68.8	86.1	100.3	91.8
	Sub-total	*1109.0*	*620.0*	*1729.0*	*823.7*	*549.3*	*1373.0*	*74.3*	*88.6*	*79.4*
Grand Total		1804.0	871.0	2675.0	1308.5	652.9	1961.4	72.5	75.0	73.3

Source: Estimated from Food Policy Monitoring Unit (FPMU) data.

[56] Available information suggests that utilisation rate for all these programmes ranged between 95-99 per cent of the allocated fund (Source: Department of Social Services, GoB).

[57] The Ministries of Food and Disaster Management, Labour and Employment, and Youth and Sports registered 83-86 per cent utilisation of RADP allocation in FY2008-09. On the other hand, Ministry of Social Welfare was able to achieve only 59 per cent utilisation target with regard to total RADP allocation during the same period.

[58] The first stimulus package worth USD 500 million was announced by the government on 19 April 2009. The package provided 11 per cent of total allocation for various social safety net programmes.

[59] See, Bangladesh Food Situation Report, Vol. 81.

important support towards meeting their daily food intake requirements. However, experience over the years shows that irregularities still exist both during the preparation of beneficiary lists, and the distribution of allowances/foodgrains among the deserving populace. Given the undisputed importance of social safety net programmes in the socioeconomic development of the resource-poor community in Bangladesh, strong vigilance and monitoring by the respective government authorities will have to be ensured throughout the implementation phase to avoid any pilferage or misuse of resources. In this context, GoB should expedite efforts towards creating beneficiary database for various safety net programmes using National ID cards. It may be mentioned here that such a proposal has been put forward by the government in the national budget for FY2010-11.

GoB should expedite efforts towards creating beneficiary database for various safety net programmes using National ID cards

Despite a number of significant improvements made in the social sector in FY2009-10, much remains to be done in view of the reality that majority of the population in Bangladesh still lives below the poverty line. Besides, the already saturated labour market is under pressure to accommodate new entrants. Poor quality of healthcare services are failing to meet people's demand, and education budget as percentage of GDP is still one of the lowest in the South Asian region. Thus, the strategy for future will be to mobilise more resources for social sector and raise efficacy of utilisation of the resources to meet the growing demand of the population.

1.9 OUTLOOK FOR FY2010-11

Growth and Investment Outlook

Encouraged by the upturn in the post-crisis global economy with its favourable impact on external sector performance, and in light of the envisaged steps to mobilise domestic resources, stimulate sectoral growth and a number of short-term measures to partially solve the ongoing power crisis, the GDP growth target for FY2010-11 was initially set at 6.7 per cent. In view of the attained GDP growth of 5.83 per cent in FY2009-10, this target is rather ambitious although underachievement in the growth figure in FY2009-10 (5.8 per cent as against 6 per cent) would mean that the proposed growth rate will need to be achieved on a relatively low base. Attainment of this target will hinge on many factors and would require a robust performance in all the critical sectors of the economy. Projections of sectoral GDP growth targets for FY2009-10 made by the government are not available. However, CPD has carried out an exercise to project the sectoral GDP growth targets on the basis of the aggregate GDP target of about 6 per cent, past experiences, recent benchmarks, and the current context (Table 1.20).

Table 1.20: Projection of Sectoral Growth Targets for FY2010-11

(in Per cent)

Sector	FY2009-10	FY2010-11*
Agriculture	4.7	4.6
Industry	6.0	8.5
Services	6.4	6.8
GDP	5.8	6.7

Source: CPD projection and estimation based on BBS (2010b).
Note: *Sectoral growth rates are projected in view of the GDP growth target.

As has been noted earlier, good agricultural production and resilient and robust export performance were the highlights of FY2009-10. If the current policy support is continued and there is no major natural disaster, a near 4.6 per cent growth in the agricultural sector is likely to be achieved in FY2010-11.

Good agricultural production and resilient and robust export performance were the highlights of FY2009-10

The average growth rate of the industrial sector during the past decade (FY2000-01 to FY2009-10) has been about 7.4 per cent. The last time a 'more-than-six-and- half-per-cent' growth was achieved in the industrial sector was in FY2005-06 (6.6 per cent), when the manufacturing sector contributed about 40 per cent of the incremental GDP. Similar level of performance in FY2010-11 would require that the industry sector grows at least by 8.5 per cent. The achievement of GDP target for FY2010-11 will largely depend on the envisaged contribution by the manufacturing sector.

Historically, the services sector of the country has been able to demonstrate a steady performance in the backdrop of the moderate achievements in the real sectors. On average, the services sector posted a growth of 6.1 per cent per year during FY2000-01 to FY2009-10. Given the expected performance of the other two major sectors, it is likely that the services sector will be able to achieve a higher than average growth rate in the forthcoming year.

Investment target suggests that the government is expecting an increase in the investment rate in FY2010-11

Investment target, as stated in the budget, suggests that the government is expecting an increase in the investment rate (as a percentage of GDP) from 25 per cent in FY2009-10 to 26.4 per cent in FY2010-11 (Table 1.21). A significant rise in public investment (in terms of ADP) may imply a stagnant share of private investment as a percentage of GDP in FY2010-11. This could be an indication of lack of growth in private investment or a priori acceptance of less than full delivery of the ADP.

Table 1.21: Medium Term Macroeconomic Outlook of Bangladesh Economy: FY2009-10 – FY2012-13

Indicator	Actual	Projection				
	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015
Output						
Real Growth (%)	5.8	6.7	7.2	7.6	8.0	8.0
Inflation (12-month Annual Average) (%)	7.3	6.5	6.3	6.1	6.0	6.0
Gross Investment (% of GDP)	25.0	26.4	28.4	30.0	31.6	32.0
ICOR	4.3	3.9	3.9	3.9	3.9	4.0
Government Accounts (% of GDP)						
Total Revenue	10.8	11.9	12.5	13.1	13.6	14.1
Tax	9.0	9.7	10.2	10.8	11.3	11.8
Non-Tax	1.7	2.2	2.3	2.3	2.3	2.3
Total Expenditure	13.8	16.9	17.2	17.4	17.8	18.1
Current Expenditure	10.3	12.0	11.9	11.8	11.7	11.5
ADP Expenditure	3.5	4.9	5.3	5.6	6.1	6.6
Overall Balance (excluding Grants)	-3.0	-5.0	-4.7	-4.3	-4.2	-4.0
Financing	3.0	5.0	4.7	4.3	4.2	4.0
Domestic Financing	1.9	3.0	2.6	2.3	2.2	2.1
Banking System	-0.3	2.0	1.8	1.7	1.7	1.7
Non-banking System	2.2	1.0	0.8	0.6	0.5	0.4
Net Foreign Financing	1.1	2.0	2.1	2.0	2.0	1.9
Money and Credit (% Change)						
Net Domestic Assets	18.8	14.8	15.5	15.8	16.5	16.5
Credit to Private Sector	24.2	18.2	18.5	18.5	19.0	19.5
Broad Money (M2)	22.4	16.2	16.3	15.9	15.8	15.8
Balance of Payments						
Export (% Change)	4.1	15.0	16.0	16.5	17.0	17.2
Import (% Change)	4.1	16.0	17.5	18.0	18.5	18.7
Remittances (bln USD)	11.0	14.0	17.1	20.8	25.5	31.4
Remittances (% Change)	13.4	27.3	22.1	21.6	22.6	23.1
Current Account Balance (% of GDP)	3.7	3.6	3.3	3.0	2.7	2.3
Forex Reserve (bln USD)	10.8	11.0	12.0	12.5	13.0	14.5
Forex Reserve (Months of Imports)	4.9	4.4	4.0	3.5	3.0	2.7
Exchange Rate (Tk./USD)	69.5	70.2	70.7	71.2	71.5	71.9

Source: Medium Term Macroeconomic Framework (MTMF).

The ICOR has been projected to decrease to 3.9 in FY2010-11. This implies that some acceleration in the capital productivity has been anticipated. In order to achieve the targeted growth rate, investment, particularly private sector investment, has to increase significantly. The role of the much hyped PPP will continue to remain a critically defining factor in mobilising investible resources in the coming year.

Medium Term Macroeconomic Outlook

According to the projections of the new MTMF for the period between FY2010-11 and FY2014-15, the Bangladesh economy will grow between 6.7 and 7.2 per cent during FY2010-11 and FY2011-12 respectively. The GDP growth rate is expected to reach at 8 per cent in FY2013-14. The MTMF also makes projections for inflation rate at 6.5 per cent in FY2010-11, which is expected to decelerate further and remain stable at 6 per cent in FY2013-14. Higher domestic production is required to achieve this target, particularly in view of the rising global demand for food and rising global prices anticipated in the coming year. Containing inflationary pressure will be critical to achieving the MTMF targets.

According to the projections of the new MTMF for the period between FY2010-11 and FY2014-15, the Bangladesh economy will grow between 6.7 and 7.2 per cent during FY2010-11 and FY2011-12 respectively

The MTMF also forecasts that the budget deficit will come down gradually to 4 per cent of GDP by FY2014-15. This is based on the assumption that the current public expenditure will remain stable and that revenue mobilisation will steadily improve, particularly the tax revenue component. This will not be easy. It is hoped that reforms in tax laws will result in significant improvement in revenue collection. The government also intends to boost public investment significantly over the medium term, to reach 6.6 per cent of the GDP by FY2014-15. The other goals of the MTMF include lowering the dependence on domestic sources for deficit financing and keeping the deficit low by restraining reliance on foreign assistance.

The projected monetary aggregates do not reflect the required credit flow as has been planned for financing the fiscal deficit

A conservative monetary expansion is forecasted for FY2010-11 with contraction of M2 growth. However, the projected monetary aggregates do not reflect the required credit flow as has been planned for financing the fiscal deficit. It may be recalled here that the CPD had earlier suggested a moderately expansionary monetary policy stance given the current economic situation. Projections of credit flow and fiscal deficit indicate that the growth in M2 could be higher than anticipated. Hence, if credit to the private sector is increased, there could be a reduction of credit growth in the public sector. This indicates a potential mismatch with the proposed expansionary fiscal policy. Notably, growth of M2 is expected to slowdown further after the end of FY2014-15 compared to FY2010-11.

To achieve the MTMF targets, exports have to increase to USD 35.8 billion by FY2014-15 from the current level of USD 16.2 billion

To a large extent, the performance of the external sector will depend on the dynamics of the global market and the nature of the economic recovery. Targets for external sector have been kept at moderate levels. To achieve the MTMF targets, exports have to increase to USD 35.8 billion by FY2014-15 from the current level of USD 16.2 billion. Efforts towards both product and market diversification are needed to attain these targets. Given the recent slowdown in remittance inflow and overseas employment, the target to receive remittances of USD 31.4 billion by FY2014-15 appears to be rather optimistic. Much will depend on whether Bangladesh is able to achieve significant levels of market and product diversification. Equally, skill-mix will also have to be significantly improved if the ambitious remittance targets are to be achieved. By any measure, the tasks at hand are formidable and challenging.

1.10 CONCLUDING REMARKS

If maintaining macroeconomic stability at a time of great economic uncertainties, consequent to the global economic crisis, ought to be considered as one of the most important performance indicators of the economy in FY2009-10, then by and large Bangladesh economy has fared rather well. As the review of key macroeconomic indicators presented in the preceding sections testifies, country's growth was admirable by the standards of most other developing countries, and both domestic economy and external sector had performed well. Efforts to mobilise higher domestic resources through more intensive tax efforts succeeded in raising the tax-GDP ratio, and timely delivery of adequate and subsidised inputs for farmers was rewarded with higher crops output. Bangladesh was able to take advantage of the global recovery that kept her balances robust and exchange rate stable. This is not to say that the economy did not confront any pressure. Continuing power shortage undermined growth prospects and investment, and there was pressure on the domestic labour market in view of lower migration figures. Mounting inflationary pressure was also a major concern. Overall macroeconomic stability witnessed in FY2009-10 was not able to harness growth momentum since in the latter half, lagged response of the global financial crisis started to have adverse impact on the economy, particularly on the external sector. Growth prospects in FY2009-10 thus could not live up to the early promise.

Bangladesh was able to take advantage of the global recovery that kept her balances robust and exchange rate stable

Economic management in FY2010-11 will inherit many of the weaknesses that informed the macroeconomic management in FY2009-10. Three key areas that will need to be addressed on an urgent basis relate to significant enhancement of the delivery capacity of the government, particularly in such areas as power generation and infrastructure development, attracting investments through PPPs, and maintaining a restraint on the gathering inflationary momentum. Delay in finalising policies, which in turn impedes their implementation, is increasingly proving not to be only financially costly, but is also having adverse impact on private sector investment. The achieved targets of FY2009-10 will need to be seen in the context of the medium-term planning framework and targets, and since FY2010-11 will be the first year of the Sixth Five-Year Plan and the ten-year Perspective Plan, this will call for better coordination and better coherence between short and medium-term policies in FY2010-11.

Economic management in FY2010-11 will inherit many of the weaknesses that informed the macroeconomic management in FY2009-10

Implementation of the public expenditure plan, particularly the ADP component, will decide whether the projected 6.7 per cent growth in FY2010-11 will be achieved or not. Higher domestic resource mobilisation and efficient management of fiscal deficit in a non-inflationary manner will be the key to achieving the forecasted growth. The twin objectives of maintaining macroeconomic stability and translating this into higher growth can be met only by a well-crafted supply-side management policy, which will boost production and take care of distributive justice and equity consideration. Indeed, the inflationary momentum may induce policymakers to resolve the attendant tension between growth and stability in favour of the latter. This, as is known, has its downside. The often conflicting interests of producers and consumers will have to be appropriately balanced through adequate incentives to farmers and producers, and improved system of delivery, better stock management, timely import, efforts to reduce the margin between wholesale and retail price and import and retail price, and an efficient safety net programme.

Implementation of the public expenditure plan, particularly the ADP component, will decide whether the projected 6.7 per cent growth in FY2010-11 will be achieved or not

Taking advantage of the opportunities of global economic recovery must be seen as a cornerstone of macroeconomic policies to be pursued in FY2010-11. The balance of payment may, however, come under some pressure as imports pick up, but much will depend on how export and remittance perform. If either of these two fails to deliver the expected outcome, this pressure may increase. If this be the case, maintaining exchange rate stability at a time of inflationary pressure in the global commodity market will be a challenge. The situation may aggravate in view of higher demand of fuel import which could go up significantly in the backdrop of the fuel-intensive power generation projects that are being implemented at present. In anticipation of this the government may look out for additional foreign resources. It will be advisable if these are accessed in the form of budgetary support to maintain the required policy space at a time of heightened tension between conflicting policy choices.

Private sector, the dominant player in investment accounting for about 80 per cent of total investment, will be the key to achieving the growth target in FY2010-11. Whilst the renewed interest of private investment in the equity market ought to be seen as a good indicator, oversight institutions, particularly SEC, should be vigilant against any player trying to manipulate the market. This cautionary note is all the more pertinent because of the market trends and signs of overheating visible in the market towards the end of FY2009-10 and beginning of FY2010-11. Prudent policies will need to be pursued so that the stock market's primary role remains to be an avenue to raise equity and not to serve as a casino, signs of which are only too visible at this point in time. Highest efforts should be exerted by policymakers to mobilise the excess liquidity in the system towards productive investment. Lack of innovative thinking and approach could cost the country and the economy dearly, and put the current macroeconomic stability under threat. This is a risk that the Bangladesh economy can hardly afford.

Lack of innovative thinking and approach could cost the country and the economy dearly, and put the current macroeconomic stability under threat. This is a risk that the Bangladesh economy can hardly afford

CHAPTER 1

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CHAPTER 1

APPENDIX TABLE AND FIGURE

Appendix Table 1.1: Summary of Monetary Sector Variables in FY2009-10

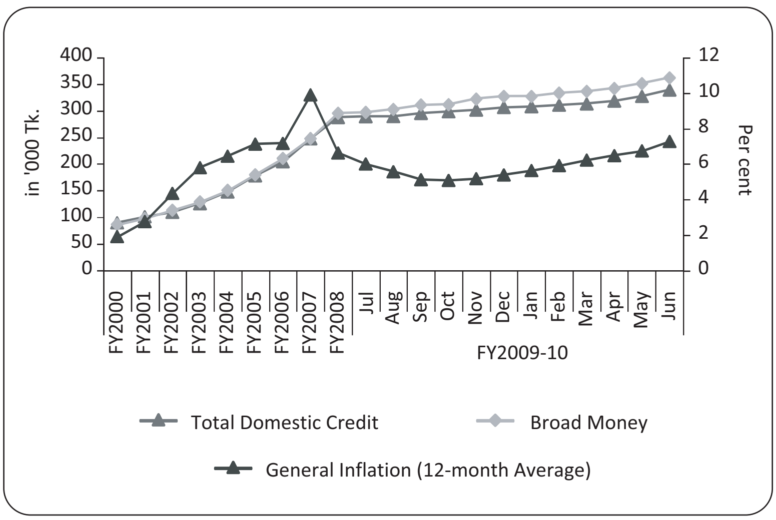
(in Per cent)

Indicator	FY2008-09		FY2009-10	
Inflation rates (June)				
- Point-to-point	2.25		8.70	
- 12-month average	6.66		7.31	
Growth in money supply (end of the period)				
- Broad money (M2) (end of June)	19.17	(296499.80)	22.44	(363031.20)
- Reserve money (end of June)	31.45	(69390.10)	16.03	(80510.30)
- Demand deposit (end of June)	14.02	(30236.50)	37.65	(41621.80)
- Time deposit (end of June)	21.42	(230073.00)	19.55	(275042.80)
- Excess liquidity (end of June)	167.64	(34762.08)	-0.76	(34498.73)
Growth in credit (end of June)				
- Domestic credit	16.03	(288552.40)	17.89	(340176.10)
- Credit to government sector	24.04	(58185.10)	-6.52	(54392.30)
- Credit to other public sector	6.94	(12439.70)	20.77	(15023.00)
- Credit to private sector	14.62	(217927.50)	24.24	(270760.80)
Growth in agricultural credit (end of June)				
- Disbursement	-10.66	(934.35)	31.42	(1227.91)
- Recovery	50.95	(935.61)	14.48	(1071.08)
Growth in industrial credit (July-June)				
- Term loan (disbursement)	-0.88	(19972.69)	29.56	(25875.66)
- Working capital (disbursement)	12.67	(45028.28)	31.41	(59171.95)
Percentage share of classified loan to total outstanding (June)	10.50		8.67	
Percentage share of net classified loan (June)	2.45		1.67	
Interest rates (end of the period)				
- Lending rate (June)	13.46		12.37	
- Deposit rate (June)	8.26		7.40	
- Spread (June)	5.20		4.97	
- Call money rate (June)	1.71		6.62	
Exchange rate (period average)				
BDT/USD (June)	69.05		69.36	
BDT/EURO (June)	96.78		84.71	
BDT/INR (June)	1.45		1.49	

Source: Estimated from Bangladesh Bank (2010a) and *Major Economic Trends*, various issues.

Note: Figures in parentheses refer to amount in Crore Taka.

Appendix Figure 1.1: Total Domestic Credit, Broad Money and Inflation (12-month Average)



Source: Estimated from Bangladesh Bank (2010a) data.

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CPD IRBD 2010: State of the Bangladesh Economy in FY2009-10*
(Held on 30 May 2010 at the CPD Dialogue Room, Dhaka)

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**CPD IRBD 2010 Team alone remains responsible for the contents of this report. The Expert Group Members do not carry any responsibility in this regard.*

CHAPTER 2

Analysis of
National Budget FY2010-11

2.1 INTRODUCTION

The Grand Alliance government led by the Awami League presented the national budget for FY2010-11 and the revised budget for FY2009-10 on 10 June 2010. The budget was placed in the backdrop of the lagged impacts of the global economic crisis with its adverse impacts on tradable sectors of the economy, export and import performance of the country. Macroeconomic difficulties were compounded by severe shortage of power and the lack of required infrastructure. Thus the budget for FY2010-11 reflected the concerns of the government in view of the emergent situation, and the need to set the new priorities to overcome the negative impacts. In keeping with its tradition of putting the budgetary framework and proposals under close scrutiny, the Centre for Policy Dialogue (CPD) organised a series of events to project civil society perspective on the various aspects of the FY2010-11 budget.

The FY2010-11 budget was placed in the backdrop of the lagged impacts of the global economic crisis with its adverse impacts on tradable sectors of the economy, export and import performance of the country

CPD presented its immediate reactions on budget for FY2010-11 on 11 June 2010, the day after the announcement of the budget by the Finance Minister, at a well-attended media briefing. On 19 June 2010, CPD also organised a national dialogue with the participation of the Hon'ble Finance Minister, high level policymakers, members of the national parliament (MPs), leaders of political parties, representatives from the private sector, non-government organisations (NGOs), and civil society, academics and other stakeholders. Following CPD's presentation that covered an in-depth analysis of the various budgetary proposals and the fiscal stance taken by the government, participants shared their views on both the CPD analysis and also various aspects and measures proposed in the budget. Again on 24 June 2010, CPD, in association with the Bangladesh Economic Association (BEA), Chittagong Chapter organised another dialogue in Chittagong, in the presence of the Hon'ble Minister for Industries, to elicit the perception of civil society stakeholders in the Port City of Chittagong. The proceedings of both these dialogues are included as Annexes 1 and 2 of this volume.

Inflationary pressure in the economy gathered some momentum due to developments in the global arena and also for supply-side factors

FY2010-11 was benchmarked by commendable revenue mobilisation by the National Board of Revenue (NBR) and restrained expenditure (fiscal deficit being 4.5 per cent of gross domestic product (GDP) which contributed to maintaining fiscal stability during the preceding fiscal year. Lower trade deficit and robust remittance inflow kept the balance of payment (BOP) at a comfortable situation. This, coupled with a stable exchange rate, contributed to increasing foreign exchange reserve as the FY2009-10 got to the finishing line. GDP growth rate for FY2009-10 was revised upward to 6.0 per cent in the budget for FY2010-11 in view of higher-than-expected performance of some key indicators. Export growth was sluggish during FY2009-10, though the sector showed some indications of having recovered somewhat from the consequences of the global market depression in the wake of the global financial crisis. However, inflationary pressure in the economy gathered some momentum due to developments in the global arena and also for supply-side factors.

In order to meet the objectives set in the Sixth Five-Year Plan and the 10-year Perspective, Plan, efforts towards mitigating the impact of the global financial crisis are needed to be continued in FY2010-11

In its analysis of the budget for FY2010-11, CPD observed that FY2010-11 would be the last year of the Poverty Reduction Strategy (PRS) of the government and that the government had decided to revive the earlier tradition of preparing five-year plans which were to be integral parts of a medium-term perspective plan. Thus, FY2010-11 was to be the first year of the Sixth Five-Year Plan (2011-15) and the first year of the 10-year Perspective Plan (2011-2021). In order to meet the objectives set in these strategies and plans, efforts towards mitigating the impact of the global financial crisis are needed to be continued in FY2010-11. Hence the stimulus package earlier undertaken by the government will need to be continued with additional allocations. The proposed budget has to take into consideration fiscal policies and reform agendas put forward in the budget for FY2009-10. CPD observed that the long-awaited Unified Budget and District Budget are yet to be formulated. Though policy guidelines for the newly introduced public-private partnership (PPP) has been finalised, personnel and logistical arrangements for the functioning of the PPP Office are yet to be finalised.

The proposed budget for FY2010-11 has to take into consideration fiscal policies and reform agendas put forward in the budget

CPD identified a number of challenges for FY2010-11 in its pre-budget interim report on macroeconomic performance of Bangladesh (CPD 2010). These were: first, ensuring marked improvement of the policy implementation and delivery capacity through prudent fiscal management; second, ability to pursue a coherent policy to achieve a stable growth of the economy; third, achieving food and energy security; fourth, reducing poverty and income inequality through employment generation and strengthening of social safety net programmes; fifth, balancing the conflicting interests between producers and consumers in case of determining the price of foodgrain, and between exporters and consumers through proper exchange rate management; sixth, achieving short-term priorities with focus on medium to long-term objectives; seventh, improving the economic governance significantly to achieve the stated objectives; eighth, stimulating regional economic cooperation through follow-up actions with respect to planned activities.

2.2 PUBLIC FINANCE

2.2.1 Revenue Earnings

The revenue-GDP ratio and the tax-GDP ratio will need to be increased to 11.9 per cent and 9.8 per cent respectively in FY2010-11

Overview

The government has set the target of mobilising Tk. 92,847 crore as revenue in FY2010-11 which is Tk. 13,363 crore or 16.8 per cent higher than the revised target figure for FY2009-10. This implies that the revenue-GDP ratio and the tax-GDP ratio will need to be increased to 11.9 per cent and 9.8 per cent respectively in FY2010-11 from the previous year's revised matched figures of 11.5 per cent and 9.3 per cent respectively.

NBR Components

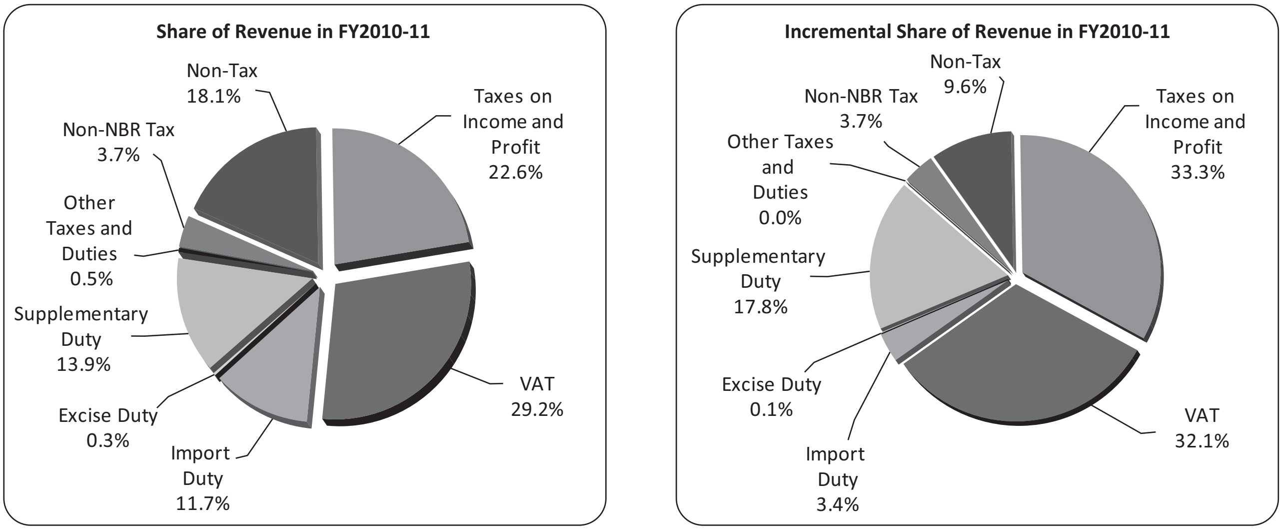
The new target of revenue earnings set for FY2010-11 suggests that within the total additional revenue to be collected, NBR is expected to take the lead role by contributing 86.7 per cent of the incremental amount, followed by non-tax sources (9.6 per cent), and non-NBR tax (3.7 per cent) (Figure 2.1). With a larger incremental share, the share of NBR in total revenue is set to increase to 78.2 per cent for FY2010-11 from 76.7 per cent in FY2009-10 (revised). Overall, the NBR growth target for FY2010-11 has been set at higher levels, at 19.0 per cent, over the revised budget figure of FY2009-10, which was 16.1 per cent.

The new target of revenue earnings set for FY2010-11 suggests that within the total additional revenue to be collected, NBR is expected to take the lead role

The projected share of NBR tax component in the revenue growth is planned to bank on strengthened mobilisation efforts for income tax, value added tax (VAT) and supplementary duties (SD), as there is apprehension about slow recovery of imports and the resultant lower levels of collection of customs duties (CD). These targets for FY2010-11 have been set with reference to their recent performance as it was found that contributions from these sources were significant in FY2009-10.[1]

[1]At the end of FY2009-10, actual growth in income tax, VAT and SD turned out to be 23.3 per cent, 19.1 per cent and 25.8 per cent respectively.

Figure 2.1: Projected Share and Incremental Contribution of Sources in Revenue Growth: FY2010-11



Source: Estimated from MoF (2010) data.

The growth targets set for these three sources (26.8 per cent for income tax, 18.9 per cent for VAT, and 22.7 per cent for SD) are in line with their last year's performances.[2] The target for CD in FY2010-11 is somewhat conservative (4.4 per cent) as the import payments have gone up in recent months.[3] During the initial months of FY2010-11 revenue mobilisation through CD may be somewhat lower due to the lagged impact of global financial crisis. However, revenue collection is expected to rise with the rising commodity prices in international markets and increased import demand in the later months of the fiscal year. Considering a number of new initiatives including opening up of new sources such as capital gains tax (CGT) and expanding tax net for VAT and advance income tax (AIT), the NBR should be able to meet its targets.

Considering a number of new initiatives including opening up of new sources such as capital gains tax and expanding tax net for VAT and advance income tax, the NBR should be able to meet its targets

Non-NBR Components

It is projected in the revised budget of FY2009-10 that collection through other two components of revenues (non-NBR tax and non-tax) will improve during the last quarter of FY2009-10. The trends of first three quarters, however, indicate that currently the revenue collection by non-NBR and non-tax components are lower than what was projected (perhaps by about 3 per cent). This shortfall will mean that higher growth rates (26 per cent) will be required compared to what has been projected in the budget of FY2010-11 (9.6 per cent) to reach the target. The likely deficit originating from non-NBR revenue sources may once again undermine the overall revenue collection effort in FY2010-11.

The likely deficit originating from non-NBR revenue sources may once again undermine the overall revenue collection effort in FY2010-11

2.2.2 Public Expenditure

The budget for FY2010-11 proposed an expenditure target of Tk. 132,170 crore which is 19.6 per cent or Tk. 21,647 crore higher than the revised budget for

[2]The growth targets for these three components of NBR tax revenue will be lower since the achieved results were better than what was expected.

[3]The final figure for revenue collected from import duties in FY2009-10 implies that the growth rate target for FY2010-11 will be much higher, at about 14.4 per cent.

FY2009-10 (Table 2.1). This indicates a faster expenditure growth target than for revenue mobilisation estimation of 16.8 per cent. The envisaged public expenditure, 16.8 per cent of GDP in FY2010-11, is marginally higher than that of FY2009-10 (16 per cent in the revised budget). The higher growth rate of public expenditure accounted for significant increase in the annual development programme (ADP). In the total expenditure, the share of ADP and non-ADP expenditures accounted for 29.1 per cent and 70.9 per cent respectively in FY2010-11 compared to 25.8 per cent and 74.2 per cent respectively in FY2009-10.

Table 2.1: Sector-wise Distribution of Total Expenditure

Sector	Share in FY2010 (RB)	Share in FY2011 (B)	Change in FY2011 (B) over FY2010 (RB)	
	%	%	Crore Tk.	%
Fuel and Energy	3.4	4.6	2328.0	61.5
Public Service	12.3	14.2	5215.0	38.4
Industrial and Economic Services	0.8	0.9	315.0	34.8
Recreation, Culture and Religious Affairs	1.1	1.2	373.0	31.7
Transport and Communication	6.2	6.7	1993.0	29.1
Social Security and Welfare	7.3	7.3	1604.0	19.9
Health	6.2	6.2	1296.0	19.0
Local Government and Rural Development (LGRD)	8.3	8.2	1730.0	18.9
Defence Services	7.1	6.9	1300.0	16.5
Education and Technology	14.6	13.9	2206.0	13.6
Agriculture	9.7	8.6	646.0	6.0
Housing	1.1	1.0	23.0	1.8
Public Order and Safety	6.1	5.2	122.0	1.8
Interest Payments	13.3	11.1	63.0	0.4
Total Expenditure	100.0	100.0	21647.0	19.6

Source: Estimated from MoF (2010) data.

Note: B denotes Budget, and RB denotes Revised Budget throughout the Chapter.

Sectoral Allocation

A sector-wise analysis of total expenditure (development and non-development) reveals that the highest growth in terms of resource allocation has taken place in the Fuel and Energy sector (61.5 per cent), followed by Public Service sector (38.4 per cent) over the respective revised allocations of FY2009-10. Higher allocation for Fuel and Energy sector may have originated from large-scale development expenditure planned for the Power Division coupled with the consequent higher subsidy requirement. Expenditures on Industrial and Economic Services sector, Recreation, Culture and Religious Affairs sector, and Transport and Communication sector are also projected to post significant growth of 34.8 per cent, 31.7 per cent and 29.1 per cent respectively. However, allocation for Interest Payments may need to be revised upward from the projected growth of only 0.4 per cent (Table 2.1).

Table 2.2: Economic Classification of Revenue Expenditure

(in Per cent)

Indicator	Share in FY2010 (RB)	Share in FY2011 (B)	Change in FY2011 (B) over FY2010 (RB)
Pay and Allowances	23.82	25.98	19.52
Goods and Services	13.54	13.28	7.43
Interest Payments	20.47	18.76	0.43
Domestic	18.52	16.92	0.12
Foreign	1.94	1.83	3.38
Subsidies and Current Transfers	39.03	37.99	6.66
Block Allocation	0.84	1.88	146.32
Deduction	-1.68	-1.95	27.14
Recoveries	-1.68	-1.95	27.14
Acquisition of Assets and Works	3.98	4.07	11.89
Total Augmented Non-Development Revenue Expenditure	100.00	100.00	9.58

Source: Estimated from MoF (2010) data.

Revenue Expenditure

Revenue expenditure (augmented) has been set at Tk. 78,420 crore[4] in FY2010-11 with a 9.6 per cent growth over the revised target of FY2009-10 (Table 2.2). This is Tk. 6,858 crore higher than the previous fiscal year. Pay and Allowances head absorbed about half (Tk. 3,327 crore) of the incremental share in revenue expenditure (48.51 per cent). This is perhaps a

[4]This includes recovery of Tk. 1,532 crore from various sources. Deduction of this figure would lead to the revised expenditure upward figure of Tk. 79,952 crore.

reflection of the earlier government pledge of full implementation of the new pay-scale announced in the FY2008-09 budget. This, however, expected to be a one-shot increase. The other notable incremental shares are contributed by Subsidies and Current Transfers (27.1 per cent), and Block Allocation (12.8 per cent). The share of these three major heads (including Pay and Allowances, Subsidies and Current Transfers, and Interest Payments) in total augmented revenue expenditure will however reduce to 82.7 per cent in FY2010-11 from the 83.3 per cent in FY2009-10. The substantial increase in Block Allocation (compared to the revised budget of previous year) is normal and expected to be slashed down once the revised budget has been prepared. Apart from these shifts, there are no other major changes in the share of allocations for various sectors as part of the revenue expenditure plan.

There are no unexpected major changes in the share of allocations for various sectors as part of the revenue expenditure plan

Allocation for Domestic Interest Payments experienced a decelerated growth by 0.12 per cent in FY2010-11 compared to the growth of 20.6 per cent in the last fiscal (FY2009-10), while Foreign Payments has risen steadily. Downward revision of interest rate on National Savings Bond (NSD) certificates and the proposed tax on income from these savings instruments are expected to slack the growth of savings certificates. The lower projection of the growth of Interest Payments from domestic sources may have been induced by the aforesaid policy change on NSD certificates.

Annual Development Programme (ADP)

The ADP for FY2010-11 has been targeted at Tk. 38,500 crore (4.9 per cent of the projected GDP). The new ADP will be 26.2 per cent higher than the original ADP of FY2009-10 and 35.1 per cent higher than the revised ADP (RADP) of FY2009-10. According to a CPD estimate, a realistic assumption for actual ADP expenditure in FY2009-10 would be around Tk. 25,650 crore. Thus the new ADP could be 50.1 per cent higher than the projected ADP expenditure, which is impressive by any measure. Project aid component of the new ADP is targeted at 40 per cent (which was 42.1 per cent in the original ADP of FY2009-10), while the local currency share will be 60 per cent (57.9 per cent in ADP of FY2009-10). The five priority sectors in the ADP for FY2010-11 accounts for 62.4 per cent of the total allocation (Table 2.3).

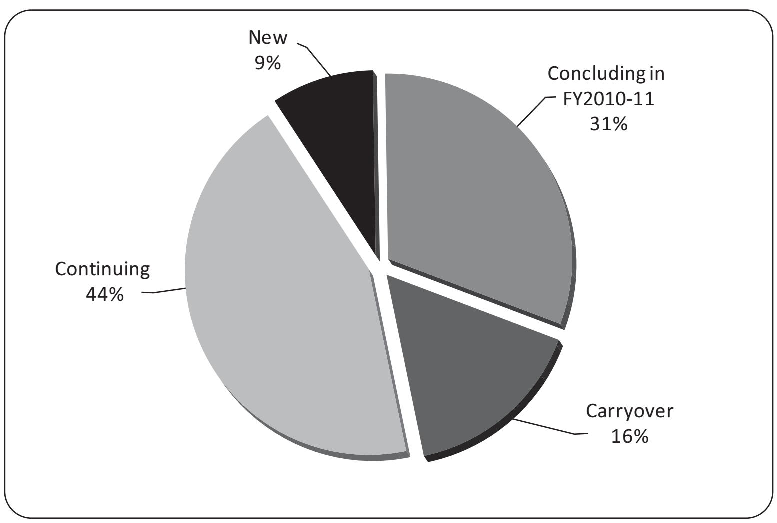
Table 2.3: Sectoral Allocation for Top Five Sectors in ADP for FY2010-11

Sector	Share in FY2010 (ADP)	Share in FY2010 (RADP)	Share in FY2011	Growth over FY2010 RADP
Transport	15.3	13.6	14.3	42.1
Education and Religious Affairs	13.6	15.4	13.5	17.8
Power	11.7	9.3	13.0	89.4
Rural Development and Institutions	11.9	14.0	11.4	11.3
Health, Nutrition, Population and Family Welfare	10.6	10.5	10.2	31.5

Source: Estimated from Planning Commission (2010) data.

In all, there are 910 projects in the ADP for FY2010-11. Among these, 148 are carried over from the previous periods, 432 are to be completed in FY2010-11, and 330 (including 94 new projects) are scheduled to be continued beyond FY2010-11. An overall analysis of all the 910 projects included in the ADP shows that projects with 47 per cent of the total allocation

Figure 2.2: Structure of ADP in FY2010-11



Source: Estimated from Planning Commission (2010) data.

should be completed by FY2010-11, while only 9.4 per cent of the total allocation is for the new projects (Figure 2.2). Thus, the opportunity for including new projects in the development programme for FY2011-12 is rather high.

An examination of the five priority sectors in the ADP shows that, similar to the overall structure, a high proportion of the ADP allocation is either for carried over projects from previous periods, or are earmarked for projects to be completed in FY2010-11 (Table 2.4). Notably, the Power and Education sectors have carryover projects which account for 29.1 per cent and 33.0 per cent of total allocations respectively. It is important to note that, without the carryover projects, the ADP for FY2010-11 would have been Tk. 32,841 crore or 85.6 per cent of the total allocation. It may be noted here that both the physical and social infrastructure sectors are lagging behind in terms of implementations of projects. In order to improve the implementation rate and resource utilisation, additional efforts should be put on sectors with relatively high proportion of carried over projects and projects to be completed in FY2010-11 (e.g. Health sector projects). The number of unapproved projects under ADP without allocation is significantly high in the FY2010-11 budget (797); some of these are expected to be approved gradually in the course of FY2010-11. Sequencing and prioritisation must be ensured in approving such projects.

Table 2.4: Status of Projects in the Priority Sectors

(in Per cent)

Project Status	Rural Development	Power	Transportation	Education	Health
Carried over	11.4	29.1	9.2	33.0	1.3
Concluding in FY2010-11	38.1	19.2	23.3	7.8	74.4
Continuing	38.0	29.2	60.6	58.6	19.1
New	12.5	22.4	6.9	0.6	5.2

Source: Estimated from Planning Commission (2010) data.

Although 13 new ministries (raising the total to 33) have been brought under the Medium Term Budgetary Framework (MTBF), this loses its significance in view of the fact that, as of April of FY2009-10, the 20 Ministries under the MTBF had an average implementation rate of 56 per cent, lower than the overall average implementation rate of 59 per cent. This is also for the first time a number of projects (23 projects) under the PPP initiative, have been included in the ADP without any allocation. These projects are expected to be approved according to the PPP guidelines.

The government may put emphasis on preparing action plans for the top 100 projects selected by the Planning Commission

The government has taken a number of measures to improve the pace of implementation of the ADP in FY2009-10 including the amendments made to the Public Procurement Act (PPA) and the Public Procurement Rules (PPR). In order to increase the rate of implementation and to improve the efficacy of projects, the government may consider the following reform measures related to the ADP. Firstly, pursuing the critical path method (CPM) for monitoring project implementation mentioned in the budget for FY2009-10; result-based monitoring (RBM) system needs to be applied to monitor the amount of ADP allocation spent and the quality of output. The budget mentions about this. Secondly, the government may put emphasis on preparing action plans for the top 100 projects selected by the Planning Commission. In this context, power and infrastructure projects should receive highest priority. Thirdly, the plan for establishing a Planning and Budget Wing in each ministry mentioned in last year's budget speech should be implemented, at least in the top five ministries. Fourthly, emphasis needs to be put on projects that are to be completed by next year and those that are carried over from previous years. The Hon'ble Finance Minister has recently presented two interim reports on macroeconomic performance (in January and June, 2010) to the parliament. Detailed reviews of progress of ADP projects at the time of such reviews may help the monitoring of the implementation process. The importance of ADP implementation in FY2010-11 is high not only because of the crowding in of private investment, but also from the perspective of reducing the gap between the 'required demand' and the 'realised supply' for public investment in Bangladesh.

2.2.3 Budget Deficit and Financing

The revised budget for FY2009-10 projects an overall deficit (excluding grants) of Tk. 31,039 crore (4.5 per cent of GDP) for the fiscal year. With the possibility of the ADP not attaining its revised target, the final budget deficit figure for FY2009-10 is likely to be lower than the revised targets. For FY2010-11, once again, a larger deficit of Tk. 39,323 crore has been projected which is expected to be within 5.0 per cent of the GDP (Table 2.5). However, in view of the objective set out in the budget to take advantage of the anticipated global economic recovery and increased demand for investment in infrastructure, adoption of moderately higher deficit in FY2010-11 appears to be a justified policy choice. This is also needed to guard against any apprehension about the inflationary pressure.

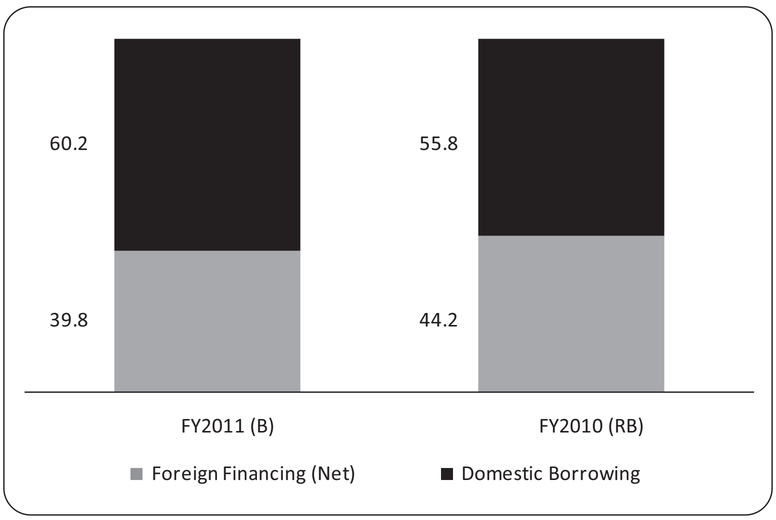
Table 2.5: Fiscal Framework in Budget FY2010-11

Description	FY2010 (RB)		FY2011 (B)		Growth
	Crore Tk.	% of GDP FY2010 (B)	Crore Tk.	% of GDP FY2011 (B)	FY11 (B) over FY10 (RB)
Revenue Collection	79484.0	11.5	92847.0	11.9	16.8
Total Expenditure	110523.0	16.0	132170.0	16.9	19.6
ADP	28500.0	4.1	38500.0	4.9	35.1
Non-ADP	82023.0	11.9	93670.0	12.0	14.2
Overall Deficit (excluding Grants)	31039.0	4.5	39323.0	5.0	26.7
Financing					
Foreign Grants	3742.0	0.5	4809.0	0.6	28.5
Foreign Loan (Net)	9972.0	1.4	10834.0	1.4	8.6
Foreign Loan	14492.0	2.1	15968.0	2.0	10.2
Amortisation	4520.0	0.7	5134.0	0.7	13.6
Domestic Borrowing	17325.0	2.5	23680.0	3.0	36.7
Bank Borrowing (Net)	8661.0	1.3	15680.0	2.0	81.0
Non-bank Borrowing (Net)	8664.0	1.3	8000.0	1.0	-7.7
Total Aid Requirement (Net)	13714.0	2.0	15643.0	2.0	14.1
Total Aid requirement (Net, bln USD)	2.0	-	2.3	-	15.2
Total Aid requirement (Gross)	18234.0	2.6	20777.0	2.7	13.9
Total Aid requirement (Gross, bln USD)	2.6	-	3.0	-	15.1
GDP	690571.0		780290.0		

Source: Estimated from MoF (2010) data.

With regard to financing of the deficit projected for the budget of FY2010-11, it may be noted that about 60.2 per cent of the total deficit (Tk. 23,680 crore) is earmarked to be financed through domestic borrowing (from bank and non-bank sources). The remainder 39.8 per cent (Tk. 15,643 crore) is supposed to come from foreign sources that includes loans and grants (Figure 2.3).

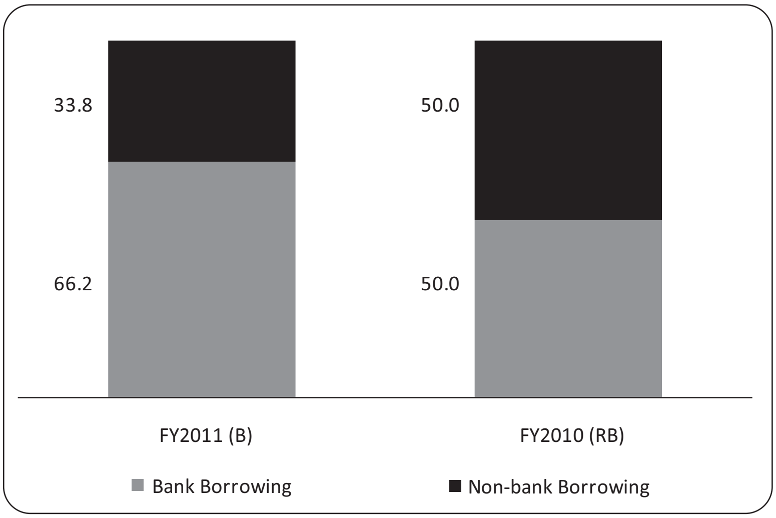
Figure 2.3: Sources of Deficit Financing



Source: Estimated from MoF (2010) data.

Of the domestic sources (Tk. 23,680 crore) Tk. 15,680 crore will be sourced through borrowing from the banking system (about 66.2 per cent) in FY2010-11 (Figure 2.4). The rest (Tk. 8,000 crore or 33.8 per cent of total domestic financing) will be mobilised from non-banking sources, which is mostly comprised of sales of NSD certificates. It

Figure 2.4: Sources of Domestic Financing



Source: Estimated from MoF (2010) data.

may be mentioned here that the share of banking and non-banking finance was equal (50 per cent each) in the revised budget for FY2009-10. This is indicative of the government's conscious effort to reduce non-bank borrowing. This may help contain the high expenditure on account of interest payment on NSD certificates.[5] However, crowding out impact on private borrowing from banks and inflationary trends should be monitored very closely.

Gross projected aid required from foreign sources is set at Tk. 20,777 crore in FY2010-11, which is about USD 3.0 billion. Net foreign financing, required for FY2010-11, will be Tk. 15,643 crore (about USD 2.3 billion) which is about 14.1 per cent more than the revised budget of FY2009-10 (Table 2.5). Utilisation of these resources will be highly challenging for the government and much will depend on the pace of ADP implementation of foreign-aided projects.

Utilisation of resources will depend on the pace of ADP implementation of foreign-aided projects

2.3 OVERVIEW OF FISCAL MEASURES

The budeget for FY2010-11 focuses on expansion of tax net. Thus efforts towards revenue generation from domestic sources will need to be further strengthened. Various new moves have been initiated in the budget towards broadening of the tax net of both income tax and VAT. Several measures have also been mentioned to expedite reforms in the tax administration in the next fiscal year.

2.3.1 Tax and Duty Measures

Income Tax: Personal

The level of tax-free income and all tax slabs remain unchanged in the budget for the last three consecutive years. Given the increase in annual inflation rates, income tax deserves a revisit since purchasing power of people with low and of fixed income erodes with inflationary pressure. This is also justified on the ground that social protection measures are not strong in Bangladesh compared to developed countries where threshold level tax-free income are lower when compared with average income levels.

Various new moves have been initiated in the budget towards broadening of the tax net of both income tax and VAT

Income Tax: Corporate

No change has been proposed in the budget with regard to the corporate tax structure and incentives. Tax holiday for industries engaged in manufacturing solar panel, energy saving bulb has been proposed with a view to reducing energy consumption. Assistance to schools and colleges under Monthly Pay Order (MPO), for improving the quality of computer and English education, and on donations

[5]To materialise this policy, the government later slashed the interest rates for most of its NSD savings instruments. Discontinuation of tax exemption for earnings from NSD certificates may also reduce government's borrowing from non-banking sources.

made to conduct camping for voluntary sterilisation will be considered as corporate social responsibility (CSR) activity, and will be eligible for tax rebate.

Income Tax: Special Benefits

For capital gains in the share market, tax will be imposed on companies (10 per cent), sponsor shareholders or directors of a listed company (5 per cent), and premium value of shares of companies (3 per cent). This will likely to help expand the tax collection effort of the government since a large section of the people engaged in the agricultural and rural economy is out of the tax net. The exclusion of individual income from the capital market tax net at this stage may have been a good decision in view of its likely adverse impact on those investors in the capital market. However, individual income from capital market should be brought under tax net in the near future in view of the need for cooling down the overheated market. The present move to impose tax on a few types of income of the share market would prepare the individual investor to face such imposition on their incomes in future.

Individual income from the capital market tax net at this stage may have been a good decision in view of its likely adverse impact on those investors in the capital market

Investment has been allowed for purchase of Bangladesh Infrastructure Finance Fund (BIFF) bonds, up to June 2012 by paying tax at a rate of 10 per cent. This has in reality created an opportunity for legalisation of undisclosed money since no question will be asked regarding the source of the investible capital. There should be clarity as to what will be the investment opportunity for those who have already paid tax at the existing rate and are willing to invest in BIFF bonds.

Value Added Tax (VAT)

Some of the VAT measures will have negative impact on consumers

New VAT measures proposed in the budget are expected to encourage development of a number of sectors. For example, enhancement of annual turnover threshold to Tk. 60 lakh from the existing Tk. 40 lakh to enjoy turnover rate of 4 per cent will hopefully encourage the small and medium enterprise (SME) business. VAT exemption on waste paper at import stage will help keep the newsprint prices low. Tax-free import of all types of medical equipments and wheelchairs for sick and paralysed travellers is a noble gesture in the budget.

However, some of the VAT measures will have negative impact on consumers. Increasing VAT rate from truncated to actual (15 per cent) on services provided by

Table 2.6: Changes in Some Tax Measures

Item	Duty/Tax	FY2009-10 (%)	FY2010-11 (%)	Change	Implication
Milk powder	Import duty Regulatory duty	12 5	5 0	Decreased	Expected to reduce price of milk
Air conditioner parts imported by VAT registered industries	SD	45	20	Decreased	Expected to be cheaper
Television parts imported by commercial firms	SD	0	20	Increased	Protection of local industry
Parts for energy saving lamps imported by VAT registered industries	CD	0	0	Unchanged	Encourage VAT registered industries
Parts for energy saving lamps imported by commercial firms	CD	0	12	Increased	Will create pressure to be VAT registered
Energy saving light with blast and fittings	SD	60	0	Decreased	Expected to reduce energy consumption

(Table 2.6 contd.)

(Table 2.6 contd.)

Item	Duty/Tax	FY2009-10 (%)	FY2010-11 (%)	Change	Implication
Solar operated storage waterheater	CD	25	12	Decreased	Will encourage to use solar power
Paper/paper backed aluminium foil	SD	20	30	Increased	Protect local industry
Surface coloured paper/paper board	SD	20	30	Increased	Protect local industry
Import of completely built-up (CBU) diesel, petrol and CNG buses having 40 seats			15	Imposition	Will support local industry
Both CBU and completely knocked down (CKD) motorcycle		20	30	Increased	Encourage growth of local industry
Raw tobacco	Export tax	0	10	New imposition	Will discourage cultivation of tobacco
Cars from 1001 cc to 1500cc Cars from 1501cc to 1650cc All other cars above 1651 cc	SD SD SD	30 100 100 and above	45 45 100 and above	Increased Decreased Unchanged	Cars with 1501 to 1650cc will be less costly while that of 1001 to 1500cc will be more costly
Manufacturers of refrigerator, freezer, motorcycle	VAT		0	Withdrawal for 4 years	Protection of local industry
Microbus with cylinder capacity up to 1800 cc	SD	20	30	Increased	Discourage smaller vehicles to reduce traffic jam
CKD motorcar jeep, station wagon (excluding three wheeler)	SD	30	45	Increased	Protect local industry

Source: Budget document of FY2010-11, Ministry of Finance (MoF).

dockyard, advertising agency, printing press, courier service, consultancy and supervisory firms, audit and accounting firm are likely to increase company's cost of doing business to a considerable extent. The proposal to impose VAT at the rate of 4.5 per cent on private universities and English medium schools is likely to raise the cost of education since this tax burden will ultimately be shifted to the guardians of students. Table 2.6 presents some of the changes proposed in the budget for FY2010-11 with their possible impact.

2.3.2 Impact of Changes in Tariff Slab

According to CPD estimates, if the import value of FY2008-09 is taken as the base value and FY2010-11 tariff structure is applied on this, the government revenue earnings will increase by about Tk. 4,540.6 crore (19.8 per cent) compared to FY2009-10 (which include CD, SD, regulatory duty and VAT)

Changes proposed in the budget will have an impact on import duty earnings for a number of products. According to CPD estimates, if the import value of FY2008-09 is taken as the base value and FY2010-11 tariff structure is applied on this (import value), the government revenue earnings will increase by about Tk. 4,540.6 crore (19.8 per cent) compared to FY2009-10 (which include CD, SD, regulatory duty and VAT). This additional revenue collection is subject to the achievement of import growth as projected, and that the composition of import structure remains the same as in FY2008-09.

2.3.3 Measures to Improve Tax Administration

A number of measures have been announced in the budget to enhance the tax net and raise revenues both through the income tax and VAT. Some of these include: e-filing of income tax returns albeit on a limited basis; instalment of tax calculator software on the website of NBR; restructuring of manpower and strengthening of logistics in the income tax department; motivational programme for income taxpayers and VAT payers; introduction of 2-page income tax return form; introduction of tax card for highest taxpayers; initiation of e-VAT software; reforms in the judiciary process for easy settlement of VAT-related cases; massive reforms in VAT administration including setting up of more VAT offices and recruit officials, setting up of VAT offices in each upazila with four staff including one inspector and one data entry operator. All these are positive initiatives which will hopefully help marshal additional tax revenues in FY2010-11. However, implementation of these will require transparency, accountability, efficiency and motivation at all levels of the administration.

2.4 PUBLIC-PRIVATE PARTNERSHIP (PPP)

A number of measures were taken by the government to realise the PPP agenda on the ground

The PPP initiative has been conceived in the budget of FY2010-11 as a key mechanism to stimulate investment and to mobilise the comparative advantages of public and private sectors with regard to mobilisation of resources and finance accumulated knowledge, experience and access to technology. This was considered to be important if Bangladesh was to achieve a GDP growth of 8 per cent by FY2013-14. In FY2009-10, the government was not able to make any discernible progress in using the allocated amount of Tk. 2,500 crore. As a consequence, it was not possible to attain the target of generating Tk. 7,000 crore investment for PPP programmes from the private sector. Rather, Tk. 500 crore was slashed from the allocation in the RADP. The PPP's share in budget FY2010-11 is 2.2 per cent (similar to the previous budget). Later on, a number of measures were taken by the government to realise the PPP agenda on the ground. These include: inclusion of 23 PPP projects in the ADP; provision for infrastructure depreciation allowance for PPP projects; establishment of the BIFF by September 2010; setting up an office for the PPP; and designing of a PPP Book to help develop a medium-term framework for the PPP programme of action. Some of these will need further follow-up actions.

The budget FY2010-11 stipulates that bonds are to be issued after the BIFF is constituted and this will be available for investment till FY2011-12, subject to payment of taxes at 10 per cent

It needs to be recalled here that Bangladesh has received good credit rating following the review by *Standard and Poor (S&P)* and *Moody*. The BIFF would hopefully benefit from this. The budget FY2010-11 stipulates that bonds under this fund are to be issued after the BIFF is constituted and this will be available for investment till FY2011-12, subject to payment of taxes at 10 per cent. The PPP Office is perceived to be a bridge between private and public actors, and it is expected to play a pivotal role in the context of harmonising the dichotomy between public and private interests. This Office could consider establishing a website containing all the relevant (forms and agreements) and up-to-date information concerning PPP projects, in accordance with sectoral programmes.

In order to kick-off the PPP agenda, the government will need to finalise the PSP3 speedily where measures will need to be adopted to maintain financial transparency relating to both ADP and non-ADP related PPP projects. This is imperative from the perspective of reducing the scope for leakages and ensuring fiscal legitimacy. It is anticipated that the new PSP3 will engineer a comprehensive framework with regard to administration, regular monitoring and sound accountability to ensure financial sustainability and transparency. Transparency modalities as regards profit-sharing, allocation of risks, responsibilities, mode of operation in terms of ownership structure (Build-Own-Operate (BOO); Build-Operate-Transfer (BOT); Build-Own-Operate-Transfer (BOOT)) should be incorporated in the envisaged PSP3 to reduce uncertainty and facilitate project implementation.

It is anticipated that the new PSP3 will engineer a comprehensive framework with regard to administration, regular monitoring and sound accountability to ensure financial sustainability and transparency

It is assumed that once the PSP3 comes into effect, the ongoing PPP projects under Infrastructure Development Company Limited (IDCOL) will be automatically put under its command. However, there are a number of ambiguities with regard to conceptual and institutional framework which will need to be accommodated within the new PPP policy. With an initial capital of Tk. 1,600 crore from the PPP allocation of Tk. 3,000 crore (the government had earlier proposed to provide this equity fund to IDCOL), the BIFF can be expected to either replace IDCOL and take over its mandate or get integrated in order to deploy the latter's experience and knowledge in funding PPP projects. Also, the relative role of IDCOL and its subsidiaries, Investment Promotion and Financing Facility (IPFF) and Infrastructure Investment Facilitation Centre (IIFC), will need to be clarified when the PSP3 is implemented.

In the medium-term, from the social equity and justice perspectives, the government could think of developing a legal framework to legitimise the PPP agenda

Finally, in the medium-term, from the social equity and justice perspectives, the government could think of developing a legal framework to legitimise the PPP agenda where lessons can be drawn from Mauritius, which has both a PPP Act laying out the principles guiding public-private relations and also a comprehensive document dictating the PPP programmes of action. This would help to provide both the parties with necessary legal coverage and protect their interests in times of political instability.

2.5 SECTORAL MEASURES

2.5.1 Agriculture

Concrete targets for seed delivery, subsidy for fertiliser and other inputs, and agricultural credit have been mentioned in the current budget document

The national budget for FY2010-11 has taken some concrete steps towards strengthening ongoing agricultural development programmes and introduced some new programmes for agriculture and allied sectors (crops, livestock, fisheries, forestry, land and water resources). Concrete targets for seed delivery, subsidy for fertiliser and other inputs, and agricultural credit have been mentioned in the document. It has also proposed actions for expansion of surface water irrigation, establishment of new storage facilities for foodgrains, improvement in marketing of agricultural goods, and introduction of agricultural insurance for farmers.

Allocation for Agriculture and Allied Sectors

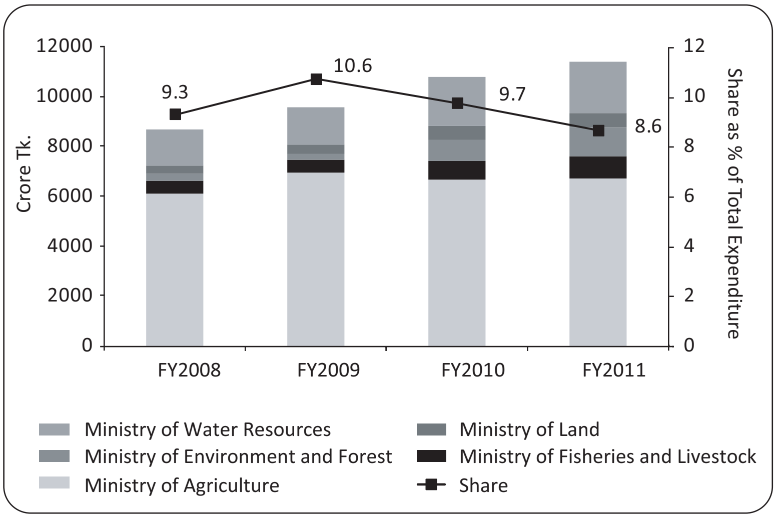
The share of allocation for the MoA in the total budget for FY2010-11 has decreased to 5.1 per cent from 6.1 per cent in the revised budget of FY2009-10, and 7.8 per cent in the budget of FY2008-09

The Finance Minister in his budget speech mentioned that Tk. 7,492 crore has been allocated for the Ministry of Agriculture (MoA) in FY2010-11, but the *Budget in Brief* showed an allocation of Tk. 6,738 crore (MoF 2010). This anomaly needs to be clarified to ensure consistency in the national budget. The Budget in Brief has reported detailed allocation for all ministries including for MoA in FY2010-11. The present analysis has been carried out on the basis of data provided in the Budget in Brief. Allocation for the MoA (Tk. 6,738 crore) is 0.6 per cent higher than the allocation in the revised budget of FY2009-10 (Tk. 6,696 crore), and 13 per cent higher than the budget of FY2009-10 (Tk. 5,965 crore), but 3.4 per cent lower than that of FY2008-09 (Tk. 6,977 crore). The share of allocation for the MoA in the total budget for FY2010-11 has decreased to 5.1 per cent from 6.1 per cent in the revised budget of FY2009-10, and 7.8 per cent in the budget of FY2008-09.

Allocation for the Ministry of Fisheries and Livestock in FY2010-11 is Tk. 859 crore which is 18.5 per cent higher than the allocation in the revised budget of FY2009-10 (Tk. 725 crore), 20.0 per cent higher than the budget of FY2009-10 (Tk. 716 crore), and 69.1 per cent higher than that of FY2008-09 (Tk. 508 crore). Allocation for the Ministry of Water Resources in FY2010-11 is Tk. 2,049 crore which is 5 per cent higher than the revised budget of FY2009-10 (Tk. 1,952 crore), 38.2 per cent higher than budget of FY2009-10 (Tk. 1,483 crore), and 40.2 per cent higher than that of FY2008-09 (Tk. 1,461 crore).

Total allocation for agriculture and allied sectors (crops, livestock, fisheries, forestry, land and water resources) is Tk. 11,409 crore which is 6 per cent higher than the revised budget of FY2009-10 (Tk. 10,763 crore), 27.5 per cent higher than the budget FY2009-10 (Tk. 8,950 crore), and 19.4 per cent higher than the budget of FY2008-09 (Tk. 9,557 crore). Allocation in the revised budget of FY2009-10 exceeded that of the original budget due to upward revision of the allocation for agricultural subsidy. However, the share of allocation for the agriculture and allied sectors in the total budget has been reduced during the last two years, from 10.62 per cent in FY2008-09 to 9.7 per cent in FY2009-10, and then to 8.6 per cent in FY2010-11 (Figure 2.5). The declining tendency in the allocation for agriculture as a share of total budget may undermine the government's goal of achieving food self-sufficiency by 2012 and ensuring food security for all citizens of the country.

Figure 2.5: Total Budget and Budgetary Share (Development and Non-development) to the Agriculture and Allied Sectors



Source: Budget document of FY2010-11, Ministry of Finance (MoF).

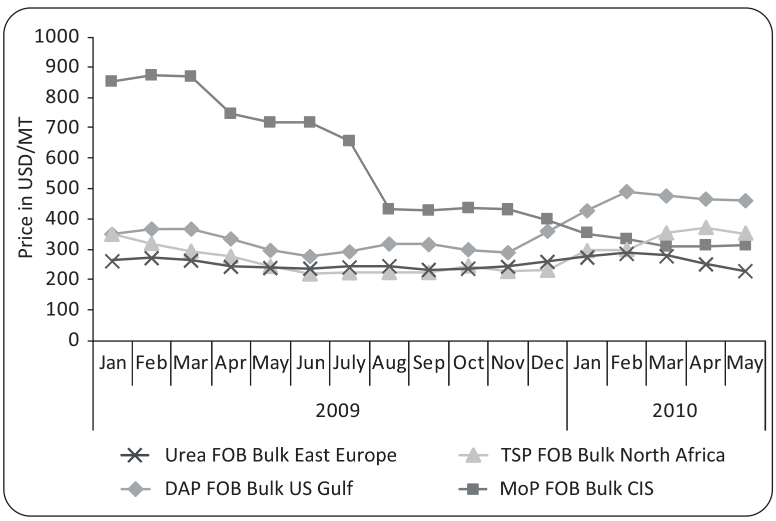
ADP allocation for agriculture in FY2010-11 is Tk. 2,495.11 crore which was 6.5 per cent of the total ADP allocation. This is 38.5 per cent higher than the ADP allocation in revised budget of FY2009-10 (Tk. 1,801.34 crore), 47 per cent higher than the actual ADP of FY2009-10 (Tk. 1,697.62 crore), and 102 per cent higher than the actual ADP of FY2008-09 (Tk. 1,235.2 crore).

An amount Tk. 4,000 crore has been allocated as subsidy for fertiliser and other agricultural inputs in FY2010-11

Subsidy for Fertilisers and Inputs

An amount Tk. 4,000 crore has been allocated as subsidy for fertiliser and other agricultural inputs in FY2010-11, which is 11.1 per cent higher than the proposed budget in FY2009-10 (Tk. 3,600 crore), but 19.2 per cent and 30.9 per cent lower than the revised budget of FY2009-10 (Tk. 4,950 crore) and FY2008-09 (Tk. 5,785 crore), respectively. In May 2010, prices of urea, triple super phosphate (TSP), muriate of potash (MoP) and diammonium phosphate (DAP) were USD 230, 354, 315 and 461 per metric ton (MT) respectively. Between May 2009 and May 2010, international prices of fertilisers saw substantial changes (Figure 2.6). Prices of urea and MoP decreased by 5 per cent and 56 per cent, whilst prices of TSP and DAP increased by 44 per cent and 55 per cent. Considering the volatility in the international price of fertilisers, actual subsidy for fertiliser may require an upward revision. CPD estimates show that if administered prices of fertilisers remain the same and international prices prevail at the level of May 2010, then the government

Figure 2.6: International Prices of Fertilisers (Urea, DAP, TSP and MoP): January 2009 - May 2010



Source: Commodity Market Review, The Pink Sheet (various issues), World Bank.
Note: FOB refers to free on board.

Table 2.7: Projection on Fertiliser Subsidy Requirement (for Planned Amount of Fertiliser Distribution with Current Administered Price)

Fertiliser	Source	Price (USD/MT)	Insurance and Freight Charge (USD/MT)	Imported Cost (USD/MT)	Cost (Tk./kg)	Administered Price (Tk./kg)	Quantity (Lakh MT)	Subsidy Requirement (Crore Tk.)
DAP	China	460.60	50.00	510.60	35.38	30.00	3.80	204.61
Urea	China	229.60	60.00	289.60	20.07	12.00	20.31	1638.87
	Bangladesh				9.00	12.00	8.00	-240.00
TSP	Tunisia	353.80	100.00	453.80	31.45	22.00	5.60	529.11
MoP	Belarus	315.00	100.00	415.00	28.76	25.00	4.90	184.22
Total							42.61	2316.81

Source: CPD estimation.

may require Tk. 2,316.81 crore as fertiliser subsidy to meet its projected fertiliser demand of 42.61 lakh MT in FY2010-11 (Table 2.7).

Production and Distribution of Seeds

In order to ensure quality seed supply the budget has announced a target to produce and distribute more than 2.03 lakh MT of seeds through the Bangladesh Agricultural Development Corporation (BADC) and Department of Agricultural Extension (DAE). It has also proposed to expand seed storage capacity from 0.4 lakh MT to 1.0 lakh MT which is expected to further strengthen the existing seed delivery system. The budget has also set a target to expand hybrid paddy area to 12 lakh hectares of land which, however, appears to be rather very ambitious since the target is more than double of the existing area for this crop. To achieve this goal, the government will have to demonstrate highest level of effort and efficiency. In addition, the budget has proposed to promote salinity resistant BRI-47 variety of rice in about 5.0 lakh hectares of land in FY2010-11, which was 0.6 lakh hectares in FY2009-10. This appears to be an achievable target since farmers will be able to use their own seed.

The budget has also set a target to expand hybrid paddy area to 12 lakh hectares of land which, however, appears to be rather very ambitious since the target is more than double of the existing area for this crop

Agricultural Research

There are no new allocations for agricultural research in the FY2010-11 budget. The budget proposed that the existing Endowment Fund of Tk. 412 crore will be used in the coming fiscal year for research on crop diversification. Efficient and timely use of these funds will be needed for quality agricultural research on generating improved technology. Adequate funds for agricultural research will be the key to development of new technologies.

Adequate funds for agricultural research will be the key to development of new technologies

Fair Price for Agricultural Products

The budget has mentioned that the government is taking steps to organise Farmers Marketing Group and Farmers Club throughout the country to ensure fair price for agricultural products. In addition, 128 agro-markets at the upazila level and 30 such bazaars at the district level will be established. Considering the difficulties that farmers face in getting fair price, these are timely initiatives. However, these steps are inadequate to cater to the need of the entire country.

Agriculture Insurance

The budget has proposed to initiate Agriculture Insurance scheme for small and medium farmers in order to provide them with some support in the event of crop failure due to natural disaster. However, no specific allocation has been made for this purpose. It should be mentioned here that the main opposition party Bangladesh Nationalist Party (BNP) has also suggested introduction of insurance in agriculture in their pre-budget proposals. To implement the proposal, the government will have to set the required modalities on an immediate basis, and should specify the procedures to realise the scheme. It is apprehended that since there is no allocation for this initiative, the initiative may remain unimplemented in FY2010-11.

The budget has mentioned about the construction of 139 godowns with 1.1 lakh MT storage capacity

Establishment of Godowns

The budget has mentioned about the construction of 139 godowns with 1.1 lakh MT storage capacity. This is being implemented in the northern region of the country. Speedy completion of these godowns is urgently needed for food security of the country. It is pertinent to mention here that establishment of 333 godowns with a storage capacity of 2.19 lakh MT is yet to be passed by the Executive Committee of National Economic Council (ECNEC). Without expediting these projects, the government will not be able to materialise its plan for greater involvement in the Public Food Distribution System (PFDS).

In the current fiscal year, Bangladesh had experienced bumper harvest in potato and vegetables, but due to lack of cold storage facility farmers could not reap the benefit of this good output. In this backdrop, special allocation for establishing cold storages would have been very useful. However, no such allocation has been made in the budget for FY2010-11.

Special allocation for establishing cold storages would have been very useful

Agricultural Credit

The budget has proposed to distribute Tk. 12,000 crore as agricultural loans, which is 4.2 per cent higher than that of FY2009-10. Hopefully, increase in credit facility will be helpful to meet up farmers' financial needs. During July-April of FY2009-10, total amount of agricultural credit disbursed by commercial and specialised banks was Tk. 8,949.3 crore which was 78 per cent of the target. Also, an amount of Tk. 500 crore was distributed as collateral-free loans to the sharecroppers in 150 upazilas at 10 per cent interest rate through a special refinancing scheme with the BRAC.

Surface Water Irrigation and Drainage Projects

In FY2010-11, the budget has proposed an allocation of Tk. 300 crore to expand irrigation facilities in the southern region of Bangladesh, to mitigate water logging problems in the south-west region, and to promote multicrop production through draining out water in *haor* areas. It is an appreciable and much needed initiative. However, only 50 per cent of total allocation (Tk. 427 crore) for this purpose was spent during the first 10 months of FY2009-10.

An amount of Tk. 500 crore was distributed as collateral-free loans to the sharecroppers in 150 upazilas at 10 per cent interest rate through a special refinancing scheme with the BRAC

Water Resources

Allocation for development of water resources amounts to Tk. 2,049 crore in FY2010-11. This includes expansion of irrigation facilities, development of wet and *haor* land, reduction of salinity risk, prevention of river erosion and flood control, management of Ganges water, and ensuring supply of safe water in the rivers surrounding Dhaka. Though it is a good initiative, the success will depend on the implementation of the proposed projects, for which the track record is rather poor. During July-April of FY2009-10, only 50 per cent of the RADP allocation for water-related projects was spent.

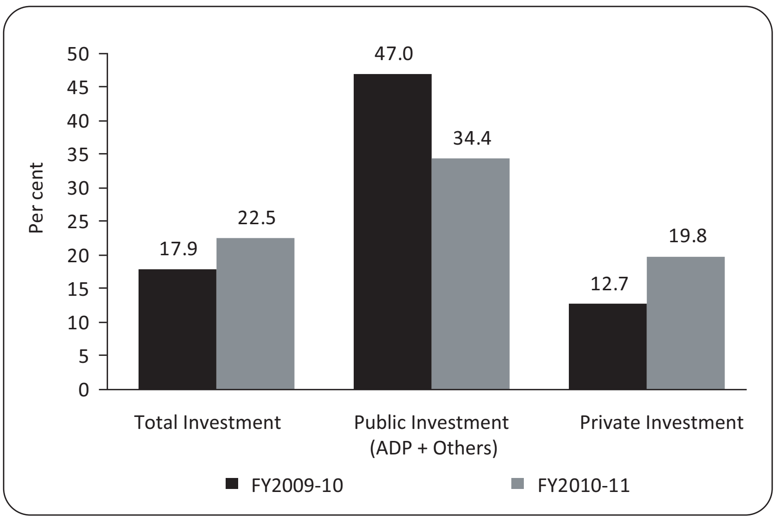
An effort towards transforming the southern and coastal belt into the country's granary is visible in the budget

In brief, an effort towards transforming the southern and coastal belt into the country's granary is visible in the budget. However, vision for promotion of high-value and water-efficient crops in the northern drought-prone regions have not been backed by the required budgetary allocation. In the budget of FY2010-11, the government has announced to formulate the *National Agricultural Policy 2010* by modifying *National Agricultural Policy of 1999*. This is a timely initiative. A set of issues that involve distribution of *khas* land, shifting of the production pattern, and meeting the impact of climate change needs to be addressed appropriately in the proposed agriculture policy.

2.5.2 Industry

In the backdrop of gradual deceleration of industrial growth over the last five years (from 10.8 per cent in FY2005-06 to 5.9 per cent in FY2009-10), the target of industrial growth at 9.0 per cent for FY2010-11 reflects government's intention to revert back to the earlier trends, which is crucial to attaining higher level of GDP growth. However, the sluggish growth of industrial sector in FY2009-10, if continued in the next year, would weaken the possibility to attain the targeted level. The national budget for FY2010-11 has set an investment target of Tk. 205,996 crore which is equivalent to 26.4 per cent of GDP. If this investment-GDP ratio is attained in FY2010-11, this would be somewhat above the trend level of 24.0 per cent. During FY2010-11, total investment is required to grow at a rate of 23 per cent (against that of 18 per cent in FY2009-10), where growth of public investment will have to be 34 per cent (vis-à-vis 47 per cent in FY2009-10), and that of private investment is to be 19.8 per cent (12.7 per cent in FY2009-10) (Figure 2.7).

Figure 2.7: Growth in Investment



Source: Estimated from MoF (2010) data.

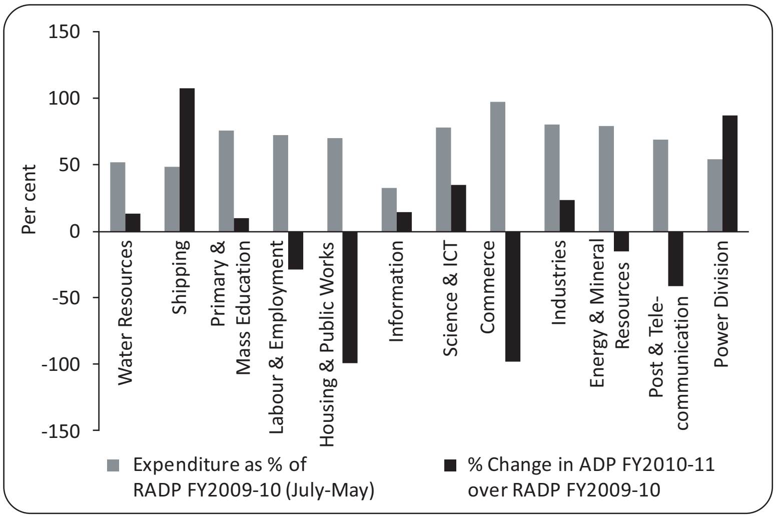
Since there is a strong demand for higher level of public investment for the development of power and energy sector, and improvement of scarce and low quality human resources, proposed budget has allocated the highest amount of fund for these purposes

The national budget for FY2010-11 has proposed an allocation of Tk. 39,694 crore as public investment, of which Tk. 38,500 crore is for ADP and Tk. 1,194 crore is for non-ADP development expenditure. Since there is a strong demand for higher level of public investment for the development of power and energy sector, and improvement of scarce and low quality human resources, proposed budget has allocated the highest amount of fund for these purposes. To elaborate, Tk. 5,794 crore has been allocated for the development of power and energy (15.8 per cent of total ADP), Tk. 4,634 crore for communication (12.0 per cent), and Tk. 9,317 crore for the development of human resources (24.2 per cent). As a result, allocation for various ministries responsible for the development of infrastructure and human resources has been well above the level of RADP of FY2009-10: Ministry of Shipping (107 per cent), Power Division (86 per cent), Science and Information and Communication Technology (ICT) (34 per cent), and Information (32 per cent) (Figure 2.8).[6] In this context, weak performance of ADP

[6]However, a number of ministries experienced a decline in their budgetary allocation: Labour and Employment (-28 per cent), Housing and Public Works (-99 per cent), and Energy and Mineral Resources (-15 per cent).

implementation of major infrastructure-related projects during FY2009-10, particularly for power, roads and railway, bridge, shipping and water resources sectors, raises serious concern as regards the capacity of the relevant ministries to fully utilise the extended ADP allocation in FY2010-11. From this point of view, it is envisaged that better implementation record of few ministries in FY2009-10 (65-80 per cent of RADP during July-May period) such as Industries, ICT, and Labour and Employment should rather be rewarded with higher allocation.

Figure 2.8: RADP of FY2009-10 and ADP of FY2010-11 for Various Ministries



Source: Estimated from Planning Commission (2010) data.

Textiles and Apparels

Textiles and apparels has been one of the most adversely affected sectors due to the global financial crisis, particularly in FY2009-10. Government has allocated Tk. 2,000 crore under the second stimulus package as part of providing support to encourage export diversification (5 per cent additional cash incentive in FY2008-09, 4 per cent for FY2010-11, and 2 per cent for FY2011-12), 5 per cent additional cash incentive for SMEs against their apparels export in FY2008-09, and 10 per cent cash incentives on electricity bill for the period ended in June 2010 for SMEs which did not have captive generator facility. In view of adverse consequences confronted by the textiles and apparels sector, especially SMEs, these long-awaited incentive packages need to be implemented immediately.

The ADP allocation for the Ministry of Textiles and Jute in FY2010-11 is largely targeted for infrastructure and human resources development

The ADP allocation for the Ministry of Textiles and Jute in FY2010-11 is largely targeted for infrastructure and human resources development. Although Ministry's total ADP allocation (Tk. 103 crore) is 90.7 per cent higher compared to that of the RADP of FY2009-10, but the allocation to this Ministry is small, at only 0.26 per cent of total ADP of FY2010-11. Most of this is allocated for several ongoing projects, particularly upgradation of textiles institutes to textile colleges, establishment of 10 textile vocational institutes and strengthening of the National Institute of Textile Training Research And Design (NITTRAD) and Textile Strategic Management Unit (TSMU), etc. On the other hand, an allocation of Tk. 6.44 crore has been made for two new projects, such as upgradation of Barisal Textile Institute to textile engineering college and establishment of a *benarasi palli* at Rangpur. Timely implementation of these projects will contribute to meet the requirement of professionals and technical people for textiles and apparels sector. It is important to note that various unallocated and unapproved projects included in the ADP of FY2010-11 for this sub-sector (e.g. establishment of garment industrial park and textiles institute) will need to be approved subsequently, with adequate allocation. Demand from different trade bodies for creating an Industrial Police, particularly to service the industrial clusters, did not get reflected in the FY2010-11 budget.

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It is a matter of fact that industrial sector in general, and readymade garments (RMG), textiles, jute and SMEs in particular, have been suffering significantly because of frequent power outages resulting in underutilisation of production capacity and additional cost for use of diesel to operate captive power plants (CPPs). Frequent power failure also causes damages to sophisticated industrial machineries. Besides, inadequate supply of gas has also emerged as a growing concern for industries that are dependent on gas. It is reckoned that the industrial sector should get priority with regard to distribution of additional electricity which is expected to be added to the national grid (792 MW (mega watt) in 2010 and 920 MW in 2011); this should also be same for the additional supply of gas. With regard to electricity and gas tariff, there is a need for further rationalisation of tariffs to reduce the fiscal deficit in the emerging budget. However, in this connection there has to be safeguard measures to address concerns of the low-income people. Also, any major revision in tariff rationalisation of electricity, particularly for industrial sector, should be adjusted in a manner so that it does not lead to significant cost escalation till the situation of power supply improves.

With regard to electricity and gas tariff, there is a need for further rationalisation of tariffs to reduce the fiscal deficit in the emerging budget

Pharmaceuticals

National budget for FY2010-11 has proposed withdrawal of VAT on various kinds of life-saving drugs and vaccines at import stage (e.g. HS code: 30.01-30.04), which is likely to reduce both import cost and retail prices of these drugs. Although Finance Minister in his budget speech has mentioned about the establishment of active pharmaceutical ingredient park, there is no ADP allocation for this in the FY2010-11 budget. At present there are two drug-testing laboratories in the country which are not adequately equipped with the required modern instruments and skilled human resources. In this context, inclusion of a new project for establishment of another drug-testing laboratory at Gopalganj in the ADP for FY2010-11 is a welcome initiative; however the project should be approved with necessary allocation. Besides, projects should be taken to provide appropriate storage facilities at international airports by setting up temperature-controlled rooms for life-saving drugs and vaccines.

Leather

Establishment of Leather Industrial City has been delayed because of slow implementation of the project

Sizable export growth of leather and footwear industries, at a time when global economic downturn was in full swing, however was not enough from the perspective of attaining export target during FY2009-10. In this context, announcement of cash incentive for crust leather at a rate of 5 per cent, though a delayed support, has contributed to improve the export competitiveness of the leather sector in the international market. Establishment of *Leather Industrial City* has been delayed because of slow implementation of the project. While the project timeline is already over, only 18.5 per cent of total allocation of the project has been spent, particularly for land development work and establishment of central effluent treatment plant. In view of increasing demand for meeting the international environmental standards, the Government of Bangladesh (GoB) should take adequate measures in order to ensure implementation of this project on an urgent basis.

Beverages

Beverages industry such as juice and energy drinks is to be excluded from facilities enjoyed by cottage industries

Beverages industry such as juice and energy drinks is to be excluded from facilities enjoyed by cottage industries. This sub-sector is now being subject to SD currently applied on other beverages as well as fruit drinks. Furthermore, fruit jam, jelly and juice industries have been brought under compulsory VAT registration irrespective of their annual turnover. This will hopefully contribute to the government ex-chequer.

Small and Medium Enterprise (SME)

Government's efforts to develop the SME sector during FY2010-11 will be benefitted from various targeted initiatives undertaken in FY2009-10. These include Tk. 23,995 crore credit disbursement for 2010, preparation of an SME financing guideline called the *SME Credit Policies and Programme* and directives with regard to establishment of the *Women Entrepreneur Dedicated Desk*, and establishment of a separate department in the Bangladesh Bank called *SME and Special Programme Department*.

SME sector is suffering because of low productivity and lack of adequate knowledge on technologies and technical skills

The national budget for FY2010-11 has proposed a number of fiscal measures for improvement of competitiveness of SMEs both in domestic and foreign markets. Bangladesh Small & Cottage Industries Corporation (BSCIC) is to establish a *benarasi palli* in Rangpur at a cost of Tk. 2.38 crore of which about 60 per cent (Tk. 1.44 crore) has been allocated for FY2010-11. Two old BSCIC industrial areas located in Narayanganj and Chittagong have received an allocation of Tk. 7.75 crore for the purposes of modernisation, renovation and maintenance. SME sector is suffering because of low productivity and lack of adequate knowledge on technologies and technical skills. A number of related projects should be taken into consideration for improvement of technological skill of the SME sector. Establishment of industrial parks comprising of SMEs under PPP should be considered with due importance in order to improve the competitiveness of the SME sector. Government may consider allocation of funds for the development of foundry industry which is one of the important sources of capital machineries, and for parts and components required for other industries.

The proposed upward revision of VAT should not have significant adverse impact on SMEs since the revised tax rates are only marginally higher than the previous rates

The threshold level for turnover tax at a rate of 4 per cent for SMEs has been extended to Tk. 60 lakh from Tk. 40 lakh. This is expected to contribute to some reduction in the overall production cost of the SMEs. The proposed upward revision of VAT should not have significant adverse impact on SMEs since the revised tax rates are only marginally higher than the previous rates: Tk. 6,000 in metropolitan cities of Dhaka and Chittagong (earlier this was Tk. 4,800); Tk. 4,800 in all other metropolitan cities (earlier this was Tk. 3,000); Tk. 3,600 in all other district towns; and Tk. 1,800 in other parts of the country.

Broadening the VAT net by including a number of items manufactured largely by SMEs is likely to impact prices at the retailers' end since it may raise retail prices of manufactured products. Such products include coconut oil, fruit jam and jelly, juice, medicine, paints, cosmetics, soap, match, mosquito coil, PVC pipe, shoe and sandal, brick, goods made of ceramic and porcelain, MS products, electrical fan, dry-cell battery and storage battery, electrical bulb, and rubber and plastic foam manufacturing units.

Import Substituting and Domestic Market-oriented Industries

A number of fiscal measures have been proposed in support of import-substituting industries, particularly for industries associated with manufacturing of electronics items and vehicles

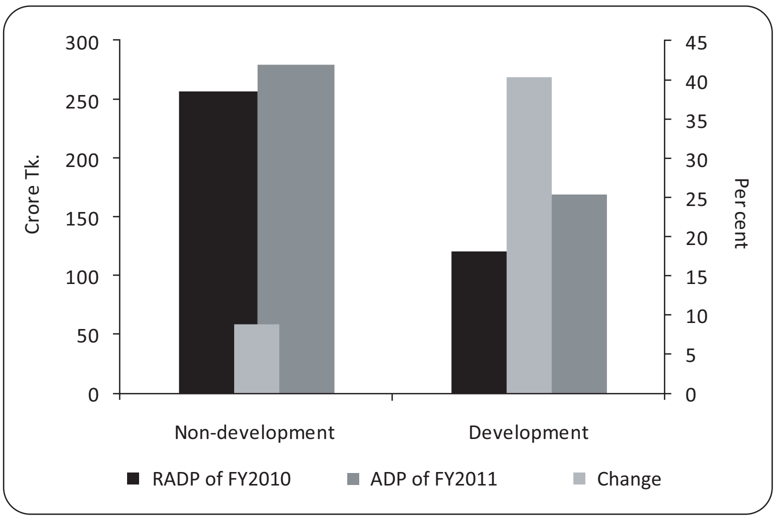
A number of fiscal measures have been proposed in support of import-substituting industries, particularly for industries associated with manufacturing of electronics items and vehicles. For example, refrigerators, freezers and motorcycle manufacturing industries which are mentioned as 'heavy industry' in the budget speech, have been proposed for withdrawal of VAT at the manufacturing stage, for a period of 4 years. The budget also proposed raising of SD on both CBU and CKD motorcycles from 20 per cent to 30 per cent. Such fiscal measures, especially time-bound ones, provide investors with predictability for investment in domestic electronics industry. In this context, the criteria for 'heavy industry' should have to be specified in order to avoid ambiguity in the definition of 'industry.' Imposition of higher levels of duties and taxes on imported finished products such as glass tube, urea resin, maize starch, poly propylene film, fly ash, paper/paper backed aluminium foil, and surface coloured paper/paper board was proposed in the budget perhaps with a view to encourage import-substituting activities related to these products. Exemption of VAT from manufacturing of energy saving lamps and its raw materials for a period of 5 years is a timely initiative, which will hopefully encourage local production of electrical appliances in consideration of their significant demand at local level for the frequent electricity disruption. These measures are outlined in the Table 2.6 as well.

It appears that, in spite of the Digital Bangladesh slogan of the government, the ICT sector has failed to get any special attention in the ADP allocation for FY2010-11

Information and Communication Technology (ICT)

It appears that, in spite of the *Digital Bangladesh* slogan of the government, the ICT sector has failed to get any special attention in the ADP allocation for FY2010-11. Budgetary allocation for the ICT sector in FY2010-11 largely falls short of what is stipulated in the *National ICT Policy 2009*. According to the Policy, 5.0 per cent of the annual development budget was to be allocated for the information technology (IT) sector which was equivalent to about Tk. 1,985 crore. However, total allocation for ICT sector under the Ministry of Science and Information & Communication Technology (MoSICT) was only Tk. 450 crore in FY2010-11; of which Tk. 280 crore was allocated for non-development and Tk. 170 crore for development expenditure. Against the revised allocation in FY2009-10, 40 per cent higher allocation for development expenditure in FY2010-11 is accounted for by inclusion of a number of special projects (Figure 2.9). These include two important projects, which are *Establishment of the SASEC (South Asia Subregional Economic Cooperation) Information Highway (Bangladesh Part*) and *Development of National ICT Infrastructure Network for Bangladesh Government.* Out of the total expenditure of Tk. 29.4 crore for establishment of the SASEC (within a period of two years), the government has allocated 51.7 per cent of the total budget of this project in FY2010-11 (Tk. 15.21 crore). Besides, for the Development of National ICT Infra-Network for the Government which will be implemented within four years at a cost of Tk. 281.48 crore, only about 4.8 per cent of total expenditure (Tk. 13.61 crore) will be received in FY2010-11. Government should allocate more funds for these projects, especially for the national infrastructure development project in FY2010-11. There is a need to put special emphasis on timely completion of these projects. However, there is no allocation for two other important projects; these are setting up of a high-tech park and building global connectivity through establishing the second submarine cable line. Immediate implementation of these projects is strongly suggested.

Figure 2.9: Budget Allocation for MoSICT: RADP of FY2009-10 and ADP of FY2010-11



Source: Estimated from Planning Commission (2010) data.

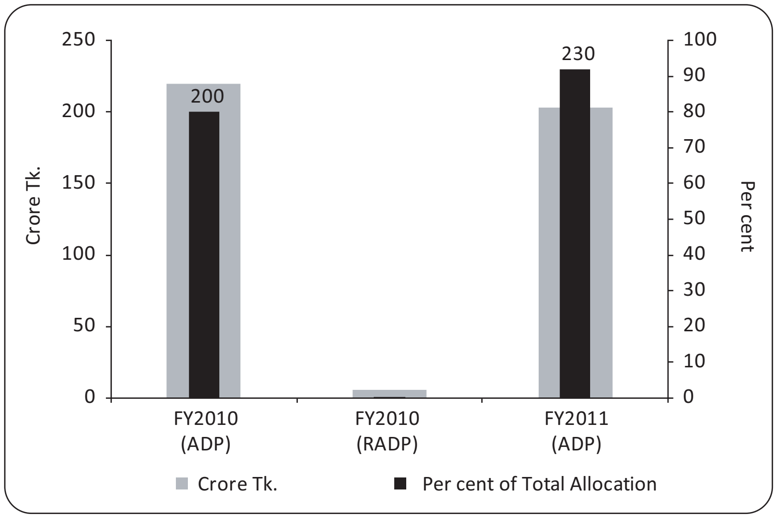
As an emerging sector, increased private investment in the ICT sector requires greater access to adequate credit facility

As an emerging sector, increased private investment in the ICT sector requires greater access to adequate credit facility. Equity and Entrepreneurship Fund (EEF), a window for subsidised credit for ICT, has been strengthened through a budgetary support of Tk. 200 crore which was Tk. 100 crore in FY2009-10. This will contribute to encourage more investment in the ICT-related projects. Considering the nascent stage of development of e-commerce in the country, government may consider withdrawal of VAT on e-commerce which is proposed in the national budget for FY2010-11. In this context, exemption of duties and VAT which is currently applicable for printers and some accessories, could be extended to networking-related computer parts and equipments.

Tourism

Development of the tourism sector in Bangladesh requires substantive public and private investment on tourism-related projects. Ministry of Civil Aviation and Tourism, which is the focal ministry for implementing such projects, suffers from lack of funds for various tourism projects. Although ADP allocation for the ministry has been increased from a mere Tk. 9 crore in the RADP of FY2009-10 to Tk. 283 crore in FY2010-11, more than 80 per cent of this allocation has been allotted for the development of the Shahjalal International Airport in Dhaka (Tk. 230 crore) (Figure 2.10). Due to various legal problems in FY2009-10, implementation of this project progressed only at a snail pace; as a result it faced a drastic budgetary cut in the RADP (from Tk. 200 crore to Tk. 9 crore). However, significant allocation has been made for this project in the FY2010-11 ADP with a view to completing the project by FY2011-12.

Figure 2.10: Project Cost: Upgradation of Shahjalal International Airport



Source: Planning Commission (2010).

While a number of projects have been included in the national budget for FY2010-11 without approval and allocation, appropriate budgetary allocation and timely implementation of these projects should be seen as high priority. This includes, establishment of a resort in Teknaf and development of tourism facilities in the areas of Kishoreganj, Netrokona, Nijhumdeep and some adjacent areas of Kaptai Lake. To encourage more private investment in tourism sector, some of these projects can also be initiated on PPP basis.

Capital Market

There has been no development with regard to an earlier decision in connection with offloading shares of the 26 state-owned enterprises

Since capital market suffers from dearth of availability of new stocks and bonds, Finance Minister's announcement in the national budget on issuance of infrastructure bonds to raise equity for infrastructure-related projects under BIFF (PPPs) is a welcome initiative, which is likely to contribute to the depth and diversity of the share market. However, there has been no development with regard to an earlier decision in connection with offloading shares of the 26 state-owned enterprises (SoEs); government needs to show its firm commitment and take time-bound approach to offload shares of these enterprises.

The Securities and Exchange Commission (SEC) requires budgetary support to undertake restructuring and pursue reform measures in different areas, particularly for strengthening surveillance and monitoring operations and building independent research capacity of the Commission. There is a need to undertake extensive training programmes on the functional process of the capital market, for the mass investors of all over the country.

Labour and Skills Development

A number of projects related to workers' welfare and skill development have been added in the ADP for FY2010-11 without approval and targeted allocation

Growing labour force in the industrial sector demands closer attention of the government, particularly Ministry of Labour and Employment in case of industries' compliance with regard to workers' rights, their safety and security in the workplace and development of workers' skills, etc. ADP allocation for the Ministry in FY2010-11 is only Tk. 72 crore, which is way below the requirement (although this allocation is 4.4 per cent higher compared to that of the previous year). However, there are also concerns as regards this Ministry's capacity to implement larger-sized ADP projects, for which the ADP allocation of FY2009-10 was drastically cut in the RADP (from Tk. 120 crore, it was down-sized to Tk. 34 crore).

Most of the ADP projects for FY2010-11 are continuation of last year's project (e.g. establishment of five marine technology institutes), whilst only a few new projects have been included in this fiscal (e.g. safe migration of working women which will facilitate women's migration abroad). A number of projects related to workers' welfare and skill development have been added in the ADP for FY2010-11 without approval and targeted allocation. These include modernisation of 29 Labour Welfare Centres, building housing facilities for workers in industrial zones, upgradation of Tongi Industrial Relations Institution to National Institution of Labour Administration and Training, and modernisation and strengthening of Directorate of Factory Inspection. CPD in its budget proposal had earlier proposed that a number of these projects be earmarked for budgetary support.

The GoB has finally come up with a comprehensive and ambitious five-year plan for the power sector development, besides taking a number of significant steps for the energy sector

2.5.3 Power and Energy

Bangladesh in recent times has fallen into a black hole of power and energy crisis. This has become a serious national issue. It is not only causing sufferings to the common people, but also undermining regular economic activities and investment in the country. Infrequent gas supply has made a bad situation worse. The need for ensuring energy and power for economic growth and development was not given due importance which has contributed to the present dismal situation. The GoB has finally come up with a comprehensive and ambitious five-year plan for the power sector development, besides taking a number of significant steps for the energy sector. The budget for FY2010-11, which is also the first year of the plan period, has allocated Tk. 6,115 crore for power and energy sector, about 61.5 per cent higher than the revised budget for the FY2009-10. The ADP allocation for this sector is about 15.8 per cent of the total ADP budget (Tk. 6,075 crore). The overall growth in ADP is estimated to be about 62 per cent, whereas for the Power Division it is 87.9 per cent higher, and for the Ministry of Energy and Mineral Resources, about 1.1 per cent less than the allocation for the FY2009-10. Under the ADP, allocations for power and energy sector were made for 99 projects, which included a number of new projects for setting power plants and projects for development of power distribution and transmission systems.

The new power plan (for the period of FY2010-11 and beyond) took some critically important steps for the management of power sector in Bangladesh

The new power plan (for the period of FY2010-11 and beyond) took some critically important steps for the management of power sector in Bangladesh. These were mainly: setting up of 'Sustainable Energy Development Agency' for generation of energy from renewable sources; and 'Gas Development Fund' to enhance the capacity of Bangladesh Petroleum Exploration & Production Company Ltd. (BAPEX) for exploration of oil and gas; and allocation of Tk. 1,600 crore for Investment Fund to use in the energy sector, and for ensuring speedy and hassle-free tendering and agreement signing process. These are indeed required steps which will hopefully improve the power situation in the country, if these are properly implemented within the stipulated timeframe. Initiatives such as distribution of CFL (compact fluorescent lamp) bulbs and finalisation of National Coal Policy are some of the carryover promises made earlier in the FY2009-10 budget. The plan to import liquefied natural gas (LNG) through Chittagong Port (or the envisaged deep sea port) is a matter that would require very careful assessment.

The Five-Year Plan for power sector development has come up with a moderately ambitious plan to address the emergent situation

Despite various initiatives such as daylight saving, power rationing for commercial purposes, diversion of gas from fertiliser production to power generation, a number of roadshows abroad, the overall power supply situation has failed to improve in any significant manner till now. Moreover, technical faults in some of the power grids and transmission lines, depletion in gas supply in Sangu, leakage in Titas and lack of adequate infrastructure for smooth supply of fuel to power plants have made the situation even worse. Against this backdrop, the Five-Year Plan for power sector development has come up with a moderately ambitious plan to address the emergent situation. However, the government will need to address the following issues with due caution:

(i) ***Additional Fiscal Pressure***: The budget has proposed to increase the power tariff rate by 20 to 30 per cent over the next 2-3 years but no specific figure was given. It is now up to the Bangladesh Energy Regulatory Commission (BERC) to come up with an 'appropriate tariff' which can ease the subsidy burden for the government, as well as offer a 'comfortable rate' for the consumers. This is not an easy task. Even after some rationalisation of tariff rates the remaining subsidy burden will be to the tune of Tk. 3,500 crore as CPD estimates indicate.

It is now up to the Bangladesh Energy Regulatory Commission to come up with an 'appropriate tariff' which can ease the subsidy burden for the government, as well as offer a 'comfortable rate' for the consumers

(ii) ***High System Loss***: Reduction of system loss is another issue which requires serious attention. Regrettably, the issue got ignored in the FY2010-11 budget, although provisions are there to develop transmission and distribution systems. There is thus a need to set a specific target for reducing the system loss which at present accounts for over 20 per cent of the total generation.

(iii) ***Power Generation by Existing Plants***: There is no doubt that Bangladesh needs more power plants given its current demand-supply gap and in view of the huge demand over the coming years to meet the envisaged economic growth. The GoB has given high priority to the power generation from 'rental' and 'peaking' plants, which by any measure is not a long-term solution. Many of the existing and ageing power plants require renovation and technical upgradation. Signing of contracts with private players and undertaking required upgradation of the existing plants could provide some respite under the circumstances. Although 13 agreements have been signed by the government in recent times, total generation till date has remained rather stagnant as some of the rental plants have failed to deliver on time. If this trend continues, the power crisis is likely to continue.

(iv) ***Expensive LNG Terminal***: Establishing LNG terminal at the Chittagong Port or the proposed deep sea port for importing LNG from abroad would require huge investment. LNG import from abroad will require substantive investment in infrastructure as well, which will call for substantial resources.

Many of the existing and ageing power plants require renovation and technical upgradation

(v) ***Drive for Infrastructure Development***: To facilitate investment-friendly environment in the power sector, the government needs to develop the required infrastructure. Developing the port for LNG import, importing electricity from India and other considered options will require significant investment. However, the budget did not make adequate allocation for this.

Implementing the power plan and the ADP projects related to power sector development will be a major challenge for the government. In order to ensure timely execution, there is a need to give adequate attention to the followings:

(i) ***Maintaining Transparency and Accountability*:** Till date the government has signed agreement with 13 private sector players, including nine quick rental power plants (RPPs) having capacity of 1,167 MW of electricity. These were done without going through the tendering process or evaluating the relevant track records. The compulsion of reducing the time needed for the tendering process is no doubt there, however, the requirements of transparency and accountability ought to be maintained at all levels.

Out of the nine quick RPPs a number have failed to go for production on time

(ii) ***Ensuring Timely Operationalisation*:** Out of the nine quick RPPs a number have failed to go for production on time. This is indeed a matter of great worry. Unwanted delay despite paying much higher tariff rates to the quick rental and peaking plants will only make the situation worse. Particular attention (with sanctions when required) will be called for to ensure timely delivery. Government should also play its own role in facilitating the process.

(iii) ***Immediate Finalisation of the Coal Policy*:** The delay in the finalisation of the proposed coal policy does not augur good for the country. The plan for imported coal-based power generation at Khulna and Chittagong will call for significant investment. The country's lone coal-based power plant at Barapukuria is also facing formidable challenges. The government should come up with a comprehensive plan to accelerate coal extraction from the four proven coal mines, and towards this, the coal-based power plants should rather be set up in the Northern region of the country.

Offshore gas and oil exploration procedure needs to be accelerated

(iv) ***Delay in Gas Exploration*:** Given the current state of gas supply, there is no other viable alternative than to start exploring for gas resources in the new blocks and go for drilling additional gas-wells in the old ones (especially in Titas). Leakages in various gas fields (such as in Titas) should immediately be addressed. Transmission lines should undergo technical upgradation on a priority basis. Offshore gas and oil exploration procedure needs to be accelerated. Failure to generate additional gas supply will not only delay improvement of power situation, but may also undermine the current situation with gas and power availability.

2.5.4 Export Promotion and Diversification

The total allocation for the Ministry of Commerce (MoC) is Tk. 185 crore in the FY2010-11 budget with ADP allocation of Tk. 123 crore (35 per cent, 69 per cent higher respectively compared to last year). Six foreign aid-based projects have been approved in the ADP FY2010-11 for export promotion with an estimated expenditure of Tk. 531.67 crore (these are: Bangladesh Leather Service Centre for Export Development; Development of Business Service Market; Bangladesh Economic Growth Project; Bangladesh Trade Policy Support Program; Support to RMG Sector under the Better Work in Textiles and Garments (BWTG) Project; and Promotion of Social and Environment Standard in the Industries). Mobilisation of funds from development partners for these projects will be a major challenge.

Strengthening the Bangladesh Standards and Testing Institution (BSTI) should be given highest priority

Strengthening Bangladesh Standards and Testing Institution (BSTI)

Strengthening the Bangladesh Standards and Testing Institution (BSTI) should be given highest priority, since the number of sanitary and phytosanitary measures-related problems that Bangladesh is facing, are on the rise. A project titled *Market Access and Trade Facilitation Support for South Asian LDCs through Strengthening of Institutional and National Capacities related to Standards, Metrology, Testing and Quality* has been initiated earlier to improve the capacity of BSTI. However, no new project in this regard has been included in the budget for FY2010-11.

Stimulus Packages

First Stimulus Package in view of the global economic crisis was announced in April 2009, with an allocation of Tk. 3,420 crore. In the budget for FY2009-10 the package was scaled up to Tk. 2,400 crore. During July-March FY2009-10, about Tk. 1,210 crore was disbursed as cash incentives (67.3 per cent of the allocation of Tk. 1,800 crore). The Second Package was announced in November 2009 for the export-oriented industries. In the budget for FY2010-11 an additional Tk. 2,000 crore has been proposed as stimulus. Timely disbursement is required for effective utilisation of these packages. There is also a need to assess the effectiveness and implementation quality of the disbursements under the previous packages.

There is also a need to assess the effectiveness and implementation quality of the disbursements under the previous stimulous packages

Overseas Employment and Remittance

The allocation for Ministry of Expatriates' Welfare and Overseas Employment (MEWOE) was only Tk. 224 crore (37 per cent higher), where allocation in ADP was Tk. 85 crore (98 per cent higher compared to last year). This appears to be rather low. Recently, the government has approved the *Expatriate Welfare Bank Bill 2010* to provide financial assistance to overseas job-seekers. Government has also created *Immigration and Skill Development Fund* with an allocation of Tk. 70 crore. Several new projects have also been taken up with a view to prepare more new skilled workers each year. Adequate funds should be allocated for the development of the Bureau of Manpower Employment and Training (BMET) so that it is well-prepared to take the policy initiatives to enable Bangladesh to access the emerging opportunities in the global labour market.

The government has taken a number of steps to realise the opportunities of regional and sub-regional cooperation

Regional and Sub-regional Cooperation for Export Promotion and Trade Facilitation

In recent times, the government has taken a number of steps to realise the opportunities of regional and sub-regional cooperation. These include: removal of some of the tariff and non-tariff barriers (NTBs) in trade between Bangladesh and India; development of BSTI to ensure acceptance of the BSTI certificate by India; opening up of two more land ports at Ramgar-Sabroom and Demagiri-Tegamukh points between Bangladesh and India; introducing border *haats*; declaring Ashuganj of Bangladesh and Shilghat of Tripura as Ports of Call; establishing Akhaura-Agartala railway linkage with financial assistance from India; providing India with the facility to use Chittagong and Mongla Ports by developing them, and thereby, paving the way for the use by Nepal and Bhutan as well. Besides these, some other steps have been taken with regard to such areas as obtaining India's consent to make use of the land port at Banglabandha-Fulbari border to expand trade with Bhutan and Nepal; use of Rohanpur-Singabad rail track between Nepal-Bangladesh and Biral-Radhikapur rail track between Bhutan-Bangladesh for transportation of goods; obtaining financial assistance from China for developing road communication up to Kunming province; these initiatives would enhance trade facilitation among the regional countries in future. However, one fails to see budgetary allocations and detailed work plan for the development of the relevant infrastructure.

One fails to see budgetary allocations and detailed work plan for the development of the relevant infrastructure for regional connectivity to enhance trade facilitation

2.5.5 Climate Change and Environment

Climate change in recent years has emerged as a serious developmental challenge for many countries. Bangladesh has taken the issue of climate change very seriously both at the national and international level as one of the most vulnerable victims to climate change. It has taken a number of initiatives in recent years in terms of policy formulations and budgetary allocations to address the negative consequences of climate change. But many other environmental problems such as loss of ecosystems and biodiversity, increasing pollutions, water mismanagement, etc. did not receive adequate importance in the policy agenda. Although the government in the recent years, especially since FY2008-09, has been giving special attention to such issues, poor implementation continues to nag as a major concern.

An amount of Tk. 700 crore has been allocated for climate change

An amount of Tk. 700 crore has been allocated for climate change, environmental and disaster management in the budget of the FY2010-11. Although the amount appears to be too insignificant compared to the extent of the problem, allocation for disaster-related capacity building, control of air and industrial pollutions, solid waste and sewage management, modernisation of early warning and cautionary systems are some of the important areas which got budgetary attentions in the FY2010-11. Initiatives such as establishing Bangladesh Climate Change Resilience Fund (BCCRF) with an amount of USD 110 million, approval of Climate Change Trust Fund Policy, *Medical Waste Management and Administration Act 2010,* and formulation of *Solid Waste Management Rules 2010* (now at the final stage) by the government are timely initiatives which need to be appreciated.

Finally, to meet the targets of achieving the desired goals proposed in the Perspective Plan, the Sixth Five-Year Plan, the Second Poverty Reduction Strategy Paper (PRSP-II) and the Millennium Development Goals (MDGs), there is a need for proper and careful policy and budgetary attention on each of the six thematic areas highlighted by the action plan (MoEF 2009).

2.5.6 Infrastructure and Communication Sector

The present budget as also the budget for FY2009-10 focused on the formulation of the Integrated Multimodal Transport Policy towards an integrated communication system. The Sixth Five-Year Plan (Draft) and the long-term Perspective Plan also mentioned about different targets in the transportation and communication sector including construction of Padma and Karnaphuli Bridges, Dhaka-Chittagong four-lane express way, rail and road connection with neighbouring countries under the Asian Rail and Highways, construction of deep sea ports and modernisation of Chittagong and Mongla Ports, etc. Some of the targets set out in the Awami League manifesto have

Box 2.1: Modernisation of Bangladesh Railway: Urgent Attention Needed

Modernisation of the railway service is the key to addressing Bangladesh's transportation problems since railway is the most cost effective, safe and environment-friendly mode of transportation. It is also important from the perspective of regional connectivity with India, Nepal, Myanmar, Bhutan, as well as China. Bangladesh is also planning to join Trans-Asian Railway which would connect the country's railway system to an 81,000-km network stretching from Europe to East and South-East Asia. There is a high demand for railway service and people are ready to pay to avail the service. However, news about railways is rather disappointing: 106 railway stations have been closed since 1991 due to lack of skilled drivers, stationmasters and other manpower in general.

Traditionally, the government and development partners have directed most of their efforts towards development of the road sector. At present, the railway network spreads over only 2,855 km, while roads and highways cover 21,000 km across the country. Over the years, vested interest groups have significantly undermined the cause of the railway sector. On a welcome note, there have been some changes in the attitude of the development partners and the government with regard to transport and communication strategy. At present, the government is implementing the Bangladesh Railway Sector Improvement Project for modernising the railways, at a cost of Tk. 3,600 crore. However, there is a need for more pronounced emphasis on the development of railway as a mode of transport; for example, allocation for railway in the development budget was Tk. 1,093 crore in FY2009-10, while allocation for roads and highways department was Tk. 1,714 crore. And in the current FY2010-11, development budget allocations for railway and roads sectors are Tk. 1,002 crore and Tk. 1,695 crore respectively. Utilisation of the allocated fund has traditionally been rather poor in the railway sector. This trend must be reversed through appropriate policy attention. If required, there should be a separate budget for the railways (as in India).

Towards modernisation of the railways a separate Ministry for Railways may be considered. Budgetary allocation for this ministry will need to address such areas as modernisation of railway service, extension of rail line, improved signalling system, and production facilities for making spare parts of rail engines.

been taken up in the FY2009-10 budget and the ADP. These include the construction of Padma Bridge, elevated express way connecting Uttara and Jatrabari, etc.

Mention has also been made in the FY2010-11 budget about some new initiatives including second Padma Bridge (Paturia-Goalanda), designing of the project for building a deep sea port at Sonadia, Bangabandhu Sheikh Mujib International Airport, and linking of Bangladesh Railways with Trans-Asian Railway Network. Besides, there is stipulation of construction underground railway, mono or circular rail and navigable river route around Dhaka to solve the public transportation problem and traffic jam in the capital. These are all good intentions but no allocation has been made as yet to carry out these plans. The budget should have given some idea about the timeline and resource requirement, and about the possible sources of funds for these.

Mention has been made in the FY2010-11 budget about some new initiatives including second Padma Bridge (Paturia-Goalanda), designing of the project for building a deep sea port at Sonadia, Bangabandhu Sheikh Mujib International Airport, and linking of Bangladesh Railways with Trans-Asian Railway Network

The total allocation in the budget FY2010-11 for Transport and Communication is Tk. 8,843 crore (6.7 per cent of total budget) which is 29 per cent higher compared to the last year. The allocation in transportation (roads and railways) is Tk. 6,613 crore (4.7 per cent of total budget) which is 12.6 per cent higher compared to the last year. Currently, total carry forward projects under the Ministry of Transport and Communication is 40 (Roads: 27, Railway: 5, Water Transportation: 3, Postal: 4 and Civil Aviation: 1), and 12 new projects have been proposed with allocation in ADP in the budget FY2010-11. There are two projects under PPP in ADP (Dhaka Elevated Expressway and Jatrabari-Gulistan Flyover), which are going to be implemented in FY2010-11. Another 85 unallocated but foreign aid-supported projects are there in the ADP under the Ministry of Transport and Communication. These have been approved with total expected expenditure of about Tk. 134,042.48 crore over the next several years. Mobilisation of funds from the development partners for these projects will be a formidable challenge for the government.

2.5.7 Rural Development and Local Government

Rural Development

To promote rural development, a number of initiatives have been proposed in the budget which includes the *One House-One Farm* project, development of rural infrastructure and planned promotion of better housing in rural areas.

To promote rural development, a number of initiatives have been proposed in the budget which includes the One House-One Farm project, development of rural infrastructure and planned promotion of better housing in rural areas

One House-One Farm Project**:** The Ministry of Local Government has been implementing a five-year project (July 2009 to June 2014) under this title with a total cost of Tk. 1,197 crore. About 578,400 families are targeted to benefit from this project and the total number of beneficiaries will be around 29 lakh. An amount of Tk. 68 crore was allocated for FY2009-10, but it was revised downward to Tk. 8 crore; however, actual expenditure was only about Tk. 7 crore up to 9 June 2010. There is no doubt that it is an innovative project, but expected outcome of the project may not be realised because of the poor implementation of the project. For successful implementation of the project, technical supports from the Ministries of Agriculture, and Livestock and Fisheries will be needed. Coordination and monitoring of implementation with all concerned agencies need to be strengthened for achievement of the targets.

Rural Infrastructure**:** The Finance Minister in his budget speech stated that 3,900 km new roads will be constructed, and 16,500 km roads will be brought under maintenance by the Local Government Division with a view to generate additional employment opportunities. The budget also proposed construction of 20 cyclone shelters, development of 207 rural *haat-bazaars*, and carrying out aforestation programme along 18,600 km roads. These are welcome measures. However, compared to total needs, the target appears to be low.

In the context of scarcity of land and due to shifting of agricultural land to other uses, the government has planned to build housing centres with assured utility services in the rural areas

Rural Housing**:** The present budget has mentioned that the government has a plan to initiate special housing projects in the rural areas. In the context of scarcity of land and due to shifting of agricultural land to other uses, the government has planned to build housing centres with assured utility services in those rural areas. Indeed, it may be recalled that previous budgets had also come up with similar proposals. However, the progress of those projects has not been good. This year no specific allocation has been made for this sector. It goes without mentioning that, these projects are of significant importance for a country such as Bangladesh to address the problems associated with city-centric growth. Appropriate planning is of critical importance in this respect.

Local Government

Local government is a key to the process of Bangladesh's decentralisation. Peoples' participation in the country's development process can be ensured if there is an active decentralised local government. Keeping this in view, the government has allocated Tk. 10,309 crore (development and non-development) in the budget for rural development and local government in FY2010-11. This allocation is 18.8 per cent higher than that of FY2009-10. In ADP, rural development and institutions received Tk. 4,440.28 crore which is 11.53 per cent of the total ADP allocation. This allocation is 11.33 per cent higher than the RADP of FY2009-10 and 22.4 per cent higher than the ADP of FY2009-10.

Finance Minister in his budget speech has mentioned that upazila and union parishads have not been functioning properly

Finance Minister in his budget speech has mentioned that upazila and union parishads (UPs) have not been functioning properly. To address this, chairmen, members and secretaries of the upazila parishads were given training which was expected to yield good result. The Minister also mentioned that the government was taking steps to reform the upazila parishad. However, the budget did not mention any specific measures (legislative support or reform measures) in this regard; neither did it make any targeted allocation. Budget speech also stated that, in order for the benefit of development to reach the door steps of citizens, zila parishads will be restructured so that these are transformed into strong local government institutions. However, there is no clear indication with regard to how this will be done and which restructuring modalities will be followed.

Regional Development

Special attention should be given so that the Technical Training Centres are established in the backward regions

The budget for FY2009-10 allocated Tk. 70 crore for skill development of migrant workers. In FY2010-11, the government has taken initiative to establish 30 new Technical Training Centres and five new Marine Technology Institutes in 35 districts. This is likely to produce 100,000 new skilled workers each year. Special attention should be given so that these training centres are established in the backward regions. Budget also stated about the *National Skill Council* which could play a useful role in developing skilled manpower in various parts of the country. This is important in view of the regional disparity articulated by the number of workers going abroad in search of employment opportunities. These are welcome measures. Hopefully timely implementation will deliver the desired results. Bangladesh could learn from the experience of India with regard to setting up the National Skill Council. Indian National Skill Council is headed by her Prime Minister. All government operated or funded skill programmes come under its purview. This council is supported by National Skill Development Coordination Board. National Skill Council in Bangladesh should be designed in such a manner that coherence can be maintained between the nature of labour demand and supply.

The budget has proposed to establish Regional Cultural Centres under a programme titled *Development of Indigenous Culture* with an allocation of Tk. 100 crore to conserve the culture of indigenous and backward groups. It has also mentioned that effective initiatives will be taken to explore and conserve archaeological sites. For improvement of the backward communities (such as Potter, Garo), the budget has mentioned that training facilities will be set up for them. These are excellent initiatives in support of promoting folk culture.

National Skill Council in Bangladesh should be designed in such a manner that coherence can be maintained between the nature of labour demand and supply

2.6 SOCIAL SECTOR AND SAFETY NET PROGRAMMES

2.6.1 Education

Education budget for FY2010-11 is built on the premise set out by the National Education Policy 2010. With a view to realise the goals envisaged in the Policy, education sector is to receive the highest ever allocation to this sector. Exceeding the revised allocation for FY2009-10 by 13.5 per cent, the sector has received Tk. 17,959 crore in FY2010-11. Needless to say, if a modern education system is to be set up in the country, the government will need to play a proactive role and successfully implement the programmes envisaged in the FY2010-11 budget. These include providing 100 per cent salary subvention to teachers of registered non-government and community primary schools, continuing the school feeding programmes in poverty-stricken areas, and distributing stipends among primary school going children. It is encouraging to note that allocation for School Feeding Programme has been increased to Tk. 18 crore from Tk. 7 crore in FY2009-10. However, there is a need and scope for widening the coverage of such programmes, particularly taking into cognisance the severity of poverty incidence in particular pockets in the rural areas.

It is encouraging to note that allocation for School Feeding Programme has been increased to Tk. 18 crore from Tk. 7 crore in FY2009-10

Although primary education up to Class VIII has now been made compulsory, debate continues to persist as to whether this confers a right to the children who want to go to schools but are unable to do so due to poverty. In this context, the GoB could consider enacting a *Right To Education* law. It may be noted here that India has recently ratified such a law guaranteeing compulsory primary education to children.

It may be mentioned here that Bangladesh is poised towards attaining the MDGs in the education sector by 2015. Although the enrolment rate in primary schools is moving on track, one need to consider the fact that high incidence of poverty could become a hindrance in the way of achieving the targets set for 2015. To this end, efficiency of allocation in the education sector needs to be raised significantly. From this perspective, the budget for FY2010-11 should be welcome as the allocation is significantly higher than the resource requirement as projected by the government for the fiscal year. It is understood that allocated funds will be used also in areas beyond MDG-specific activities. Nevertheless, if resources are optimally utilised to ensure efficiency gain, FY2010-11 could form a solid base for the government to move forward towards reaching the MDG-2 (achieve universal primary education by 2015). Besides, Bangladesh is also preparing the country document in view of the MDG Summit in September 2010. This calls for a strong coherence between budgetary allocations and the strategies put forward in the country report to achieve particular MDG targets.

The education sector budget for FY2010-11 should be welcome as the allocation is significantly higher than the resource requirement as projected by the government for the fiscal year

2.6.2 Health

It was encouraging to note that allocation for the health sector (Tk. 8,149 crore) in the budget for FY2010-11 is an impressive 17 per cent higher than that of the previous fiscal. However, an MDG cost estimate by the GoB underscored that Bangladesh will need to spend as much as Tk. 17,210.5 crore in FY2010-11 alone to be on track towards achieving the health-related MDGs. These estimates reinforce the need for enhanced government allocation in the sector which could complement household expenditure in health, and help attain health-related MDG targets.

The proposition to expand Maternal Health Voucher Scheme to an additional 17 upazilas is commendable

Among other initiatives, the proposition to expand Maternal Health Voucher Scheme to an additional 17 upazilas is commendable. Although not fully adequate to meet the national demand, this certainly is a welcome step towards addressing the deepening healthcare problems in the country, and will be particularly helpful in terms of improving child and maternal healthcare situation. It may be noted here that in its budget proposals CPD had earlier proposed more allocation towards adoption of such expansionary measure. There is a need to put more emphasis on accelerating the pace of recruitment of health professionals to reduce maternal mortality rate which is still way below the MDG target.

One key step in updating the National Drug Policy 2005 would be to take urgent and appropriate measures to combat unscrupulous practices in drug manufacturing and sales

The budget for FY2010-11 has also proposed to establish a Drug Testing Laboratory and set up an Essential Drug Company. Such measures, if realised, is expected to have positive impact not only on ensuring quality of drugs for the domestic market, but also help the growth of Bangladesh's pharmaceutical export. However, it was not clear from the budget document what progress has actually been made towards updating of the National Drug Policy 2005. One key step in this regard would be to take urgent and appropriate measures to combat unscrupulous practices in drug manufacturing and sales. This necessitates strengthening of the human resource capacity in the Directorate of Drug Administration (DDA).

2.6.3 Social Safety Net

One of the important features of the budget for FY2010-11 is the proposal for increasing the number of social safety net programmes from 63 in FY2009-10 to 82, with introduction of nine new programmes. To put this into practice, the government has proposed an allocation of Tk. 19,497 crore which is 14.8 per cent of the total budget. A major increase has been seen in the allocation for the One Household-One Farm project for which an amount of Tk. 170 crore has been earmarked in the current budget. On the other hand, the *Ghare Phera* programme appears to have been discontinued. Besides, both coverage and allocation have been reduced significantly for Stipend for Dropout Children and *Char* Livelihood programmes. The budget for FY2010-11, therefore, portrays a mixed picture with regard to addressing the social safety net related needs of the country.

The EGHP suffers in its design from lack of concentration on specific poverty-prone regions

With a view to bringing in more people under the ambit of the programme titled Employment Generation for the Hardcore Poor (EGHP), an allocation of Tk. 1,000 crore has been proposed in the budget for FY2010-11. However, nothing was mentioned about specific costs related to administrative functions. This is considered to be a serious concern from the perspective of effective implementation of the programme. Besides, the EGHP also suffers in its design from lack of concentration on specific poverty-prone regions. The budget should have considered proposing a Region Specific Master Plan to cater to the needs of the deserving beneficiaries. Nonetheless, the proposal for developing a social safety net programme database is a praiseworthy initiative which will hopefully contribute towards better administration of the safety net system in future.

The National Service programme has received an allocation of Tk. 190 crore in the budget for FY2010-11. This is a significant increase from the allocation made in the previous budget (Tk. 36.4 crore). While the underlying objective of the programme is highly praiseworthy, there are a number of concerns which the current budget had failed to address. First, the government's commitment related to job creation for the trained youths raises question as to whether there is a match between demand for and supply of jobs, or whether adequate vacancies can be created for the recruitment of trained youths. Moreover, there is always the apprehension that these youths would subsequently demand mainstreaming/absorption of their jobs once the two-year contract had expired. There was no direction in the proposed budget with regard to such concerns. There is a need to think through all these before going for nationwide implementation of this programme.

The government's commitment to create jobs for the trained youths raises question as to matching between demand for and supply of jobs, and for availability of adequate vacancies for recruitment

2.6.4 Gender

The share of allocation for gender equity component is about 26 per cent of the total budget of FY2010-11 (Table 2.8). Separate allocation for women has been made for ten ministries. These are: Agriculture, Disaster Management Division, Education, Environment and Forest, Fishery and Animal Resources, Health and Family Welfare, Land, Rural Development and Cooperative Division, Social Welfare, and Water Resources Division. However, it excludes a number of important ministries such as Labour and Employment, Overseas Employment, and Science and Technology.

The government has set the target of expanding computer training programmes to 34 districts in order to create opportunities for women in technology-driven jobs, but no additional allocation has been made for training for women workers, especially for those who are looking for overseas job. The government's initiative to establish ten more day care centres in the city, though welcome, is not adequate (Table 2.9).

A directive has been issued to establish a *Women Entrepreneur Dedicated Desk* in each bank and financial institutions to ensure better opportunity for the women entrepreneurs to receive loans on easier terms and conditions (Table 2.9).

Table 2.8: Gender-related Expenditure

Description	FY2009		FY2010 (Revised)		FY2011 (Proposed)	
	Gender as % of Budget	Gender as % of GDP	Gender as % of Budget	Gender as % of GDP	Gender as % of Budget	Gender as % of GDP
Non-development Expenditure	22.00	2.54	17.00	1.90	17.00	1.97
Net Outlay for Food Account Operation	35.00	0.02	35.00	0.00	35.00	0.01
Loans and Advances (Net)	28.00	0.07	34.00	0.06	22.00	0.09
Structural Adjustment Expenditure	15.00	0.01	15.00	0.01	15.00	0.00
Development Expenditure	45.00	2.30	42.00	1.98	42.00	2.32
Total Expenditure	29.74	4.93	24.65	3.95	25.96	4.40

Source: Budget documents of FY2008-09, FY2009-10 and FY2010-11, Ministry of Finance (MoF).

Table 2.9: Some Commendable Programmes under Gender-sensitive Budget

Measure	FY2009-10	FY2010-11	Implication
Gender equity expenditure	24.6% of total budget	25.9% of total budget	Increased gender sensitivity
Resource allocations for women advancement	Covering 4 ministries	Covering 10 ministries	Good initiative to implement projects targeting particularly women
Women entrepreneur	Committed to ensure separate banking arrangements, loans and technical facilities	Directive has been issued to establish a 'Dedicated Desk for Women' in each bank and financial institutions for receiving easier loans	More firm initiative than the previous year and this initiative will definitely help women empowerment
Day care centres	No mention regarding this subject (18 day care centres already exist in Dhaka city)	Decided to establish 10 more day care centres (7 for lower-income and 3 for middle-income)	Positive step but very few considering the demand

Source: Budget documents of FY2009-10 and FY2010-11, Ministry of Finance (MoF).

While several measures have been taken to empower women, many of these require more clarification with concrete actions. Some of the statements as regards women's empowerment are just expression of intention. It is not clear from the budget proposals as to how and when these intentions will be realised.

2.7 CONCLUDING REMARKS

With regard to budget FY2010-11, the apprehension is that targets set out for revenue collection and resource mobilisation could be more within reach rather than the full implementation of the expenditure plan in quantitative and qualitative terms. In recent times, a number of initiatives have been taken to raise the efficacy of the delivery and implementation mechanisms in various areas including enactment of the law on special economic zones, establishment of Bangladesh Development Bank Ltd. (BDBL) as a result of the merger of Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS), introduction of *Consumer Protection Act 2009*, expansion of MTBF to 33 ministries, and preparation of the concept paper for a unified budget. These initiatives will need to be followed-up with appropriate measures and actions.

Implementation of the budget proposals will hinge on significant improvement in the delivery capacity of the entire government machinery including various implementing ministries, institutions and agencies

Meanwhile, some of the reform measures articulated in the budget of the previous year have failed to draw adequate attention in the budget proposals of this year. There was no mention of the regulatory reforms and Bangladesh Better Business Forum (BBBF)[7] although these were noted in the FY2009-10 budget speech. There was no indication of the five-year strategic business plan to bring enhanced quality of service and dynamism in banking operation. Special monitoring arrangement of the development programmes through CPM was also overlooked. Issues such as reforms in public expenditure and civil service were also absent.

No doubt these are critical in raising the efficacy of public service delivery. Implementation of the budget proposals will hinge on significant improvement in the delivery capacity of the entire government machinery including various implementing ministries, institutions and agencies. This will require initiatives in terms of changes in policies, adequate human resource development and strengthening of logistics support.

[7]Established in 2007, the BBBF was later dissolved on 19 August 2010.

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CHAPTER 3

A Set of Proposals for the National Budget FY2010-11

3.1 THE MACROECONOMIC FRAMEWORK

The upcoming national budget for the FY2010-11 will be underpinned by a number of challenges in the current national and global contexts. This budget will be the first year of the medium-term planning framework under the Sixth Five-Year Plan (FY2011-FY2015) and the 10 year Perspective Plan (FY2011-FY2020). Thus this budget will need to reflect the plan priorities for future development of the Bangladesh economy. Also, the budget will need to take into account the targets set for the medium term by the government in their election manifesto. The challenge in terms of macroeconomic management in the next fiscal year will be to sustain the positive track record of the recent past years, address the emergent negative signals inherited from FY2009-10, and tackle the new challenges confronting the economy. Whilst Bangladesh has been successful in navigating the turbulent times of the global economic crisis, investment continues to remain the Achilles' heel of her economy. The demand-supply gap with regard to electricity and gas is on the rise leading to adverse economy-wide impact. Moreover, inflationary pressure has also started to gain steam in recent times. As the lagged impact of the global economic crisis continues to brew, the national budget for FY2010-11 has to take note of the challenging external environment as well which has undergone important changes in view of policies pursued by Bangladesh's competitors in addressing the crisis.

In the backdrop of the lagged impact of crisis which could lead to some slowdown in GDP growth rate, it appears that the macroeconomic framework of the national budget will need to continue the counter-cyclical fiscal stance of the outgoing year

In this backdrop of the lagged impact of crisis which could lead to some slowdown in gross domestic product (GDP) growth rate, it appears that the macroeconomic framework of the national budget will need to continue the counter-cyclical fiscal stance of the outgoing year. To this end, the government may have to target enhanced public expenditure package with the possibility of running modestly high deficit in line with FY2009-10. In view of rising commodity prices (including of fuel) in the global market, the upcoming budget will have to accommodate higher subsidy requirement. The financing of the possible high deficit will also come under scrutiny in the context of increasing inflationary pressure.

Table 3.1 on the fiscal structure of the upcoming budget is based on various media reports. It indicates that the fiscal structure of FY2010-11, is not expected to undergo any dramatic change.

- The total public expenditure package of FY2010-11 is expected to experience a moderate increase as a share of GDP (from 16.6 per cent to 17.0 per cent). It is to be noted that the dichotomy between revenue and development expenditure will continue into the upcoming fiscal year.
- The proposed ADP with its increased size will drive the higher expenditure planned for the upcoming fiscal year.
- The aggregate target of revenue collection, if fully realised, will lead to some improvement in the tax-GDP ratio in FY2010-11 (from 11.6 per cent to 12.0 per cent).

Table 3.1: Fiscal Structure of Budgets for FY2009-10 and FY2010-11

(in Crore Tk.)

Item	FY2009-10[B]	FY2010-11[P]
GDP at current price	686730.0	777378.0
Revenue Earnings	79461.0	93000.0
as % of GDP	11.6	12.0
Non-ADP Expenditure	83319.0	94000.0
as % of GDP	12.1	12.1
ADP	30500.0	38000.0
as % of GDP	4.4	4.9
Total Budget	113819.0	132000.0
as % of GDP	16.6	17.0
Deficit	34358.0	39000.0
as % of GDP	5.0	5.0

Source: CPD-IRBD database.
Note: B stands for budget; and P stands for projected figures.
Projected GDP for FY2010-11 has been calculated considering inflation rate target of 6.5 per cent plus 6.7 per cent projected real GDP growth. Others are from various media reports.

- The estimated budget deficit figure for FY2010-11 indicates that it may well remain within the FY2009-10 target of 5 per cent of GDP.

- A critical aspect of deficit financing will be the ability to draw on foreign sources (particularly grant component). While it will need to be ensured that domestic borrowing should not crowd out private investment demand, the deficit financing will have to be made in a non-inflationary manner. In this context, the government will be better off to use non-bank borrowing window of domestic financing even though it may mean borrowing at higher interest rates. In view of the need for enhanced borrowing, a review of interest rates on National Savings Bond (NSD) certificates may need to be deferred this year.

A critical aspect of deficit financing will be the ability to draw on foreign sources

Subsequent sections of this chapter will sequentially present recommendations for the budget FY2010-11 in the areas of overall fiscal measures, as well as in specific sectors, including operationalising the public-private partnership (PPP). Specific proposals relating to annual development programme (ADP) implementation, mitigating the lagged impact of the global financial crisis and maintaining the price stability have also been included in this chapter. These recommendations have been prepared by the Centre for Policy Dialogue (CPD) based on its own research, consultations and inputs from various stakeholder groups.

3.2 GENERAL FISCAL MEASURES

3.2.1 Income Tax

- High income tax mobilisation is a good sign. Renewed effort is required to sustain growth. A target, based on the HIES (Household Income Expenditure Survey) data, is required.
- A programme under the National Board of Revenue (NBR) should be undertaken to popularise online submission of tax returns. The online tax form should have an in-built tax calculator to facilitate the self-assessment.

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3.2.2 Value Added Tax (VAT)

- Government should enforce the use of electronic cash registers (ECRs) for all medium and large enterprises located in division and district-level towns to enhance the collection of VAT. A time-bound target towards this should be announced in the forthcoming budget.
- Submission of VAT return within 10 days after expiry of every preceding month after complying with all the requirements is a difficult task. Hence it is suggested to extend the provision of VAT return submission to the next tax period (next month).
- The requirement to submit claims for VAT rebate within the same calendar month does not take into account exceptional circumstances like *hartals*, holidays and days of natural calamities, time spent for collection of VAT *challans*, etc.; and also it is not logistically possible to submit the claim in the same month if goods and services are received towards the end of the month. Hence, it is suggested that the time limit for submission of claims for VAT rebate should be extended to next tax period.

Government should enforce the use of electronic cash registers for all medium and large enterprises located in division and district-level towns to enhance the collection of VAT

3.2.3 Supplementary and Customs Duty

- In view of the rising production cost, duty on raw materials and intermediate products may be rationalised further and revised downward. Duty on finished products may, however, remain unchanged at 25 per cent.

3.2.4 General Export Support Measures

- Emphasis needs to be put on establishing strategic special economic zones with special tax incentives (i.e. lower duty or zero tariffs on import).

3.2.5 Special Tax Benefits

- The provision of legalising undisclosed income should not be there in the upcoming budget.

The provision of legalising undisclosed income should not be there in the upcoming budget

3.2.6 Strengthening Tax Administration

- Evasion of customs duty (CD) could be reduced substantially if data on revenue collection could be passed on to the NBR monitoring cell on a regular basis through online network between the customs points and the NBR. The budget for FY2010-11 should allocate adequate fund to digitise the customs points.
- It needs to be ensured that certification of tax assessment is submitted at the time of trade (or any other) license renewal.
- Due to legal disputes, NBR has not been able to properly expand its manpower capacity since the mid-1980s. It is estimated that there are currently 8,000 vacancies available at different levels in NBR. The upcoming budget must provide allocation for the additional recruitment in the revenue agency.
- Due to lack of presence of tax officials at the peri-urban levels, collection of taxes from these areas has not increased. Decision to establish tax offices at local level has been taken; allocation will be required to implement this decision.
- Developing a modern information technology (IT)-based tax administration will help to reduce corruption and improve transparency and efficiency of tax collection.

The upcoming budget must provide allocation for the additional recruitment in NBR

3.2.7 Miscellaneous

- Government may consider discontinuing the practice of making mid-term changes of duty through the Statutory Regulatory Orders (SROs), except in special cases such as natural disasters and other emergencies, to enhance predictability in the system.
- The fee for emergency machine-readable passport (MRP) has been fixed at Tk. 6,000 while Tk. 3,000 will be charged for a normal MRP, according to a Home Ministry notification. This 84-page passport will be valid for 5 years only. It is recommended that the government extends the validity period to 10 years.

3.3 AGRICULTURE AND RURAL DEVELOPMENT

3.3.1 Development of Crop Sector

- In view of the climate change, there is a growing need to change the cropping pattern in the country. Water-efficient high value crops (such as maize, spices, oil seeds, pulses and orchards) should be promoted in the drought-prone northern region of the country through distribution of high quality seeds and saplings at subsidised price, along with provision for agricultural credit at low interest rate. In the southern regions, Boro rice cultivation should be promoted under special projects with provisions for supply of improved salt-tolerant rice seed, surface water irrigation system and support for mechanical tillage. Towards this, appropriate allocations will need to be made.

Developing a modern IT-based tax administration will help to reduce corruption and improve transparency and efficiency of tax collection

- A subsidised insurance programme for crop, livestock and poultry sectors, particularly against natural disasters like hailstorm, floods and cyclones, may be introduced.
- With a view to create adequate storage facility for grains and cold storage facility for potato, vegetables and fruits by the private sector, particularly for farmers and small traders, the budget should make provisions for incentives (e.g. assured electricity supply, gas connection or captive power supply, tax holiday, duty-free import of machineries). Intensive growing areas (for example, major potato-growing areas like Munshiganj, Rangpur, Joypurhat and Lalmonirhat) should get priority in this regard.

A subsidised insurance programme for crop, livestock and poultry sectors, particularly against natural disasters like hailstorm, floods and cyclones, may be introduced

- To minimise the dependency on national grid for electricity in irrigation, solar power-run pumps should be encouraged by the government through providing loan with low interest.
- Existing export subsidy should be continued for export-oriented *hogla*, *khar*, hand-made commodities made by the by-product of sugarcane, agricultural and agro-processing products, potato, hatching egg and one day-aged chicks.
- Special projects, with appropriate allocation of funds under ADP, need to be initiated to encourage domestic production of hybrid seed through special training programmes for farmers, scientists and staffs of private seed company. In addition, provision of parental materials to the private seed companies at subsidised prices is required.

Special projects, with appropriate allocation of funds under ADP, need to be initiated to encourage domestic production of hybrid seed through special training programmes for farmers, scientists and staffs of private seed company

- To materialise the aspiration of *Digital Bangladesh* in the agriculture sector, toll-free (or low cost) services should be provided through mobile phones by the Agriculture Information System (AIS). Agricultural information centres should be established at the village and union levels through allocation of funds in the upcoming budget.
- Agricultural tractor (HS Code 8701.90.10) is subjected to 10 per cent CD and 3 per cent advance income tax (AIT). On the other hand, road tractor is subjected to 5 per cent CD only. For the agricultural tractors as well, CD should be 5 per cent and AIT should be withdrawn for development of agricultural sector.

3.3.2 Fisheries

- Commercial cultivation of pond fish has increased enormously in recent years. However, lack of availability of quality fingerlings is a constant problem. On the other hand, production and availability of quality fingerlings depend on the broodstock (mother fish). Therefore, demand for broodstock may be met through establishment of Broodstock Banks for different types of fish such as ruhi, katla, tilapia, freshwater prawn (*Macrobrachium Rosenbergii*). It is difficult to internalise the benefits from such initiatives by the private sectors. Therefore, special allocations in the budget should be made towards this.

With a view to encourage domestic production of milk powder, VAT levied on powder milk produced from locally procured liquid milk should be reduced to Tk. 50 per kg from the existing Tk. 100 per kg of milk powder

3.3.3 Livestock Development

- With a view to encourage domestic production of milk powder, VAT levied on powder milk produced from locally procured liquid milk should be reduced to Tk. 50 per kg from the existing Tk. 100 per kg of milk powder.

3.3.4 Agro-based Industries

- Cash incentive for export of potato, tomato, vegetables and fruits should be linked with traceability of the exported commodity. Using the newly introduced farmer identity number, all exportable agriculture products can be given a unique number that could be used to identify the origin of the exported product and to ensure good agricultural practices which will be helpful for export purpose and compliance with the SPS-TBT (sanitary and phytosanitary-technical barrier to trade) requirements. This would help increase export of agro-products from Bangladesh to the developed countries and increase benefit for the farmers from cash incentive programmes.

- Agro-processing industries may be promoted through waiver of the existing 3 per cent import duty on capital machineries for the sector.

Agro-processing industries may be promoted through waiver of the existing 3 per cent import duty on capital machineries for the sector

3.3.5 Addressing Equitable Regional Development

- Allocation of about Tk. 100 crore can be introduced as special funds for development projects at upazila levels which will be implemented by the upazila parishads and union parishads (UPs). Priority should be given to proposals and projects with access to local funds (from the respective union and upazila parishads).
- Revitalisation of Mongla Port is important for economic development of western region, and also in view of the renewed effort to improve connectivity with India including allowing India the use of Mongla Port. Mongla is currently constrained by underdeveloped highway corridor adjoined by some major ferry services. Direct railway link from Dhaka to Mongla Port through special projects under the ADP will need to be undertaken.
- Government may allocate funds for training and skill development programmes in the backward regions to increase the number of migrant workers from those areas. These programmes may be implemented jointly by the government agencies and non-government organisations (NGOs).
- Investment in infrastructure development projects focusing on development of tourism sector in the lagged and potential regions (such as three hill tracts districts, Sundarban, Kuakata) will be helpful in reducing regional inequality.

Revitalisation of Mongla Port is important for economic development of western region, and also in view of the renewed effort to improve connectivity with India including allowing India the use of Mongla Port

3.4 INDUSTRIAL SECTOR

- 100 per cent export-oriented industries located in the domestic tariff area may be allowed to enjoy selected facilities as those enjoyed by industries located in the export processing zones (EPZs), provided these industries are able to comply with maintaining factory-level and worker-related rules and regulations properly. These facilities may include duty-free import of office equipments and other machineries.
- Fund allocation for the Ministry of Land for proper zoning of land is important with a view to identify land for industrial, residential, commercial and agricultural usages, especially for the establishment of different specialised zones, such as industrial parks, high-tech parks and private EPZs.
- In view of acute power and gas shortage in industrial units, which leads to rise in production cost, a number of short-term measures may be considered. Government's recent decision to withdraw additional tariff for peak hour usage by the readymade garments (RMG) industries should be allowed for all small and medium enterprises (SMEs); and the decision about withdrawal of renewal fee for captive power plants (CPPs) (Tk. 5 lakh) should be allowed for all SMEs.
- Bangladesh Energy Regulatory Commission (BERC) needs to be convinced to defer implementation of recent decision with regard to raising power tariff for industrial and commercial units as total cost for power generation is going up because of forced use of alternative sources.

The decision about withdrawal of renewal fee for captive power plants (Tk. 5 lakh) should be allowed for all SMEs

- NBR, in support of various trade bodies, should develop mechanism to list new capital machineries imported to the country and to declare SROs on a regular basis. This will reduce hassles in case of getting benefit of duty-free import of new machineries.

NBR should develop mechanism to list new capital machineries imported to the country and to declare SROs on a regular basis

- A Technology Upgradation Fund may be established (with a proposed allocation of Tk. 300 crore) for major export-oriented industries such as RMG, textiles, leather and jute, in order to facilitate undertaking technological restructuring initiatives and modernisation of plants through installation of new machines and state-of-the-art technologies.

3.4.1 Readymade Garments (RMG)

- The time limit for claiming duty-drawback should be extended to one year in order to reduce hassles involved in the of submission of required documents (stipulated time now is 6 months).
- In order to establish *garments palli* for woven wear sector and *knit village* for knitwear sector, appropriate allocation of funds is required of in the upcoming budget for development of land, utility services such as water, gas, electricity, housing and recreation facilities for workers, and other necessary logistic facilities.

In view of slowdown of RMG export in recent months, RMG units other than SMEs may be considered for support in the form of waiver on VAT imposed on electricity and gas charges (80 per cent exemption is currently in place)

- In view of slowdown of RMG export in recent months, RMG units other than SMEs may be considered for support in the form of waiver on VAT imposed on electricity and gas charges (80 per cent exemption is currently in place).
- To increase the number of technical training centres to train prospective workers for the RMG industry, adequate allocation of fund in the upcoming budget is needed. Management responsibilities of these centres can be vested in Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA), similar to some of the existing ones.
- The Skill Development Fund with an allocation of Tk. 70 crore as proposed in the last budget may be increased to Tk. 100 crore.
- Adequate fund should be allocated for establishment of an institution that is able to cater to high-end segment of the demand curve for the RMG sector, preferably under the PPP. This would help production of high value-added apparel products for such markets as that of Japan.

3.4.2 Jute

Bangladesh Bank should give necessary guidelines to the commercial banks to reschedule all loans of private sector jute mills in accordance with the directives provided by the Ministry of Finance

- Bangladesh Bank should give necessary guidelines to the commercial banks to reschedule all loans of private sector jute mills in accordance with the directives provided by the Ministry of Finance (MoF). As per the Ministry's direction, due loans with interest, disbursed till June 2009 for 5 years, is to be recovered following expiry of a 30 month period at 8 per cent annual rate of interest.
- Complexity faced at import stage relating to identification of appropriate HS (Hermonised Commodity Description and Coding System) code for machineries used in jute mills may be resolved through a separate SRO with information about all types of related capital machineries imported.

3.4.3 Pharmaceuticals

- Appropriate storage facilities in the form of temperature-controlled area for life-saving drugs and vaccines should be set up at Bangladeshi airports catering to international traffic. This is an urgent need for the country's pharmaceutical industries.

3.4.4 SMEs and Domestic Market-oriented Industries

- In order to reduce the burden of taxes, domestic market-oriented SMEs could be waived from VAT on imported raw materials.
- The coverage of the Equity Entrepreneurship Fund (EEF) may be expanded beyond agro, agro-processing and IT-related projects to some of the other potential labour-intensive industries such as light engineering, plastic, melamine and electronics.

In order to reduce the burden of taxes, domestic market-oriented SMEs could be waived from VAT on imported raw materials

3.4.5 Tourism

- As a growing industry, tourism demands appropriate budgetary allocation. Government should encourage private sector to invest in developing eco-villages, parks, conservation of historical places, and construction of hotels, rest houses in the areas of growing exposure through providing loan at low interest rate and other incentives. A *Tourism Board* may be set up to develop the promising tourism industry in the country.

3.4.6 Capital Market

- Capital gains tax (CGT) could be a potential source for mobilising additional resources, that could be generated from the market through taxing of short-term capital gains. Whilst this needs to be done in a manner that does not disincentivise the capital market and does not add volatility in market behaviour, signals may be transmitted, in a transparent manner, about tax policies to be pursued with respect to capital market in foreseeable future. India, for example, has a tax of 15 per cent on short-term capital gains (for stocks held for less than a year). A differentiated tax slab may be considered for this purpose to protect small investors and the budget for FY2010-11 may transmit some signals about such steps in future.
- The budget should provide indication about offloading of shares of state-owned enterprises (SoEs) as per timeline announced earlier.
- The budget speech of the Finance Minister should put emphasis on restructuring of the Securities and Exchange Commission (SEC) to facilitate long-term development of the capital market.

A differentiated tax slab may be considered to protect small investors and the budget for FY2010-11 may transmit some signals about such steps in future

3.4.7 Industrial Workers

- Budget allocation for the Ministry of Labour and Employment was drastically reduced in FY2009-10 (Tk. 44 crore) compared to the revised budget of the previous year (Tk. 120 crore) constraining various development activities that needed to be pursued by the Ministry. This allocation needs to be substantially increased to help the Ministry pursue such activities as establishment of labour inspection offices in all major cities, and hiring of labour inspectors and logistics to ensure regular and timely visit to the factories.
- Necessary allocation of funds should be ensured in support of various activities, including insurance for workers, envisaged under the *Labour Welfare Foundation Act 2006*.

Budget should provide indication about offloading of shares of state-owned enterprises as per timeline announced earlier

- There are 29 Worker Welfare Centres in existence in the country to provide basic healthcare and treatment facilities. Because of inadequate fund, these centres are, to a large extent, dysfunctional (shortage of medicines and treatment facilities, shortages/absence of doctors and health workers). Necessary funds should be allocated to make these centres appropriately operational.
- Development of workers' housing facilities in major industrial zones through PPP should be considered in the upcoming budget.

Government may consider supply of diesel and furnace oil for generators at a subsidised rate to industrial units (equivalent to the administrative price less the duty collected on petroleum product at import stage)

3.5 ENERGY, INFRASTRUCTURE AND COMMUNICATION

3.5.1 Electricity

In view of the projected power shortages over at least the next couple of years:

- Nearly 40 power plants with an installed capacity of 1,252 MW (mega watts) are more than 20 years old and are operated at low efficiency levels. Immediate allocation should be made for refurbishment of parts, periodical maintenance, repair and reconstruction of these old power plants in a phased manner to ensure higher levels of efficiency in power generation over the next fiscal year. It needs to be mentioned here that at present (8 April 2010) eight power station units with generation capacity of about 550 MW is out of action due to lack of maintenance.
- The government may consider supply of diesel and furnace oil for generators at a subsidised rate (equivalent to the administrative price less the duty collected on petroleum product at import stage) to industrial units which use such generators. Special card system can be arranged for providing diesel and furnace oil at a subsidised rate to the industries producing their own power.
- Cumbersome procedures to import furnace oil by private sector should be streamlined.
- In FY2008-09, total tax incidence (TTI) on import of generators and generator parts ranged between 8.55 per cent to 34.57 per cent (mode 24.0 per cent). In view of the ongoing power crisis, government may consider duty-free import of these items. The government may also consider abolishing the 2.25 per cent advance trade VAT (ATV) on import of generators.
- To encourage captive power users, government may provide loans with low interest rates for setting up CPP units.
- Locally delivered finished goods for independent power producer (IPP) project, or rental power plants (RPPs) could be considered either as deemed export, or zero CD may be allowed for imported raw materials which are used to prepare those finished goods.
- The Joint Communiqué between Bangladesh and India stipulates that Bangladesh will require approximately Tk. 1,000 crore (USD 150 million) to set up 35 km of transmission line within its territory to import 250 MW of electricity from India. The upcoming budget needs to allocate adequate resources if this proposition is to be realised at the earliest.

Government may consider duty-free import of the power generating items

To encourage captive power users, government may provide loans with low interest rates for setting up CPP units

3.5.2 Gas

- The country's gas reserve is not adequate in view of the rising demand to run various economic activities. At present, proven gas reserve is 6.93 tcf (trillion cubic feet) and probable reserve is 5.5 tcf. As the current reserve could run out by as early as 2014-2015, budget should allocate adequate funds for exploration of new reserves, and towards confirmation of proven reserves from the existing probable gas reserves.

- A special allocation may be announced in the budget to set up a separate cell tentatively titled *National Resource Research Wing* which should carry out periodic 3D seismic readings of the country's geographic surface in order to aid gas, oil, and coal exploration and to keep tabs on the state of the country's natural reserves.
- Bangladesh is considering to import liquefied natural gas (LNG) to address her gas crisis. Allocation should be made in the budget for the construction of LNG terminals. LNG bullets need minimum 12 m draft to ply. Neither Chittagong nor Mongla Port can support this facility due to having as low as 9 m and 5 m draft. Allocation for floating LNG terminals in deep sea may be considered in view of this.
- It is important to install compressors at different points in the gas transmission pipeline for increasing pressure which could enable supply of adequate gas to the power plants that are now operating at undercapacity due to shortage of gas. Installing compressors should be given priority in this regard.
- In the backdrop of considerable rise in the demand for gas, the budget may propose introducing multi-metering billing system for households as well as factories to reduce misuse of gas resource.

Budget should allocate adequate funds for exploration of new reserves, and towards confirmation of proven reserves from the existing probable gas reserves

Budget may propose introducing multi-metering billing system for households as well as factories to reduce misuse of gas resource

3.5.3 Coal

- Priority should be given to finalisation of the National Coal Policy. As was recommended in the Draft Coal Policy, a separate entity titled *Coal Bangla* should be established to deal with coal exploration, transmission and management issues.
- The budget should allocate required funds for rehabilitation of affected people arising from the proposed open-pit mining in the Barapukuria coal mine zone.

3.5.4 Alternative Sources of Energy

- Projects relating to setting up of wind-based IPPs in the coastal regions should get due priority.
- The budget may allocate resource for establishment of funds and provide special incentives in the form of loan with low interest for large commercial buildings and hospitals so that they could go for own power generation through solar energy.
- The budget may consider providing assistance and support for generation and distribution of localised renewable energy by using bio-mass fuel.
- Special funds may be allocated for techno-feasibility study on establishment of nuclear power plant. Modalities to safely store imported uranium and thorium need to be identified, and studies may be conducted on the techno-economic viability of production at prospective sites.

Budget should allocate required funds for rehabilitation of affected people arising from the proposed open-pit mining in the Barapukuria coal mine zone

3.5.5 Transport, Connectivity and Construction

- The Bangladesh-India Joint Communiqué refers to a number of infrastructural and trade facilitation measures where Bangladesh will need substantial investment. The budget for FY2010-11 should make adequate provisions towards this.

- Exploring the possibility of raising funds aimed at developing infrastructure of the country by allowing "sectoral mutual fund" from stock markets and also through PPP initiatives should get positive signals from this budget.
- Rail service in the country should receive high priority to ease the pressure on the over-burdened roadways. Commuter trains connecting Dhaka to the neighbouring areas/districts will not only ease traffic congestions of Dhaka city but also create improved living condition as this will induce many people to live in the suburbs.

Exploring the possibility of raising funds aimed at developing infrastructure of the country by allowing "sectoral mutual fund" from stock markets and also through PPP initiatives should get positive signals from this budget

- Modernising the Benapole Land Port and the ports connecting the North-Eastern states of India with Bangladesh should receive priority to reap the benefits of the recent initiatives taken by the two friendly-neighbours. Allocations should be given to develop required infrastructure to facilitate bilateral trade with India.
- Allocation should be kept for initiating the deep seaport in the Sonadia Island which was targeted to be completed by the year 2015.
- At present, the priorities for the Dhaka-Chittagong Transport Service are: (i) accelerating the works related to the Second Dhaka-Chittagong National Highway, mainly for business purposes; at least one lane should be opened immediately to facilitate business-related transportation; (ii) increase railway transport capacity between the two cities. Necessary budgetary allocation is required in this regard.
- For meeting the increasing demand of trade capacity of the Chittagong Sea Port, it is important to develop inland container depots (ICDs) to support both the port and the expressway to ease the growing pressure. It is also important to deepen and widen the port to facilitate berth of high tonnage vessels at the port. New allocation in ADP is also required for the project titled *Integrated Chittagong Port Modernization Project*.

Modernising the Benapole Land Port and the ports connecting the North-Eastern states of India with Bangladesh should receive priority to reap the benefits of the recent initiatives taken by the two friendly-neighbours

- Setting up close circuit (CC) cameras at different important traffic locations in the major cities and also renovating the traffic signals/systems are important to improve traffic situation in the major cities. Allocation is needed in this sector from the budget.
- Appropriate allocations in the budget should be kept for *Aila*-affected areas for reconstruction of damaged embankments and rehabilitation of affected people.

3.5.6 Information and Communication Technology (ICT)

- In view of the emphasis put on *Digital Bangladesh*, an integrated Software Technology Park at Mohakhali, and six other similar parks in six divisions of the country may be established over the next five years. Towards this, the upcoming budget may consider allocating Tk. 300 crore for the software park in Mohakhali, and Tk. 1,000 crore for others, which could be disbursed over the next five years.
- The basic infrastructure for high-tech park (phase 1) at Kaliakoir should be completed as early as possible. Government should increase ADP allocation on this account and complete the work within the shortest possible time.
- The initiative to connect 100 UPs with fibre-optic cable networks and setting up of "community e-centres" in five selected upzila sadars are welcome steps. However, allocation should be there to gradually include all UPs and upzilas under this network.

New allocation in ADP is also required for the project titled Integrated Chittagong Port Modernization Project

- Allocation for ICT Business Promotion Council (IBPC) needs to be raised up to, say, Tk. 100 crore.
- The budget may allocate ADP fund for the establishment of broadband internet-enabled common service centres in rural areas and put in place a scheme for establishing nationwide area network.
- A separate section within the crime branch of police which could be titled *Cyber & Phone Crime Branch* is required to efficiently handle related crimes.
- Implementation of the Right to Information (RTI) is very important and necessary budgetary allocation should be made to facilitate implementation of the RTI Act.

Implementation of the Right to Information (RTI) is very important and necessary budgetary allocation should be made to facilitate implementation of the RTI Act

3.6 SOCIAL SECTOR

3.6.1 Social Safety Net

- The government may like to list all hardcore poor families in every union in support of service delivery of various social safety net programmes. Local government, local NGOs, local people and grassroots administration should together identify the eligible households.
- The second phase (March-April 2010) of the *Employment Generation for the Hardcore Poor (EGHP)* programme, which is currently being implemented, is designed to cover all the 64 districts of the country. The programme should focus on the highly poverty-stricken areas rather than the entire country, and widen the beneficiary coverage in those areas using the updated poverty map.
  - Administrative cost allocated for officials (for management and monitoring purpose) is extremely inadequate, which is undermining outcome of the programme. In view of this, administrative cost, especially at upazila level, needs to be increased adequately. Tag Officers are the key players in monitoring the EGHP programme at the field levels, each of whom is responsible for supervising all the projects running in one union. However, this duty is additional to their official service responsibilities and the allowance allocated for them is quite inadequate which is weakening the monitoring system. To improve the implementation efficiency of the programme, allowance for Tag Officers should be increased and need to be proportional to the area they cover.

The programme should focus on the highly poverty-stricken areas rather than the entire country, and widen the beneficiary coverage in those areas using the updated poverty map

- The *National Service* has been initiated in Kurigram on a pilot basis covering 9,950 unemployed youth. The targeted coverage under this programme in the next fiscal year is more than 30,000 in this district, which is about 3 times than that of the current coverage. Moreover, besides Kurigram, the programme is planned to be expanded to Gopalganj and Barguna. In this backdrop, it is necessary to ensure adequate fund to keep the programme running.
  - The administrative cost (honourarium for trainers, training centre facilities, logistics, transportation of officials and other related expenditures) for the *National Service* needs to be revised upward. In addition, adequate infrastructural facility for training is also a priority need.
- *Allowances for Destitute Women and Insolvent Disabled* should be increased to Tk. 500 per person from the existing Tk. 300. *Allowance for Poor Lactating Mothers* should also be increased to Tk. 500 per person from Tk. 350. Number of beneficiaries should also be increased.
- The government should dedicate additional funds to expand the existing *Char Livelihood Programme* to cover all remote *char* areas.

The administrative cost (honourarium for trainers, training centre facilities, logistics, transportation of officials and other related expenditures) for the National Service needs to be revised upward

- Increased social safety net programmes in the disaster-prone areas, specially targeting the weaker and vulnerable sections of the society may be considered.
- Allocation for the government's *School Feeding Programme* was increased to Tk. 34 crore in the budget of FY2009-10 from Tk. 4 crore in the revised budget of FY2008-09. The coverage of the programme needs to be expanded, especially in regions with high intensity of hardcore poverty. For this, allocation needs to be increased in the upcoming budget. Upazila-level poverty map may be useful to ensure appropriate targeting of the programme beneficiaries.

The coverage of the School Feeding Programme needs to be expanded, especially in regions with high intensity of hardcore poverty

3.6.2 Health

- Government measure to appoint new health professionals at the field level is commendable. It will be important to address the supply-side of the problem by introducing special incentives (both monetary and in-kind) for the existing and newly recruited medical practitioners serving in the rural areas. For this, the government should consider allocating targeted fund in the upcoming budget.
- The existing *Maternal Health Care Voucher Scheme* should be continued and expanded to at least 60 upazilas from the existing 45 upazilas. Special attention needs to be given to *monga*-prone, *char* and *haor* areas.
- Tax exemption for equipment for disabled people is still limited. Government may consider reducing the duty on import of these items.

The existing Maternal Health Care Voucher Scheme should be continued and expanded to at least 60 upazilas from the existing 45 upazilas. Special attention needs to be given to monga-prone, char and haor areas

3.6.3 Education

- Education facilities in most of the public Technical and Vocational Education Training (TVET) institutions are outdated. Government may consider allocating adequate fund to modernise the existing TVET institutions and establish more such institutions with a view to creating skilled manpower for both domestic and international markets.
- In view of the growing demand for nurses in the country, the government may consider allocating fund for new nurse training institutes as well as enhancing facilities in the existing ones.
- Special stipend programme should be introduced for children from low-income families going to public universities. The government may also consider providing interest-free education loan to these students (on merit basis) who will repay the amount within a given timeframe (e.g. 5 years from the date of graduation).

3.6.4 Women Empowerment

Government should introduce separate employment generation scheme for women who are the only earning members of their respective families

- Government should introduce separate employment generation scheme for women who are the only earning members of their respective families. The upcoming budget may have specific allocation for such a programme.
- Special training centres can be set up at the upazila level to provide short-term and refresher training for women from poor households on various income-generating activities. These services shall be free for the trainees. Provision of providing travel allowance to the trainees may also be included in the scheme to create wider acceptability of the programme. Government may consider allocating separate fund for such a project in the national budget for FY2010-11.

- The issue of women's repression and the severity of various forms of violence against women pose considerable threat towards the efforts of the government to create a just and tolerant society. While the legal system has to be strengthened, government should allocate separate fund for victims of violence towards medical and legal support.

3.7 ENVIRONMENT, CLIMATE CHANGE AND DISASTER MANAGEMENT

Different parts of effluent treatment plants, whether imported together or separately from different sources, should be considered as an integral part of a whole machine, and these should be provided with duty-free import facility

3.7.1 Environment

- Government may allocate funds for SMEs to encourage and promote clean production technology for those units which lack adequate funds to do so.
- Different parts of effluent treatment plants (ETPs), whether imported together or separately from different sources, should be considered as an integral part of a whole machine, and these should be provided with duty-free import facility.
- The Polluters Pay Principle is a useful strategy to take actions against polluting and non-compliant industries. A pollution tax or green tax may be levied on all inorganic waste generated by different industries to encourage installation of ETPs.
- Industries may be provided with soft loans for investment in pollution prevention and pollution control equipments. This may be done through support from the EEF.
- Initiatives already taken for cleaning the critically degraded and important rivers should be further intensified through budgetary allocations.
- Open water fisheries resources particularly rivers and canals surrounding the major cities are facing acute water pollution mainly due to release of untreated industrial waste and chemicals. Industrial waste treatment should be mandatory and pollution tax may be considered to impose on violators.

Initiatives already taken for cleaning the critically degraded and important rivers should be further intensified through budgetary allocations

3.7.2 Climate Change

- Following the trend of special allocation for climate change-related initiatives in the last two budgets, the coming budget should also keep the momentum by providing: (i) funds for "green financing" and "developing and disseminating green technology;" (ii) special allocation for generating clean energy from "non-conventional sources," keeping in mind the present energy crisis in the country and its immediate demands; and (iii) allocation to start "microinsurance scheme(s)" aiming to ensure crops production and rural livelihoods activities in the most vulnerable areas of the country.
- Upgrade and introduce modern technologies to improve weather forecasting and disseminating such information for the most "exposed groups," within short time. This would enhance coping mechanism to face climate-induced disasters, and reduce damages and casualties. The budget may keep adequate allocation for this.
- Allocation should be made for environmental and disaster-related awareness building, expanding research and capacity building at national level, and also for the vulnerable areas/zones. Under the National Council for Science and Technology (NCST) Fellowship, young graduates may be provided with scholarships to conduct research on climate change issues, particularly microlevel adaptation and impact assessment, under a fund allocated in the budget.

Upgrade and introduce modern technologies to improve weather forecasting and disseminating such information for the most "exposed groups," within short time

- Carbon-emitting and obsolete transports should be penalised by imposing 'carbon tax' which would discourage them to run on the roads.

3.7.3 Disaster Management

More allocation should be made for continuing the construction of shelter houses in the coastal districts of the country

- In addition to funds for reconstructing embankments affected by the *Aila*, allocation should be made for new embankments at important points to provide safeguards against surges. More allocation should also be made for continuing the construction of shelter houses in the coastal districts of the country.
- More allocations for social afforestation programmes particularly for the coastal and river bank (*char*) areas of the country is needed.
- To safeguard against earthquake, the budget may consider allocating funds to train special volunteers associated with the fire defense service in view of any possible earthquake hazards.

3.8 OPERATIONALISING THE PPP

In the budget FY2009-10, PPP component was a new and welcome initiative for Bangladesh. The initiative had generated high expectation. An allocation of Tk. 2,500 crore was made in the budget for FY2009-10 on account of PPP. It was hoped that Tk. 7,000 crore would be invested through PPP projects in that fiscal year. The government has also come up with a Draft PPP Policy. Budget FY2010-11 should emphasise on realisation of the PPP objectives. The Draft PPP Policy and guidelines will need to be finalised in a speedy manner. There is a consensus that the PPP process will need to be geared up in order to get the desired benefit. In order to ensure effective implementation of PPP projects, the following issues need to be addressed in the upcoming budget for FY2010-11:

The upcoming budget should provide indications about fiscal incentives for PPP-funded projects

- The government has so far earmarked large infrastructural projects under the PPP. Adequate fund allocation should be made in the upcoming budget FY2010-11 to this end. It is reckoned that small PPP projects should not be excluded from PPP financing.
- The upcoming budget should provide indications about fiscal incentives for PPP-funded projects. It is important that the proposed fiscal incentives should be at par with the incentives provided to other foreign direct investment (FDI) and export-oriented investments, and information on this should be given upfront.
- The Draft PPP Policy suggested that a Public-Private Infrastructure Committee (PPICOM) shall be established under the Prime Minister's Secretariat. This is to include 11 members; however, only one representative from the private sector has been included. It is felt that there should be more representatives from the private sector.
- PPP should be encouraged in non-industrial infrastructure development sectors as well. For example, Bangladesh Agricultural Development Corporation (BADC) may be designated as a facilitating organisation for PPP in the agriculture sector. PPP projects may be developed for production and distribution of hybrid and improved seed, establishment and management of surface water irrigation system, establishment of agro-export processing zones, and establishment of wholesale markets and trading centres.

It is felt that there should be more representatives from the private sector in the Public-Private Infrastructure Committee

3.9 IMPROVEMENT OF ADMINISTRATIVE CAPACITY AND DELIVERY MECHANISM FOR DEVELOPMENT PROGRAMMES

ADP is the major source of public investment in Bangladesh. Public investment in Bangladesh has been seen as a determining factor for overall investment outcome. However, the increased importance of public investment has not been matched by improved quantitative and qualitative delivery or monitoring of the ADP. In recent years both the pace and the quality of implementation of the ADP has come under close scrutiny. The budget should clearly spell out allocation to the carryover projects (the projects that were expected to be completed before 1 July 2010), continuing projects and new projects. A continuing effort to raise the pace of disbursement and quality of implementation appears to be the required strategy for the upcoming budget. The following strategies could be considered in this context.

Budget should clearly spell out allocation to the carryover projects, continuing projects and new projects

3.9.1 Sectoral Priority

- No one would disagree that investment in energy generation should be prioritised given the critical importance of this particular sector in the economy. Appropriate allocation will need to be made in the budget towards this. Synchronisation of various steps involved is important in this context.
- An incentive-based programme may be undertaken, where divisions or departments with successful completion of projects will be given priority in fund allocation.

3.9.2 Fund

- Matching fund for foreign-aided projects should be made available towards proper implementation of the ADP projects in due time.
- Over centralisation and bottlenecks in fund release will need to be addressed. A common policy could be that once included in the ADP, the projects should not require further approval by other agencies.

Matching fund for foreign-aided projects should be made available towards proper implementation of the ADP projects in due time

3.9.3 Priorities and Action Plan

- Project-wise action plans should be prepared for timely completion of all the ongoing projects. To start with, the government ought to put emphasis on preparing action plans for top 100 projects selected by the Planning Commission. Power and infrastructural projects should get highest priority while preparing this list. These action plans should be prepared by the respective project authorities and to be approved by the heads of their implementing agencies.
- These action plans should also take into account the current status of implementation, a realistic view on what could be achieved during the remaining period of the project, with available resources and the available implementation capacity.
- The plan should clearly spell out time-bound monitorable actions and identify authorities responsible for implementation. Activities which are not implementable during the tenure of the project and are not of high priority may be dropped, and resource allocated for those may be surrendered or suitably reappropriated.
- The manpower requirements of the projects as per Development Project Proposals (DPP) should be fulfilled; vacant positions should be filled-up

Government ought to put emphasis on preparing action plans for top 100 projects selected by the Planning Commission. Power and infrastructural projects should get highest priority while preparing this list immediately, specially the position of the Project Director. Full time Project Director should be made available to all projects, unless DPP has provision for deployment of a part-time Project Director.

- Each action plan should be prepared by the respective project authorities through a process of consultation with all key players involved in implementation of the projects. Enhancing as far as possible the role of the local governments in the implementation of these action plans is also important.
- Implementation of these action plans should be started as early as possible, preferably from the beginning of the next fiscal year.

The plan for establishing a Planning and Budget Wing in each ministry, articulated in the budget speech of FY2009-10 needs to be materialised

3.9.4 Monitoring Mechanism

- The plan for establishing a *Planning and Budget Wing* in each ministry, articulated in the budget speech of FY2009-10 needs to be materialised.
- Special monitoring mechanism will need to be developed for the power sector. Monitoring the projects under the Ministry of Communication and the Local Government Engineering Department (LGED) should also be prioritised.
- A realistic monitoring mechanism may be designed for overseeing the timely implementation of the above-mentioned action plans. Where feasible, stakeholders outside the project, including the local government bodies, may be appropriately involved in the monitoring process.
- The Implementation Monitoring and Evaluation Division (IMED) should be strengthened further to ensure that implementation is adequately monitored, both in quantitative and qualitative terms.
- Establishment of a result-based monitoring (RBM) and evaluation system, knowledge management, training and research along with further strengthening of human resources is required towards institutional capacity building of the IMED. RBM should be an integral part of the IMED activities. Relevant staff of key line ministries should also be adequately trained in such monitoring.

Result-based monitoring should be an integral part of the IMED activities

3.9.5 Local Government

- Funds allocated for local governments such as upazila and UP in the ADP may be released upfront, preferably in the first quarter of the fiscal year, for first two quarters at a time, so that these bodies can draw development schemes and start implementing these from the beginning of the financial year. These schemes should be developed through local level planning in consultation with grassroots stakeholders.
- Modalities will need to be developed to involve local governments in both design and formulation of projects and monitoring of their implementation. Dedicated committees may be constituted with participation of government officials, representatives of beneficiaries and experts to monitor the quality of implementation in key result areas, and the maintained timelines, particularly for major projects.

Modalities will need to be developed to involve local governments in both design and formulation of projects and monitoring of their implementation

3.10 MITIGATING THE LAGGED IMPACT OF GLOBAL FINANCIAL CRISIS

- In the third stimulus package declared on November 2009, the government mentioned a number of incentives. However, due to the cumbersome and lengthy procedures involved, no subsidy has been paid out yet. Precise documentation guidelines should be provided to the related sectors for speedy disbursement of these funds. This should receive adequate attention in the next budget. These incentives may also be extended in the budget for FY2010-11 in the context of the lagged impact of global financial crisis:

- The facility of the government reimbursement for renewal fee paid by apparels entrepreneurs on use of captive generators may be extended up to 30 June 2010 in view of ongoing power outage.
- 10 per cent subsidy on the electricity usage for SMEs in RMG sector that do not own captive generators or diesel-run generators may be extended until 30 June 2011.
- Cash incentives (based on actual export value) for exporters to new markets (markets other than the United States (US), Canada and the European Union (EU)) at the rate of 5 per cent may be continued in the next year (instead of bringing down the rate to 4 per cent).
- Provide cash incentive of 5 per cent to small and medium-sized RMG units for export performance in FY2010-11. Such incentive should, however, be limited to export value in FY2009-10 plus up to 10 per cent growth.
- 5 per cent cash incentive for ship-building and crust leather should be continued.

The facility of the government reimbursement for renewal fee paid by apparels entrepreneurs on use of captive generators may be extended up to 30 June 2010 in view of ongoing power outage

- Leather and footwear registered negative growth during the first half of FY2009-10 when compared to the similar period of FY2008-09. As there are no local manufacturers for components and accessories for footwear and leather goods, question of protecting local manufacturers does not arise. It is recommended that import duty on these products may be reduced to 5 per cent.
- Shortage of storage facility at the airport is hindering export of frozen foods and vegetable. Funds for an effective and efficient way to deal with this problem may be allocated in the upcoming budget.
- A programme titled *Shongjog* was initiated during the period FY2007-08 and implemented by Palli Karma-Sahayak Foundation (PKSF) along with other NGOs and donor organisations, to help potential overseas workers from the *monga*-affected area. Since then only 27 workers availed this opportunity, where Tk. 3 lakh was provided as credit to each worker. Given the good recovery record of this credit, the government should reoperationalise this facility and allocate adequate funds to make this opportunity available for more workers. The government may also consider extending this project in specific disaster-prone areas.

Provide cash incentive of 5 per cent to small and medium-sized RMG units for export performance in FY2010-11. Such incentive should, however, be limited to export value in FY2009-10 plus up to 10 per cent growth

3.11 PRICE STABILISATION SUPPORT

- Zero-tariff on import of essential food commodities including rice, edible oils (crude and refined), and lentils (proper monitoring to discourage over invoicing needed) should be continued.
- Balancing the often conflicting interests involving producers and consumers should be maintained. Adequate allocation will need to be made to cover the difference between procurement price and the open market sale (OMS) price.
- Higher allocation is needed for greater coverage and higher entitlement under various safety net programmes that deliver in-kind support, such as the Food for Work (FFW), vulnerable group development (VGD), test relief (TR), etc.
- With a view to ensure food security, the procurement targets of grain crops need to be set at higher levels. At the same time, the government may be

Higher allocation is needed for greater coverage and higher entitlement under various safety net programmes that deliver in-kind support, such as the FFW, VGD, TR, etc.

required to import essential commodities periodically from the global market. Thus, adequate allocation is needed on food import account.

- In view of the recent upward trend in prices of fuel and agricultural inputs (e.g. fertiliser), it is necessary to allocate adequate funds for providing subsidy for these items.
- Appropriate allocations should be kept in the budget in view of ensuring adequate supply of essential items during the Ramadan month (July-August 2010).

If FY2009-10 has been the year of preparation, FY2010-11 will be the year of delivery

3.12 CONCLUDING REMARKS

The defining feature of the upcoming budget will have to be the enhancement of the ability of the development administration to deliver on the ADP, particularly in the thrust areas such as generation and maintenance of power supply, infrastructure, and supporting accelerated economic growth with macroeconomic stability and control of inflation. Capacity to flexibly respond to any macroeconomic shock will need to be strengthened, and toward this, a sophisticated system of monitoring will need to be developed. If FY2009-10 has been the year of preparation, FY2010-11 will be the year of delivery.

CHAPTER 4

State of the Bangladesh Economy in FY2010-11 *(First Reading)*

4.1 INTRODUCTION

In the backdrop of the dual track recovery of the global economic environment, Bangladesh economy in the early months of fiscal year 2010-11 demonstrated mixed signals. These emerging signals portend new tensions in the fiscal, monetary and balance of payment (BOP) situation.

Bangladesh economy in the early months of fiscal year 2010-11 demonstrated mixed signals

In the domestic sector, there are indications of strong production performance in the crop sector as well as positive turnaround in industrial investment. These trends were underpinned by higher credit flow and enhanced imports. However, the apparently buoyant state of the capital market appears to have more to do with lack of adequate investment opportunities in the country, rather than an upsurge of investor interest in the equity market of the country *per se*.

The relatively encouraging performance of a number of key real sectors was not adequately matched by public investment behaviour. Implementation of the annual development programme (ADP) could not make a tangible departure (if not deteriorated) from the traditional stagnating trend. Indeed, the most critical sectors, particularly energy and power, seem to be the most laggard in this regard. However, given the rising commodity prices in the global market and recent developments in the power sector, size of government subsidies is set to increase substantially in the coming months. The rare silver lining in the fiscal sector is the upbeat revenue intake performance of the National Board of Revenue (NBR).

Implementation of ADP could not make a tangible departure from the traditional stagnating trend; the rare silver lining in the fiscal sector is the upbeat revenue intake performance of the NBR

The aforesaid diverging trends in the economy may not in the final analysis result in a widening fiscal deficit; but these could give rise to new challenges for monetary policy from the perspective of financing the deficit, particularly when the consumer price index (CPI) is moving upward.

With the lagged response of the global economic crisis fading away, export growth picked up significantly in early FY2010-11, only to be met with significant decline in remittance income flow. The external income side also experienced a setback in the early months of FY2010-11 as disbursement of foreign aid remained subdued, and inflow of foreign direct investment (FDI) continued to be stagnant. Consequently, one observes a growing pressure on both the current account balance as well as the BOP. The government is actively considering accessing quick disbursing foreign aid from the international financial institutions (which, however, may be fraught with policy conditionalities).

In the above context, the analyses presented in this chapter under Centre for Policy Dialogue's (CPD) *Independent Review of Bangladesh's Development* (IRBD) seek to capture the early signals of the current fiscal year and provide some indications about the trends in the near-term future. In doing so, it has drawn upon the latest available information and data from the concerned government bodies, complementing these with interviews of knowledgeable informants and consultation with thematic experts.

Export growth picked up significantly in early FY2010-11, only to be met with significant decline in remittance income flow

The contents of the report comprise of two core components. The first component reviews the current macroeconomic situation and focuses on a number of emerging trends having significance for macroeconomic management. The second component is dedicated to the scrutiny of five critical sectors of the economy, of contemporary importance. These are: (i) Investment Scenario; (ii) Inflation, Prices and Food Security; (iii) Energy and Power; (iv) Trends in the Capital Market; and (v) Overseas Employment and Remittances.

The report concludes with short-term outlook of the economy with special focus on growth prospect in FY2010-11.

4.2 STATE OF THE MACROECONOMY

4.2.1 Overview

In line with the global economic trends, Bangladesh has experienced two volatile years (FY2008-09 and FY2009-10) when her economic growth was restrained to below 6.0 per cent level (Table 4.1). The first one, FY2008-09, was the year of global financial and economic crisis. In the face of fall in global demand, commodity prices as well as domestic inflationary trend declined considerably. Incidentally, during this period, Bangladesh economy not only benefited from low prices of importables, but was also able to avoid negative pressure on her export of goods and services.

Table 4.1: Medium Term Macroeconomic Framework: FY2008-09 – FY2010-11

(in Per cent)

Indicator	Actual		Planned
	FY2009	FY2010	FY2011
Real Growth	5.7	5.8	6.7
Agriculture Sector	4.1	4.7	NA
of which			
Crop Sector	4.0	5.1	NA
Industry Sector	6.5	6.0	NA
of which			
Manufacturing	6.7	5.7	NA
National Savings (% of GDP)	29.6	28.8	NA
Gross Investment (% of GDP)	24.4	25.0	26.4
Incremental Capital-Output Ratio (ICOR)	4.3	4.3	3.9
Total Government Outlay (% of GDP)	14.3	13.8	16.9
ADP (% of GDP)	3.1	3.7	4.9
ADP as % of Total Government Outlay	21.7	27.2	29.0
Inflation (12-month Annual Average)	6.7	7.3	6.5
Export (% change)	10.1	4.1	15.0
Import (% change)	4.2	4.1	16.0
Remittance (billion USD)	9.7	11.0	14.0

Source: Estimated from MoF (2010d) and Bangladesh Bank (2010b) data.
Note: NA denotes not available.

On the other hand, in the next year (FY2009-10), the impacts of the global economic and financial crises started to have alarming consequences for the Bangladesh economy. Export revenues and remittance income growth started to decelerate, while the domestic inflationary trend took an upturn in consonance with the international market. A visible improvement in public investment (in terms of ADP implementation as per cent of gross domestic product (GDP)) the has also been a promising feature of the last fiscal.

However, over these two years Bangladesh remained an underinvested country. The investable surplus (reflected by the gap between national savings and total investment) could not be made use of due to the lack of domestic infrastructure. Growth in manufacturing sector (and hence in industry sector) remained modest. On the other hand, strong growth in agriculture sector helped maintain the GDP growth at respectable level, and expansion of safety net programmes provided some protection to the living standard of the marginalised groups.

Strong growth in agriculture sector helped maintain the GDP growth at respectable level

Macroeconomic management in FY2010-11 thus had to confront the twin tasks of: (i) accelerating the GDP growth by energising domestic investment, and responding to the lagged impact of the global financial crisis with its demonstrated adverse consequences for Bangladesh's increasingly globalising economy; and (ii) maintaining macroeconomic stability to aid a broad-based and inclusive economic growth.

4.2.2 Emerging Situations in the Macroeconomic Framework

The present section is organised around four emerging challenges of macroeconomic management:[1] (a) maintaining fiscal balance; (b) designing a

[1]The issues are put according to a logical sequence, but do not necessarily reflect priorities.

Division) reports on ADP implementation, concluded that issues related to upstream stages of ADP implementation, such as 'tender process' and 'land acquisition,' have emerged as major bottlenecks in recent years (Bhattacharya *et al*. 2010). In other words, at present launching of the ADP projects itself has become a critical concern of development administration. While update of these reports for FY2009-10 are unavailable, anecdotal information suggests that impediments of the above mentioned nature have continued to persist over the previous as well as the current fiscal year. It is also interesting to note the relative contribution of different ministries/divisions to the current rate of ADP implementation. Unfortunately, it is the inability of the Power Division to utilise the allocated resources that has been significantly holding back the overall delivery of the ADP (Table 4.6). Indeed, in the previous two years (FY2008-09 and FY2009-10), Power Division's contribution to the overall growth in ADP expenditure was negative.

Table 4.6: Incremental Contribution of Ministries/Divisions in ADP Allocation and Expenditure

(in Per cent)

Ministry/Division	Incremental Share in Allocation Growth (Original ADP)		Incremental Share in Expenditure Growth	
	FY2009	FY2010	FY2009	FY2010
Top Five Ministries				
Local Government Division	36.3	26.6	35.0	30.0
Ministry of Communication	34.1	15.0	-9.7	18.7
Power Division	33.4	-7.0	-12.1	-5.1
Ministry of Health and Family Welfare	14.4	13.2	16.5	6.4
Ministry of Primary and Mass Education	-13.3	9.4	5.3	10.9
Other Ministries	-4.9	42.8	64.9	39.0

Source: Progress Review for Annual Development Programme, Implementation Monitoring and Evaluation Division (IMED) (various issues).

Box 4.2: Data Constraints

Improving ADP implementation has been placed high on agenda of the current government. Attaining this target would require constant monitoring of the relevant bottlenecks and constraints faced by the line ministries in implementing projects and addressing those issues by the Executive Committee of National Economic Council (ECNEC) through an effective feedback mechanism. However, in conducting CPD's present analysis on state of ADP implementation, lack of real-time and appropriate data was felt severely.

Project-wise implementation information is not available with the IMED. Even for the 50 priority projects that were to be selected for scrutiny (as mentioned by the Finance Minister in his speech delivered before the parliament), no information could be located. IMED's quarterly report on ADP implementation status usually identifies the constraints faced by the line ministries so that ECNEC can address the issues. However, the latest report was published only for FY2008-09, and no such report was available for the early months of the current year. In the absence of project-wise implementation information, it was also not possible to diagnose the status of comparative performance of projects implemented with foreign finance and those with local finance.

It is difficult to comprehend how top level decision makers are monitoring ADP implementation in the absence of project-wise real-time data. It may be also pointed out that implementation of ADP is essentially an expenditure accounting exercise and does not provide information with regard to project performance and its impact.

Such sustained poor performance of the Power Division had multiple consequences which were of critical importance. First, failure to utilise the allocated public fund to improve power generation capacity is having economy-wide negative impact, particularly on investment and employment. Second, non-utilisation of allocation for Power Division might have forced the government to opt for rental power plants (RPPs) at high costs. Third, from a simple ADP implementation perspective, failure of the Power Division in utilising its allocation (which is one of the highest among all ministries/divisions) means inefficient distribution of allocation, assuming that the failure is associated with its implementation capacity. A redistribution of the allocation among better performing ministries could lead to higher overall ADP implementation, which in turn could lead to higher public investment-GDP ratio – generating greater development impact. From a more pragmatic point of view, it is not enough to prioritise a sector with higher allocation; it is needed to improve the leadership endowments, and implementation capacity of the concerned ministries along with reprioritisation of a reduced project basket.[35]

[35] In the current ADP of FY2010-11, Power Division has 40 projects.

Whither PPP Projects?

The concept of collaboration between public and private sector to mobilise additional resources for investment, usually build as Public-Private Partnerships (PPPs), is not a new one. An allocation of Tk. 2,500 crore was earmarked under PPP in the budget for FY2009-10, which however, remained unutilised. In the budget for FY2010-11, an allocation of Tk. 3,000 crore was proposed for the PPP component. In the recent past, there had been some developments in the policy areas related to PPP in the country. These include the following: (a) A PPP Policy and Strategy as well as three PPP Guidelines have been approved by the government; (b) 23 PPP projects relating to power, infrastructure and healthcare sectors have been included in the FY2010-11 ADP project list; (c) Provision for 'infrastructure depreciation allowance' for PPP Projects has been proposed; and (d) Bangladesh Infrastructure Finance Fund (BIFF) has been created to attract domestic and foreign investment for the PPP projects.

Box 4.3: PPP Projects in the ADP of FY2010-11

23 PPP projects were enlisted in the ADP for FY2010-11 which included two transport infrastructure development projects, five power plant projects, and eight healthcare services related projects. Rest of them included projects related to sewerage system improvement, construction of market, parks and residential areas, auditorium, etc.

A few of those PPP projects have been initiated during this year. Construction of the Jatrabari-Gulistan Flyover[36], the biggest project taken up so far under PPP, has been (re)inaugurated in June 2010, and construction started from December 2010. Tender for the Dhaka Elevated Expressway project[37] has been floated in November 2010, and construction is expected to start from March 2011. MoU has been signed for the coal-fired power plant in Khulna, a joint venture between two state-owned power companies of Bangladesh and India, and tender is planned to be floated in March 2011.

However, none of these 23 projects, though enlisted, were mainstreamed within the ADP and no fund was allocated for them. Officials from the Planning Ministry informed that those projects will receive allocation later based on their progress. Besides, no implementation timeline has been set for these projects.

All the projects taken so far under PPP are large-scale initiatives. On a different note, it can be mentioned here that a second international airport, though it was not included in the list of above mentioned 23 projects, has also been under government's active consideration. Indeed, land acquisition for this project has started from December 2010.

Success of the much hyped PPP hinges critically on a number of issues which needs immediate attention. First, there remains a serious lack in the preparatory works which includes enactment of an appropriate legislation. Land acquisition, a pre-project activity particularly important for large projects, needs legal backup while a guideline for determining the land price is also important. This has been a serious problem faced by the Dhaka Elevated Expressway project.[38] Second, weak administrative set up may also undermine the success of PPP. The budget for FY2010-11 proposed setting up of a PPP office run by a group of suitable experts, which is still to be realised. Third, shortage of manpower and expertise in the area of administering, operating and harmonising PPP projects needs to be addressed on an immediate basis. Experts and the donors have raised concerns regarding timely execution of the Dhaka Elevated Expressway project because of lack of manpower. Fourth, bureaucratic procedures within the government is characterised by lengthy decision making process which seriously inhibits the operationalisation of the envisaged public-private cooperation. Weak coordination among the government agencies and ministries, lengthy process of bidding and evaluation has delayed the Padma Bridge project and a number of power plant projects.

In the recent past, there had been some developments in the policy areas related to PPP in the country

[36]The project will be implemented at a cost of Tk. 1,350 crore on Build-Own-Operate-Transfer (BOOT) basis by United Arab Emirates (UAE)-based Belhasa Accom and Associates Ltd., an associate company of the Orion Group.

[37]Estimated cost of the 32 km-long elevated expressway is Tk. 8,617 crore. The project may now move forward; a constraining litigation has been disposed off recently.

[38]Consultants, while submitting report on Dhaka Elevated Expressway, have mentioned that land acquisition in Dhaka or its suburbs is quite difficult because of scarcity of land and soaring land prices.

A transparent procurement and selection method for the investors at both national and international levels are pre-requisites for the effective implementation of the PPP projects. Creating a centre of excellence to deal with various parties involved during PPP project implementation[39] has proved to be useful in Bangladesh and elsewhere. Financial return[40] would also enhance attractiveness of a project along with other government support in the form of foreign exchange rate protection and early completion incentives, etc. Quality of the project outcomes ought to be ensured and maintaining the timeline of the projects needs to be given highest priority. PPP also could potentially work as an incentive to attract FDI; however, this remains far from being realised.

A transparent procurement and selection method for the investors at both national and international levels are pre-requisites for the effective implementation of the PPP projects

Preparation of a set of policy guidelines for the PPPs is a good step; however, some experts have argued that rather than having a single set of generic guidelines, sector-specific guidelines would have been more useful and of practical use. Notwithstanding some discrete and feeble signals, PPP initiatives are yet to gather momentum in the country.

Financing Investment

Public investment in Bangladesh is generally underwritten by revenue surplus, concessional foreign aid, and borrowings from banking and non-banking sources. Private investment in the formal sector, on the other hand, has been usually underwritten by sponsors' capital (both local and foreign), bank borrowing and equity finance received from the stock market. A number of private projects have received support from international development agencies and recently, the central bank has allowed overseas borrowing by private entities on a case by case basis.

Given the volatile (and often insignificant)[41] revenue surplus available, the government has to opt for other available options in financing investment needs. With regard to the capital market, for the last couple of years there has been a high percentage of oversubscription for the initial public offerings (IPOs). Although the number of IPOs increased by 50 per cent during the last fiscal year, the demand versus supply gap is yet to converge. Significant oversubscription validates the presence of excess liquidity in the capital market to cater to financing both private and public investments. However, this will require measures to stabilise the market to raise investors' confidence. It is important that more SoEs get listed in the capital market.

FDI has not been able to play its role to the extent desired in Bangladesh

FDIs, on the other hand, historically has not been able to play its role to the extent desired in Bangladesh. In fact FDI inflow exhibited a decrease since 2008, and stood at only USD 636 million in FY2009-10, with marginal improvement during the initial four months of FY2010-11[42], despite the many advantages that the country offers. As reflected from this phenomenon, Bangladesh appears to be trapped in a low investment-low infrastructure-low investment vicious cycle. A

[39] During the 1990s the *Power Cell*, a similar body, provided valuable service by becoming a single-point expert service provider to the government in selecting, negotiating and implementing PPP projects. This can also save the cost of hiring costly international consultants.

[40] Direct financial support may include investment of capital, free use of project sites and facilities, and tax incentives. Financial support can also be indirect, for example, a loan repayment guarantee by the central government which assures that lenders will be fully repaid by the government if the project fails.

[41] Revenue surplus in FY2008-09 and FY2009-10 was of Tk. 1,995 crore and Tk. 14,512 crore respectively against the targeted ADP of Tk. 25,600 crore and Tk. 30,500 crore.

[42] During July-October of FY2010-11, USD 258 million FDI inflow has been recorded against USD 207 million during the corresponding period of FY2009-10.

breakthrough requires investments in both physical infrastructures, as well as in governance and business climate indicators. This could also encourage non-resident Bangladeshis (NRBs) to invest, a potential source of finance which has remained largely untapped till now.

More conventional sources of financing public investments have been non-bank and bank borrowing by the government. In the previous year (FY2009-10), non-bank borrowing has been a major source of finance for the government.[43] Given the contractionary monetary policy that the government is pursuing in view of getting hold of the rising inflation and with applied disincentives for investment in NSD certificates (see Section 4.2), the government in FY2010-11 has tended to be more inclined towards bank borrowing. Although bank borrowing by the government could be more inflationary than non-bank borrowing, the former has the advantage of ready availability over the latter. However, as argued in the previous section of this report, demand side management might not do the needful in curbing the rising trend of inflation, and non-bank borrowing may well be a more viable option for the government to finance investment requirements – through the support of an accommodative monetary policy stance.

The government also has the option of getting more foreign aid to finance investment. Typically over 40 per cent of the annual public investment programme is targeted to be financed from donor support.[44] However, due to her low implementation capacity, Bangladesh has been regularly failing to avail of the committed foreign financing. Notwithstanding the fact that both the grant component within foreign financing[45] in particular, and aid flow in general[46], have been on decline, donor support still remains an important option for bridging the resource gap for public development expenditure. To address this, improved capacity of utilising funds by the line ministries will be needed. Another constraint in this regard relates to Bangladesh's weak negotiating capacity for securing donor support on the best possible terms. Given the emerging trends in fiscal balance and BOP situation in the current fiscal year, the government has decided to tap two foreign sources, namely, the IMF (see Section 4.2) and supplier's credit (Box 4.4). However, the rationale of accessing these sources is not quite clear.

Box 4.4: Supplier's Credit

Historically supplier's credit has been a small proportion in the foreign aid portfolio of Bangladesh. As of FY2008-09, only about USD 2 billion was disbursed under this hard term loan facility[47] in favour of projects in infrastructure, industry and power sectors. Supplier's credit as a lending window is often criticised for its discriminatory procurement conditions, higher rates of interest as well as for its shorter grace and tighter repayment period. As Bangladesh moved away from aid dependence, the scope of supplier's credit became limited, and it has been considered only for priority projects for which easy soft loan was not readily available. However, cases of supply-driven non-priority projects being underwritten by supplier's credit are also not rare in Bangladesh.

The Finance Division and the Economic Relations Division (ERD) are currently examining the possibility of acquiring supplier's credit for a wide range of projects including some power projects that are to be implemented under the PPP. The amount considered for supplier's credit could be equivalent to USD 6.9 billion for 45 projects – three times higher than the all time disbursement. These projects are in the areas of physical infrastructure, power sectors, agriculture, water resources and rural institution.

Incidentally, the government has already signed a deal with the Exim Bank of India for borrowing USD 1 billion bearing a fixed interest of 1.8 per cent plus a commitment fee at a rate of 0.5 per cent per year on unutilised credit which is repayable in 20 years with a grace period of 5 years. The credit is intended to underwrite the Indo-Bangladesh connectivity projects, the financial deal that has been signed between the Government of Bangladesh (GoB) and the Exim Bank of India. It is to be noted that this credit is of a supplier's credit nature. The loan is tied to particular projects and the large share of procurements under the credit line will have to be sourced in India.

It appears that the government is opting for more expensive and hard term financing options. Recent credit ratings by *Moody's Investors Service* and *Standard & Poor's* reflect Bangladesh's improved credit worthiness. However, one needs to exercise these borrowing options keeping in mind their macroeconomic implications as well as their opportunity cost.

[43] In FY2009-10, 61.8 per cent of the total deficit financing came from non-bank borrowing.
[44] Targeted foreign financing component constituted 42 per cent and 40 per cent respectively in the original ADPs of FY2009-10 and FY2010-11.
[45] 27.6 per cent of the gross foreign financing in FY2009-10 came as grants. Grants constitute 23.1 per cent of the gross foreign financing target for FY2010-11.
[46] 47.5 per cent of the total deficit financing came from foreign financing in FY2009-10. For FY2010-11, 39.8 per cent of the financing is targeted to be contributed by foreign financing.
[47] This is not a substantial portion of total foreign aid of USD 50.37 billion received as of the same period.

Thus, the binding constraint to investment is not the availability of funds, whether in terms of local or foreign resources, but rather the lack of adequate capacity of the government to spend or invest. More consideration also needs to be devoted on how to improve the investment climate. In this regard, the government can pursue the recommendations proposed by the Regulatory Reform Commission (RRC) and the Bangladesh Better Business Forum (BBBF), and may consider the option of reviving these platforms.

The binding constraint to investment in Bangladesh is not the availability of funds, but rather the lack of adequate capacity of the government to spend or invest

Investment Climate: Mixed Signals?

Private investment as a percentage of GDP remained stagnant at 19.7 per cent in FY2009-10. Although no information is available for the current fiscal year, certain discrete developments may be observed which allude to some improvement in the investment situation. First, the export growth has been very robust due to improvement in import demand in line with the global recovery. Second, term loan disbursement in the first quarter (Q1) increased by 38.3 per cent compared to 9.1 per cent during the Q1 of FY2009-10.[48] Third, overall import increased by 33.5 per cent during the first four months of FY2010-11; import of capital machinery increased by 35.7 per cent. Further, letter of credit (L/C) settlement for capital machinery also experienced a healthy growth of 36 per cent during July-October of FY2010-11 (-19.9 per cent during July-October of FY2009-10); overall L/C settlement increased by 39.3 per cent during this period.

Private investment as a percentage of GDP remained stagnant at 19.7 per cent in FY2009-10

However, disaggregated L/C settlement information prompts one to be rather cautious about investment prospects over the near term future. L/C settlement of capital machineries during July-October of FY2010-11 was higher by USD 161.6 million compared to the corresponding period of FY2009-10. Of this increase, large export-oriented industries (textile and garments, leather, jute, pharmaceuticals, packaging) accounted for only USD 29.3 million or about 18.1 per cent. Rest of the increase came from 'other industries,' a breakdown of which is not available. Assuming that these L/Cs were opened by small-scale industries, one may suspect that the new investment is going for machineries for captive power generation (in the form of generator imports), which cannot exactly be taken as expansion of productive capacity. Available HS code-wise (Harmonised Commodity Description and Coding System) import data for July-September of the current fiscal year support such apprehension. Import of generators constituted 40.2 per cent of the incremental imports of capital machineries during this period when compared with the corresponding period of the previous fiscal year.

Recovery phase of the global financial crisis created an opportunity to better posit the country in the global supply chain, but this called for supply-side push through improvement of the investment climate

It is also to be borne in mind that these improvements in the proxy indicators of the investment scenario are driven by heightened demand in the global market. Recovery phase of the global financial crisis also created an opportunity to better posit the country in the global supply chain, but this called for supply-side push through improvement of the investment climate. However, there is little evidence to indicate relaxation of the overall constraints characteristic of Bangladesh's investment climate including lack of adequate supply of energy – both electricity and gas. Bangladesh's position has remained almost unchanged in the recent years in the World Bank's *Cost of Doing Business* ranking, as well as in the *Global Competitiveness Index* (GCI) of the World Economic Forum (prepared with CPD's input), and only some improvement in *Corruption Perception Index* (CPI) of the Transparency International (TI). Not much improvement has been visible in this regard over the last couple of years.

[48]Sectoral distribution of disbursed term loan could have given more clear indication of its impact.

Thus, while the public investment situation continues to remain lacklustre, private investment scenario do exhibit some encouraging signs associated with the external economy. It is now to be observed whether the emerging trends can catalyse a dynamic investment performance leading to a broad-based manufacturing growth.

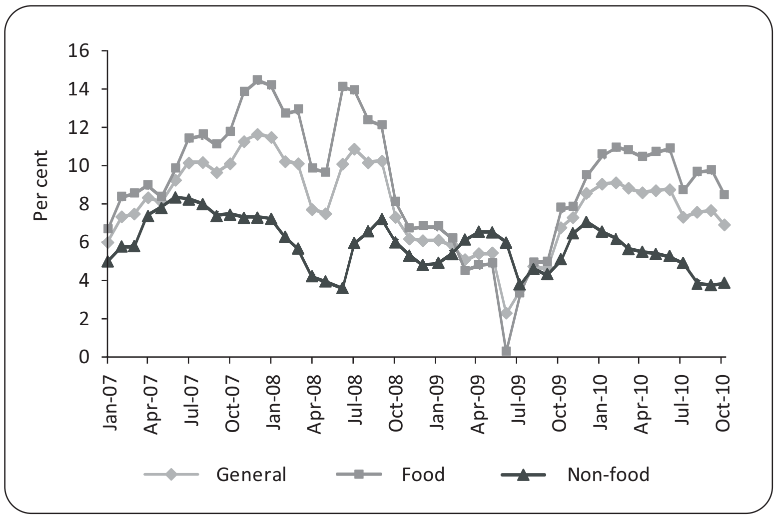
It has been a difficult task for the policymakers to contain the rise in commodity prices and bring the inflation down in recent years

4.3.2 Inflation, Prices and Food Security

Increasing food prices is an issue of concern for Bangladesh as it affects not only food security and poverty reduction, but also has important implications for macroeconomic management. It has been a difficult task for the policymakers to contain the rise in commodity prices and bring the inflation down in recent years. Though food inflation in Bangladesh moderated to some extent between October 2008 and September 2009 (after an accelerated growth throughout 2007 and most of 2008), this has gained momentum in recent times. Prices and inflation have emerged as major policy concerns in the current fiscal year.

This section looks at the inflationary trends and prices in relation to the food security situation in the country over the period of the first few months of FY2010-11. As rice constitutes a major component in the food basket of the people in Bangladesh, behaviour of global and domestic prices of rice have been examined with a view to assess the food inflation situation in the country.

Figure 4.6: Point-to-point Inflation



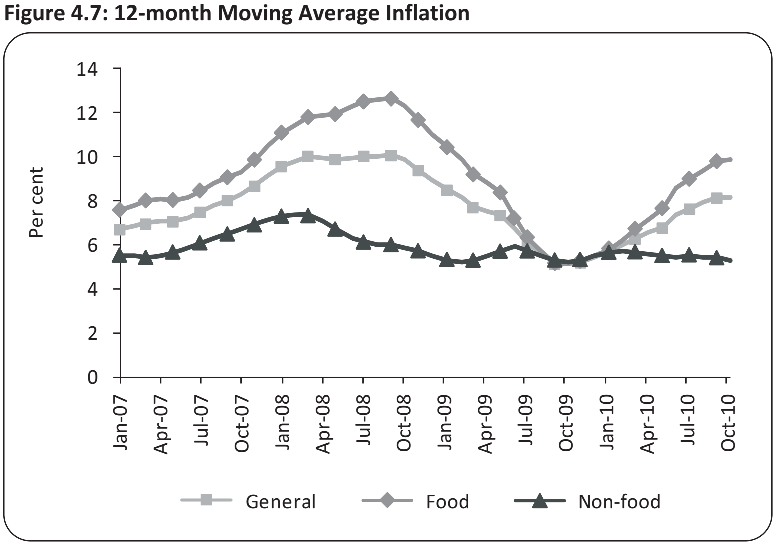
Source: Bangladesh Bureau of Statistics (BBS).

Recent Inflationary Trend is Well Above the Target

General Inflation: Point-to-point vs 12-month Average

Since the beginning of FY2010-11 national point-to-point inflation was on a rising curve. However, in October 2010, it declined to 6.9 per cent which was somewhat higher than that of in October 2009 which was 6.7 per cent (Figure 4.6). On the other hand, 12-month average inflation rate at the national level has reached as high as 8.1 per cent in October 2010 compared to 5.1 per cent in October 2009 (Figure 4.7).

Figure 4.7: 12-month Moving Average Inflation

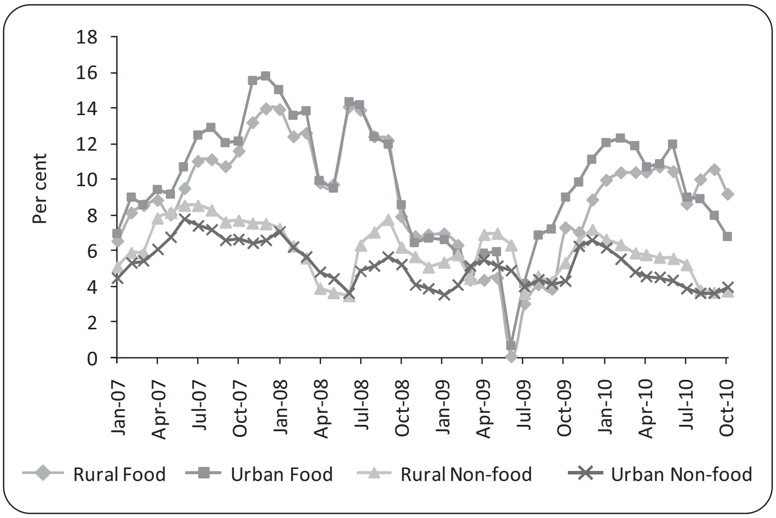


Source: Bangladesh Bureau of Statistics (BBS).

Food vs Non-food Inflation

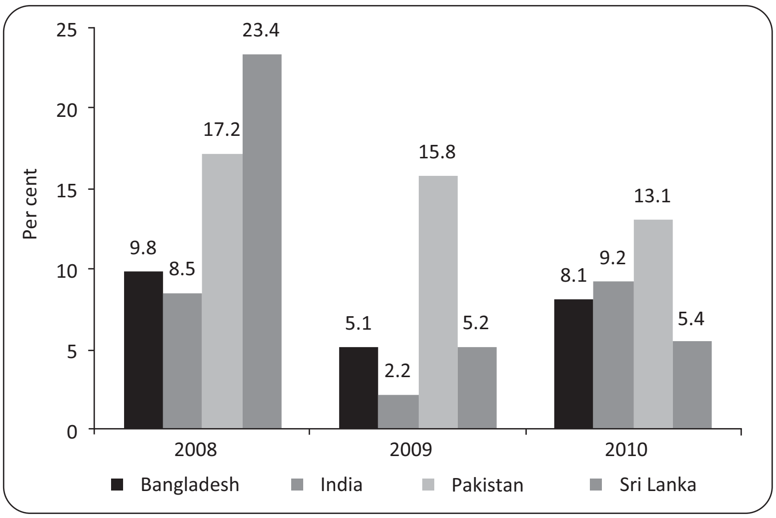
National point-to-point non-food inflation was consistently decreasing since the beginning of FY2010-11 though it has increased in October 2010. On the other hand, national point-to-point food inflation has decreased notably from 10.9 per cent in June 2010 to 8.4 per cent in October 2010.

Figure 4.8: Food vs Non-food Inflation in Rural and Urban Areas



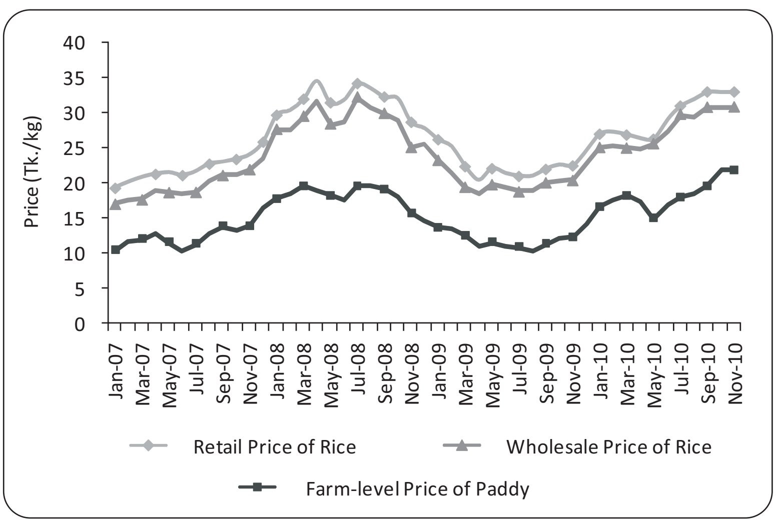
Source: Bangladesh Bureau of Statistics (BBS).

Figure 4.9: Moving Average Inflation in Neighbouring Countries



Source: Bangladesh Bank; Reserve Bank of India; State Bank of Pakistan; Department of Census and Statistics, Sri Lanka.

Figure 4.10: Monthly Wholesale and Retail Price of Rice (Coarse) and Paddy



Source: Department of Agricultural Marketing (DAM).

When compared to the 12-month average, national food inflation has reached as high as 9.8 per cent in October 2010 which is the highest ever since February 2009. However, 12-month average national non-food inflation is on the decline since July 2010; it has reached 5.3 per cent in October 2010 from 5.5 per cent in July 2010.

Urban and Rural Inflation

Rural food inflation has surpassed urban food inflation in August 2010. This atypical pattern has continued until recently. In October 2010, rural food inflation stood at 9.1 per cent which was higher than the urban food inflation rate of 6.8 per cent. However, non-food inflation in the rural areas was marginally lower than that in urban areas in October 2010, which were 3.8 and 4 per cent respectively (Figure 4.8).

Inflation in South Asia

Except for Sri Lanka, Bangladesh has been experiencing a lower inflation rate compared to her other neighbours. One of the reasons for higher inflation rate in India could be the high growth in the country compared to Bangladesh. The Indian economy has started to turn around with a growth rate of more than 7 per cent in FY2009-10 with high consumption and aggregate demand. Conversely, the Sri Lankan economy with only a growth rate of 3.5 per cent in FY2009-10 had experienced a low inflation rate. Pakistan epitomises the case of a conflict economy with a high inflation rate and a very low growth rate (Figure 4.9).

Food Prices Continue to Contribute to High Inflation Rate

Rice

In the face of rising food prices in the domestic market inflation rate continues to remain high during the first few months of FY2010-11. In recent months, domestic rice prices have been on the rise (Figure 4.10). In November 2010, average wholesale price of coarse rice was Tk. 30.8 per kg. On the other hand, retail price of rice was Tk. 33 per kg (Appendix Figure 4.1). Farm-level price of paddy was Tk. 21.8 per kg. Between November 2009 and November 2010, wholesale and retail price of coarse rice in local market has increased by 51 per cent and 47 per cent respectively, while the farm-level price of paddy has increased by 78 per cent. However, the gap between the prices of retail and farm-level continued to rise throughout November 2009 to November 2010. The difference between farm-gate and retail prices of paddy was 45.6 per cent of the retail price in November 2009, which rose to 64.4 per cent in 2010. This does not indicate enhanced farmers' share in the retail price, rather is suggestive of increased role of the market intermediaries. On the other hand, the coefficientcy of variation between the gap of farm-level and retail level prices was 14 per cent during November 2009 to November 2010, which was 11.4 per cent during the comparable periods of 2008 and 2009. This is indicative of increased variability in the price of rice in the local markets.

Higher gap between the prices of retail and farm-level is suggestive of increased role of the market intermediaries

To reduce the market power of rice millers, in late December 2010, Bangladesh Bank issued a circular to the commercial banks to adjust the loans given to rice mill owners and traders every 30 days; previously this was 45 days. It is to be seen whether this measure will be adequate enough to reduce the monopoly power of millers.

Wheat

The prices of wheat also experienced an increasing trend in Bangladesh due to the rising prices of wheat in the international market. This was attributed to drought in Russian Federation and Kazakhstan, and unfavourable weather in Canada, the EU and Ukraine in FY2009-10. Additionally, Russia had imposed export restrictions on wheat since mid-August and extended the ban to 30 June 2011 to ensure domestic food security. During September 2009 and September 2010 international wheat price has increased by 51 per cent (Appendix Figure 4.2). This price hike has been transmitted immediately to Bangladesh where the price of *atta* in local market has increased by 74 per cent between November 2009 and November 2010 (Appendix Figure 4.3).

Russia had imposed export restrictions on wheat since mid-August and extended the ban to 30 June 2011

Structural Factors Overrule Monetary Factors in Explaining High Inflation

Inflation in Bangladesh has been the result of a number of factors, of both domestic and international nature. Features of inflation in Bangladesh clearly indicate that high food price significantly enhances overall consumer prices. This is largely because food carries a significant weight in the CPI of the country. The share of food, beverage and tobacco[49] is 58.8 per cent in the national CPI of Bangladesh; however, the weight of rice is only 20.1 per cent of total items.

Over the years, the average contribution of food prices to overall inflation has increased (Table 4.7). For example, in FY2000-01 the contribution of food and non-food inflation in overall inflation was 41.9 per cent and 58.1 per cent respectively. This has reversed in FY2009-10

Table 4.7: Average Contribution of Food and Non-food Items to CPI Inflation

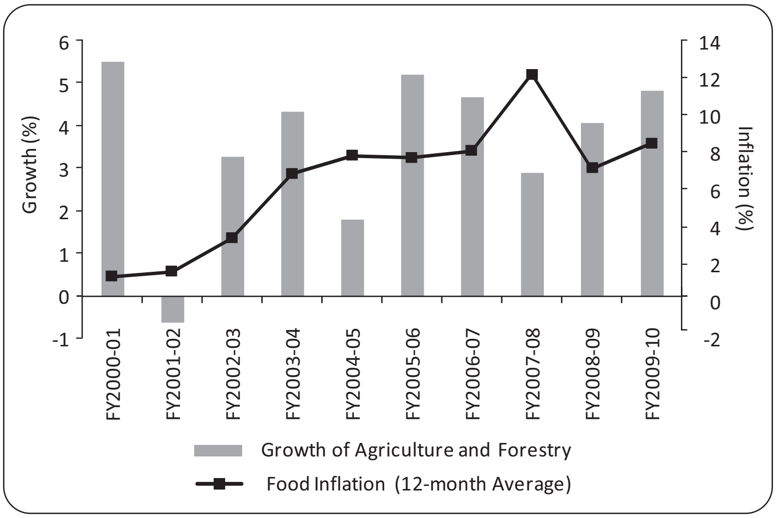
(in Per cent)

Year	General Inflation	Contribution of Food to Inflation	Contribution of Non-food to Inflation
FY2000-01	1.94	41.86	58.14
FY2001-02	2.79	34.38	65.62
FY2002-03	4.38	46.48	53.52
FY2003-04	5.83	69.94	30.06
FY2004-05	6.49	71.62	28.38
FY2005-06	7.16	63.77	36.23
FY2006-07	7.20	66.28	33.72
FY2007-08	9.94	72.69	27.31
FY2008-09	6.66	63.52	36.48
FY2009-10	7.31	68.66	31.34

Source: CPD calculation based the Bangladesh Bureau of Statistics (BBS) data.
Note: Base: 1995-96=100; Weight: General=100; Food=58.84; Non-food=41.16.
Contribution of food and non-food is calculated as the share (weight) of food/non-food in general CPI multiplied by food/non-food inflation divided by overall inflation rate.

[49] BBS groups food, beverages and tobacco in the category of 'food.'

Figure 4.11: Growth of Agriculture Sector and Food Inflation



Source: Bangladesh Bureau of Statistics (BBS) data.

when the contribution of food and non-food inflation stood at 68.7 per cent and 31.3 per cent respectively.

As one would expect, growth in the agriculture sector was inversely related to food inflation. Figure 4.11 reveals that inflation rate (12-month moving average) and growth of agriculture followed more or less a similar pattern, i.e. higher supply by the agriculture sector was accompanied by lower inflation rate.

However, the inflation dynamics in Bangladesh is probably somewhat more complicated than the above mentioned straightforward relationship. This has partly to do with the confusion related to supply and demand situation of foodgrains in the country. Available data and a closer look at the balance sheet of foodgrain availability indicate that during the last few years domestic food production exceeded the demand in the country. Consequently, the excess foodgrain supply should have had a positive impact on the country's import. However, in reality the country continued to import foodgrain from the international market at a high price, at a time when there was supply-side disruption and increase in the global demand. This apparent paradoxical situation of demand and supply of foodgrain in the country and the food prices raises a number of questions as regards the veracity of the statistics relating to size of the population, per capita food intake and the accuracy in the estimation of domestic foodgrain production. Appendix Tables 4.2 and 4.3 present estimations of the net foodgrain production in Bangladesh and per capita food availability during the period 2001-2010. It is surprising to note that even after a comfortable level of per capita food availability the rice prices are constantly on the rise in the market. If official statistics are correct, then this situation calls for an investigation into the possible new dynamics emerging in the foodgrain market of the country.

The apparent paradoxical situation of demand and supply of foodgrain in the country and the food prices raises a number of questions as regards the veracity of the statistics relating to size of the population, per capita food intake and the accuracy in the estimation of domestic foodgrain production

Detailed studies with regard to the determinants of inflation in Bangladesh indicate that monetary and exchange rate policies have significant impact on inflation (Osmani 2007; Mortaza 2006; and Majumdar 2006). Whilst money supply and exchange rates tend to have a significant positive impact on inflationary trend, devaluation of currency was found to have insignificant influence on inflation in Bangladesh (Hossain 2007). Besides, inward remittance, government debt, inflation inertia, and food and oil prices are also major determining factors of inflation in Bangladesh (Ahmed n.d.). Though the role of non-competitive market (syndicate) behaviour is a much-discussed topic which is perceived to have aggravated the inflationary situation in Bangladesh, empirical studies have found divergent results on this. For example, Osmani (2007) did not observe any significant role of non-competitive market behaviour in making commodity prices volatile. Ahmed (n.d.) and Majumdar (2006) on the other hand, had identified it as one of the major determining factor behind the high inflation in Bangladesh. In addition to these, it was also found that wage (labour) cost and import cost, along with global supply shortage of agricultural commodities played an important role in the inflationary behaviour in Bangladesh (Majumdar 2006).

A recent study by CPD as depicted in Box 4.5, has found clear evidence of a positive relationship between inflation and a number of variables such as broad money supply, foreign reserve, and domestic petroleum price. The study also found that inflation is negatively related to domestic rice production.

Policy Responses

The government's policy response to soaring prices and high inflation aims mainly to ensure food availability and to protect the poor from hunger. With this end in view, the major policy initiatives undertaken recently by the government included: (i) enhanced rice and wheat imports from world market through bilateral agreements; (ii) decision not to go for public procurement of rice from the domestic market; (iii) improvement in access to food through expansion of social protection and social safety nets; (iv) improvement in the production situation through various fiscal incentives. Also there have been discrete attempts to control the overall credit flow.

Box 4.5: Determinants of Inflation in Bangladesh: Findings from the CPD Study

This study uses OLS after exploring the time series properties of the model variables to explain the major influencing factors of inflation in Bangladesh and considers demand-pull and cost-push arguments. The study assumes that inflation (CPI, 12-month moving average) is the function of domestic rice production (RP), domestic petroleum price (PP), broad money supply (BM) and foreign reserve (FR) covering the period of FY1980-81 to FY2008-09.

To test time series properties, the study uses step-by-step econometric techniques to test unit root (stationarity). Accordingly, DF, ADF, PP and KPSS unit root tests show that all series are integrated in order one. In addition, double-log specified nested regression result reveals the following that can be used to check the robustness of the specified model.

$$\Delta \ln.CPI = 0.005 - 5.46^{a}\Delta \ln.RP + 0.29^{b}\Delta \ln.PP + 0.44\Delta \ln.BM + 0.56^{c}\Delta \ln.FR$$

$R^2 = 0.36$; Adj. $R^2 = 0.25$; Prob>F = 0.02; ARCH $Chi^2 = 2.90$.

Result shows that inflation in Bangladesh is negatively related to domestic rice production (RP), and positively related to domestic petroleum price (PP), broad money supply (BM) and foreign reserve (FR).

Source: CPD (2010).
Note: a, b, c represents significance at 1 per cent, 5 per cent and 10 per cent respectively.

Stock and Food Procurement Situation is Not Encouraging

As of mid-December 2010 the government had a stock of 7.5 lakh metric tonnes (MT)[50] of foodgrain, which was 31 per cent (11 lakh MT) lower than the comparable period of previous year. During the last Boro season, the government procured only 5.6 lakh MT of rice which was also lower than the previous season. The GoB has decided not to procure Aman rice in the current season since the farmers were getting a good price for the item. Instead of domestic procurement, the government plans to collect foodgrains from the international market. Till mid-December the government has imported 5.7 lakh MT foodgrains while the private sector imported another 15.4 lakh MT. Another 5.3 lakh MT foodgrains is in the process of being released from the Chittagong Port at the moment.

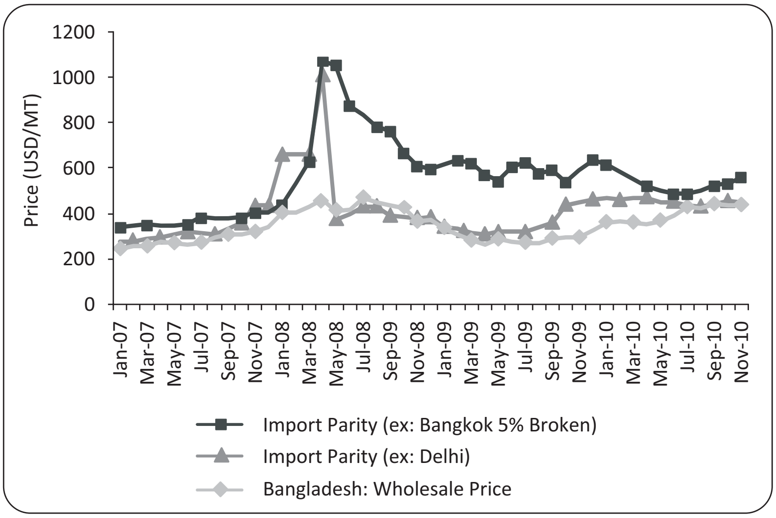
However, the present stock is still lower than the standard stock of 1.5 million MT to meet up the demand in the country. Whether the government will import from the international market, is not clear as yet. Given the volatility of foodgrain production and prices, the government will have to prepare itself well in advance to avoid any disruption in the domestic supply situation.

The present foodgrain stock is still lower than the standard stock of 1.5 million MT to meet up the demand in the country

A comparison of rice prices in Bangladesh, India and Thailand since January 2007 to November 2010 reveals that rice price in Bangladesh is generally lower than Thailand and also lower than India, with some exceptions. During mid-2007 and mid-2008, rice price in international market was exorbitantly high; prices though started to decline since October 2009 (Figure 4.12). In November 2010, average wholesale price of coarse rice in Bangladesh was USD 437 per MT which was 22 per cent (USD 559 per MT) and 3.6 per cent (USD 453 per MT) lower than the import parity price of Thailand and Delhi. It may be noted here that the gap

[50] 5.5 lakh MT of rice and 2 lakh MT of wheat.

Figure 4.12: Comparison of Domestic Rice Prices in Bangladesh, India and Thailand



Source: Department of Agricultural Marketing (DAM), Bangladesh; Thailand Rice Exporters Association; and Ministry of Consumer Affairs, Food and Public Distribution, Government of India.

between local and international prices of rice started to decline since May 2010 as a result of price hike in the local market.

It is thus clear that rice imported from the global market will have to be procured at higher prices. Domestic prices could go up further as inflationary trend is transmitted from the international market. The government may have to go back and review its decision of not procuring Aman rice from the domestic market.

Public Food Distribution Situation has Eased the Pressure on the Low-income Households

In the first few months of the current fiscal year, total distribution under the Public Food Distribution System (PFDS) has increased due to higher level of distribution under the priced channels, even though distribution under non-priced channels decreased sharply. During July-November of FY2010-11, the amount of foodgrains distributed under various PFDS channels was about 5.41 lakh MT against 4.97 lakh MT distributed during the comparable period of previous year. In other words, during the first five months of the current fiscal year total distribution under PFDS was 9 per cent higher than that of last year. Distribution through priced channel has observed a significant rise of 165 per cent due to government's intensive open market sale (OMS) and Fair Price drive.[51] In the current fiscal, the government has extended the OMS programme to upazila level at a price of Tk. 24 per kg of rice to enable the low-income group of people to address the hike in food prices.

Distribution through priced channel has observed a significant rise

However, the OMS initiative is facing a number of problems. It is often alleged that dealers are selling the rice in the black market since they could get a net profit of Tk. 5.5 per kg by doing so. The government is reportedly considering introduction of rationing for certain segments of people. It is pertinent to recall that the wide-ranging rationing may lead to widespread corruption and misappropriation. However, government may introduce a targeted rationing system for the particular areas such as *char* and *haor* areas, as well as for the industrial workers and low-paid government officials.

Monetary Measures are Less Effective in the Current Context

Bangladesh Bank has recently adopted a number of measures to mop up the excess liquidity

Though the Bangladesh Bank has been pursuing an accommodative monetary policy over the recent past, it has recently adopted a number of measures to mop up excess liquidity (see Section 4.2 for details). It is felt that a tighter monetary policy will not be effective in reducing inflationary pressure significantly, given the domestic and international supply situation of foodgrains. However, the emphasis on expansion of agricultural credit to increase production is a welcome step. It is worrisome though to note that the disbursement of agricultural credit has declined

[51]During July-November of FY2010-11, an amount of 31,000 MT rice has been sold under Fair Price programme. Moreover, 1.64 lakh MT rice has been distributed through OMS, which was only about 1,000 MT in the comparable months of previous year.

during the first five months of FY2010-11 (Appendix Table 4.4). It has increased by only 11.1 per cent though the benchmark growth figure was 25.8 per cent.

Success of Fiscal Measures will Depend on the Proper Implementation

The government has undertaken a number of fiscal measures in order to reduce the pressure of inflation on the poorer section of the population. Apart from reducing CD on commodities, in the budget of FY2010-11, an allocation of Tk. 4,000 crore has been proposed as subsidy to the agricultural sector. An allocation of Tk. 300 crore has been proposed to expand irrigation facilities in the southern part of Bangladesh by utilising surface water, mitigating water logging problems in the south-west region and widening the area of cultivable land, and facilitating multicrop production through draining out water in *haor* areas. Tk. 412 crore has been allocated as Agricultural Research Fund for encouraging agricultural research to enhance agricultural productivity through crop diversification. It is to be seen whether all these measures are going to have any stabilising impact on the market in the coming months.

Addressing the power and energy sector problems remained the most challenging task

4.3.3 Power and Energy

Addressing the power and energy sector problems remained the most challenging task confronting the present government since the time it assumed power in January 2009. At present, only 48.5 per cent of the total population in Bangladesh has access to electricity and per capita annual consumption rate is a mere 236 kilowatt hour (kWh), one of the lowest in the world. To mitigate the problem, the government has been taking a number of initiatives, on several fronts, with different degrees of success. Whilst some new generation schemes have come on stream, it is worrying that a number of the quick rental and rental plants commissioned as part of the new power plan could not go into production on time. In view of the poor progress of construction works involving some of the other plants which are scheduled to go into production in the first half of FY2010-11, emerging fiscal burden from delay in supply by them also needs to be taken into cognisance. Reducing the power subsidy through adoption of appropriate tariff policy, increasing the level of efficiency in the existing plants, ensuring smooth fuel supply and more intensive exploration of gas and coal resources, are some key policy issues which will deserve attention of the policymakers over the second half of the current fiscal year.

A number of quick rental and rental plants commissioned as part of the new power plan could not go into production on time

State of Electricity Generation

A total of 1,021 MW (mega watt) of electricity has been added to the national grid during the last two years of tenure of the present Awami League Government (Table 4.8). Out of this 1,021 MW new addition, four plants with the total capacity of 300 MW were signed after the present government came to power, and rest were signed during the tenure of the previous Caretaker Government (CTG).

A total of 1,021 MW of electricity has been added to the national grid during the last two years

The average supply of electricity since July 2010 was low, 4,008.56 MW[52] (Figure 4.13), against an estimated demand of 6,000 MW with, and 7,000 MW without, demand side management. Out of the reasons why the present average power generation remained lower since October 2010 than the first three months of FY2010-11, frequent retrofitting and overhauling activities involving a number of aged plants and shortage and diversion of gas to resume fertiliser production for Boro season, are the most important ones. It may be

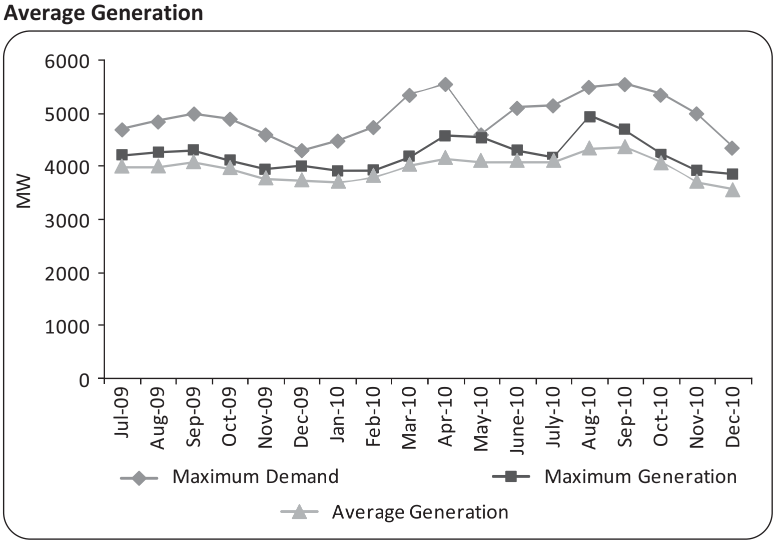
[52]Considering the average production for the period of 1 July 2010 to 31 December 2010.

Table 4.8: List of Power Plants Started Operation since January 2009

Srl.	Plant	Type and Company	Capacity (MW)	Contract Signed During	Date of Operation	Fuel Type
1	Habiganj	Small IPP	11	CTG	10 January 2009	Gas
2	Shajibazar	Rental (15-years)	86	CTG	09 February 2009	Gas
3	Feni	Small IPP	22	CTG	16 February 2009	Gas
4	Ullahpara	Small IPP	11	CTG	02 March 2009	Gas
5	Kumargaon	Rental (15-years)	10	CTG	15 March 2009	Gas
6	Mahipal, Feni	Small IPP	11	CTG	22 April 2009	Gas
7	Mouna, Gazipur	Small IPP	33	CTG	12 May 2009	Gas
8	Madhabkunda	Small IPP	22	CTG	23 May 2009	Gas
9	Rupganj, Narayanganj	Small IPP	33	CTG	09 June 2009	Gas
10	Jangalia, Comilla	Small IPP	33	CTG	25 June 2009	Gas
11	Bhola	Rental (3-years)	33	CTG	12 July 2009	Gas
12	Fenchuganj	Rental (15-years)	51	CTG	18 October 2009	Gas
13	Ashuganj	Rental (3-years)	55	CTG	07 April 2010	Gas
14	Shikalbaha	Rental (3-years)	55	CTG	06 May 2010	Furnace Oil
15	Thakurgaon	Rental (3-years)	50	AL	02 August 2010	HSD
16	Khulna	Quick Rental (3-years)	55	AL	10 August 2010	HSD
17	Ghorasal	Quick Rental (3-years)	145	AL	10 & 23 August 2010	HSD
18	Shikalbaha	Peaking Plant	150	CTG	08 September 2010	Gas
19	Shiddhirganj	Peaking Plant	105	CTG	15 October 2010	Gas
20	Pagla, Narayanganj	Quick Rental (3-years)	50	AL	24 November 2010	HSD
Total			**1021**			

Source: Bangladesh Power Development Board (BPDB).
Note: IPP: Independant Power Producer; AL: Present Awami League Government.

Figure 4.13: Gaps between Maximum Demand, Maximum Generation and Average Generation



Source: Bangladesh Power Development Board (BPDB).

noted here that about 600 MW of electricity generation capacity could not be used due to shortage in gas supply.

Quick Rental: How Quick?

Under the newly unveiled power plan[53], a total of 32 plants with 12,000 MW generation capacity by 2015 have been envisaged, out of which only 300 MW[54] is currently in operation and the rest are still in the generation phase. Under the plan, by April 2011 an additional 1,350 MW of electricity is to be added to the national grid from quick rental and rental plants. However, production schedule with regard to plants which were supposed to start their production by 2010 has been quite disappointing. Four plants (of 415 MW total capacities[55]) have already failed to start their production by December 2010, as was planned earlier.

In addition, overall work progress of a number of under construction plants is also not very encouraging.[56] The construction progress of 12 quick rental plants of

[53] *Towards Revamping Power and Energy Sector: A Road Map* unveiled in conjunction with the FY2010-11 national budget.
[54] Including 50 MW capacity quick rental plant at Pagla, Narayanganj.
[55] 110 MW Bheramara rental; 105 MW Jessore rental; and 100 MW Shiddhirganj quick rental plants.
[56] For many plants the progress is beyond satisfactory and will not be able to start their operation by due date if they continue their normal construction process.

1,035 MW capacity and three rental plants of 265 MW capacity, which are supposed to start production by April 2011, are all lagging behind schedule (Table 4.9). Out of these plants, one lags behind the construction schedule by a reachable distance (0-25 per cent work left, considering equal rate of work completion per month); four within moderately high distance (26-50 per cent); two significantly lagging behind (51-75 per cent); and two lag behind by a long distance (above 75 per cent).

Table 4.9: Progress of Quick Rental and Rental Plants Expected to Start Production within April 2011

Plant	Type and Company	Capacity (MW)	Contract Signed on	Date of Operation	Work Completed (%)	Work Supposed to be Completed by December 2010 (%)
Bheramara*	Rental	110	04/02/2010	November 2010	95.00	100.00
Noapara*	Rental	105	04/06/2010	November 2010	49.00	100.00
Shiddhirganj*	Q.R., Desh Energy	100	04/07/2010	November 2010	70.00	100.00
Meghnaghat*	Q.R., HPGL	100	28/06/2010	December 2010	35.00	100.00
Ghorasal	Q.R., Max Power	78	27/10/2010	February 2011	...	...
Barisal	Rental	50	15/02/2010	March 2011	6.00	68.75
Madanganj	Q.R., Summit Power	102	23/06/2010	March 2011	42.00	50.00
Meghnaghat	Q.R., IEL	100	30/06/2010	March 2011	38.00	53.33
Khulna	Q.R., KPCL	115	23/06/2010	March 2011	28.00	50.00
Keraniganj	Q.R., Power Pack	100	08/07/2010	March 2011	15.00	47.06
Amnora	Q.R., Sinha Power	50	15/07/2010	April 2011	23.00	41.67
Nowapara	Q.R., Khan Jahan Ali	40	25/07/2010	April 2011	20.00	40.56
Julda	Q.R., Acorn Infra SL	100	06/07/2010	April 2011	16.00	42.11
Shiddhirganj	Q.R., Dutch-Bangla P	100	01/07/2010	April 2011	25.00	47.22
Katakhali	Q.R., NPSL	50	27/07/2010	April 2011	30.00	37.00

Source: Bangladesh Power Development Board (BPDB).
Note: *Indicates the plants which have failed to start production in due time (till December 2010).

As is known, the government has already imposed a penalty of Tk. 57 crore on two rental power companies[57] for failure to meet contractual obligations on time. However, mere imposition of penalty cannot actually compensate for the actual economic loss and foregone opportunities.

Rationalisation of Power Tariff

An earlier CPD-IRBD exercise has attempted to estimate fiscal burden of the government arising from implementation of the new power plan, under various tariff scenario. These ranged between Tk. 2,500 crore to over Tk. 5,000 crore per annum.[58] For base case total fiscal burden between FY2010-11 to FY2014-15 is estimated to be Tk. 23,125 crore. For an increase of tariff rate by 5.75 per cent per annum, total fiscal burden will come down to the tune of Tk. 19,115 crore. For an increase of tariff rate by 12 per cent per year, the fiscal burden is estimated to be about Tk. 15,375 crore.

Increase of only the fuel cost for power generation is likely to push the per unit bulk rate to Tk. 3.62 in FY2010-11, Tk. 4.41 in FY2011-12, and Tk. 4.98 in FY2012-13

The bulk tariff rate charged by the government to power distribution companies was Tk. 2.37/kWh in June 2010. Ceteris paribus, increase of only the fuel cost for power generation is likely to push the per unit bulk rate to Tk. 3.62 in FY2010-11, Tk. 4.41 in FY2011-12, and Tk. 4.98 in FY2012-13. Compared to the present bulk tariff rate, in FY2012-13, the rate will need to be increased by about 110 per cent

[57] Tk. 51.7 crore on the Quantum Power Ltd. for failing to start 215 MW capacity plant at Bheramara, and Tk. 5.25 crore on Desh Energy for its 100 MW plant at Shiddhirganj.
[58] For details, see CPD (2010).

to cut the subsidy burden. To check huge loss by the power distribution companies, there is a need to raise retail tariff rate by an equivalent amount within FY2012-13. The proposal of BPDB is to increase the bulk tariff rate by 12 per cent every six months till 2014. Whilst from medium-term perspective power tariff will need to reflect market price, there ought to be some differentiation in the system to accommodate purchasing power concerns of the poor. Along with rationalisation of the tariff structure, it is also important to raise the efficacy of the tariff collection system. CPD believes that the proposal made by BPDB will minimise power subsidy significantly.

The proposal of BPDB is to increase the bulk tariff rate by 12 per cent every six months till 2014

Fuel Supply and Management Issue

At present about 89 per cent of power generation in Bangladesh is based on natural gas. However, such dependence on gas for power generation is likely to decline gradually in the face of increasing emphasis on diesel and furnace oil-fired quick rental and rental plants during FY2010-11 and FY2011-12. At present, daily demand for gas for power generation is estimated to be 463.9 billion cubic feet (bcf) for the year 2010 (including all dual-fuel plants and those which ceased operation due to technical faults and overhauling). Considering the average rate of gas consumption, it can be said that the government has made a conservative estimate of gas demand by different sectors in the country over the next five years in implementing the target of additional 11,500 MW of electricity production in the country within 2015 (Table 4.10).

Table 4.10: Conservative Estimates of Sector-wise Demand for Gas: FY2009-10 – FY2014-15

(bcf)

Sector	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14	FY2014-15
Power	278.2	300.5	324.5	50.5	378.5	415.8
Captive Power	120.9	142.6	164.0	188.6	216.9	238.6
Fertiliser	94.0	94.0	94.0	94.0	94.0	94.0
Industry	133.9	160.7	184.8	214.4	246.5	271.1
Household	88.9	99.5	111.4	124.8	139.8	153.8
CNG	37.2	44.7	51.4	56.5	113	124.3
Others	30.0	30.8	31.9	32.7	33.7	37.4
Total	783.1	872.8	962.0	1061.5	1222.4	1335.0

Source: MoF (2010f).

Given the increasing demand of gas in the country, the overall supply situation has remained quite disappointing. On an average 40 to 41 per cent[59] of the total gas produced in the country is supplied for power generation.

As the number of liquid fuel-based power plant is increasing, demands for diesel and furnace oil are increasing as well

As the number of liquid fuel-based power plant is increasing, demands for diesel and furnace oil are increasing as well. The demand for diesel for power generation was 15,525 MT in the month of November 2010, which is expected to shoot up to 21,658 MT in December 2010, and to 42,000 MT from July 2011. On the other hand, demand for furnace oil in December 2010 was found to be 9,454 MT, which is expected to increase to 88,495 MT from July 2011.[60] Given the huge demands for diesel and furnace oil for rental and quick rental plants, it is important to ensure smooth supply of fuel for uninterrupted operation of power plants.

[59]Currently (December 2010-January 2011), about 33 to 34 per cent of the total gas produced is supplied for power plants. Due to increasing demand by the fertiliser plants for the upcoming Boro season, the supply of gas for power has been reduced by about 12 to 13 per cent.

[60]Number of rental and quick rental power plants are expected to start their productions by 2011.

Railways and waterways are two key transportation systems for fuel supply. In view of the rising demand for fuel, overall transportation and storage capacity is lagging behind considerably in the present context. At least a total of 800 new wagons and 10 additional engines for railways will be needed in view of the emerging demand. Given the present poor fuel carrying capacity by Bangladesh Railways, it is critically important to increase its carrying capacity by raising the number of wagons, developing more railway tracks and increasing number of goods engines.

Overall transportation and storage capacity is lagging behind considerably

There is also a need to undertake dredging of river-beds to keep open the riverine transportation channels to increase the navigation capacity. It is to be noted that the government has already taken some important initiatives to facilitate smooth transport of diesel and furnace oil for RPPs.

Medium-term Issues

Transmission and Distribution System

The FY2010-11 budget envisaged a number of initiatives to improve the power transmission and distribution systems in the country. These include developing another 837 km of power grid lines and more than 15,000 km of distribution lines, as well as constructing 17 more sub-stations across seven divisions in the country. In view of the need for smooth supply of power at the consumer end, this is of crucial importance. Moreover, for the period beyond 2012, when the government's plan envisages surplus power generation, there is also a need to develop required storage capacity and develop KVA transmission lines in the country immediately in view of planned coal-fired plants.

The FY2010-11 budget envisaged a number of initiatives to improve the power transmission and distribution systems in the country

Import of Electricity from India

In order to import electricity from India, work on setting up of a grid sub-station at Bheramara and construction of 40 km long transmission line linking India's national power grid with Bangladesh, have already been initiated. If things go smoothly, by 2012 at least 250 MW of electricity can be imported from India. But just to develop the required infrastructure the cost is estimated to be a whopping Tk. 1,400 crore. Experts opine that a brand new power plant of 500 MW capacity could be installed by an investment of only Tk. 1,100 crore, a much cheaper option. On the other hand, talks have been initiated with Bhutan, Myanmar, Nepal and Tripura to arrive at similar agreements, but nothing concrete has come out yet.

Energy Sector

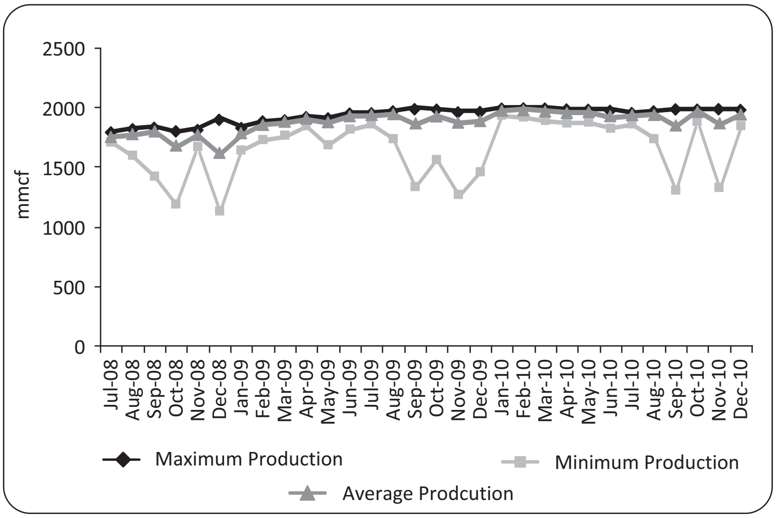
There is yet to be a significant turnaround as far as the energy sector is concerned. An attempt here has been made to evaluate the current state of gas and coal exploration and exploitation.

According to experts, building new power plants will be cheaper than importing electricity from India

Gas

Against the total reserve of 20.6 tcf in 23 fields, about 2,000 milliion cubic feet (mmcf) gas is at present extracted daily from 79 gas-wells, equal to 710 bcf of gas extraction per year. Till date, about 9 trillion cubic feet (tcf) of gas has already been extracted in Bangladesh. Current production capacity by the international oil companies (IOCs) is about 52 per cent of the total from 31 producing wells, including 600 mmcf by Chevron from Bibiyana field. Compared to a demand of

Figure 4.14: Monthly Gas Supply Situation since July 2008



Source: Petrobangla.

2,500 mmcf, the average gas supply situation has remained stagnant (below 2,000 mmcf) since July 2009[61] (Figure 4.14). The current gas shortage is about 500 mmcf, i.e. about 20 per cent shortfall in view of the daily demand. Moreover, the annual demand for gas is increasing by over 10 per cent in recent years (after 2008).

Petrobangla has taken some initiatives to improve gas supply situation by conducting 3D seismic surveys in Hatia and Magnama under Block No. 16. For other fields such as Titas, Fenchuganj and Rashidpur, it is envisaged that the estimates will be revised upward. For Rashidpur, a 3D seismic survey is now being conducted. The possibility of discovering more gas fields in the Netrokona-Sunamganj belt is very high. Besides, Bangladesh Petroleum Exploration & Production Company (BAPEX) has started drilling a well at Sundalpur after six long years; it is going to start another two exploratory well drilling at Srikail and Kapasia in 2011. It is also expected to undertake further operation to reassess the reserves in Titas, Fenchuganj and Rashidpur by next year. A reassessment on Bibiyana gas field has confirmed the reserve at 5 tcf (double the earlier estimate). Regrettably, not much has been done regarding bidding for the undisputed offshore blocks, excepting some preliminary discussions to sign production sharing contracts (PSCs) with Conoco Phillips and Tallow (Block No. 10, 11 and 5) that were carried out during the time of the immediate past CTG. Despite some discussions by the current government, there has not been any breakthrough in that regard. The Petrobangla expects to meet the ongoing demand-supply gap by the end of 2012 or early 2013. However, under the present scenario this appears to be highly challenging.

With regard to the coal issue, except finalisation of the Draft of Bangladesh Coal Policy 2010, significant initiative is yet to be seen

Coal

With regard to the coal issue, except finalisation of the Draft of Bangladesh Coal Policy 2010, significant initiative is yet to be seen. The possibility of generating power using indigenous coal reserves[62] has remained unrealised because of dearth of initiatives in this regard. On the other hand, four thermal power plants, two each at Anwara (Chittagong) and Rampal (Bagerhat), with a total of 2,600 MW generation capacity, in collaboration with the National Thermal Power Corporation (NTPC) of India, is expected to go into operation, using imported coal, by 2015. At present the country does not have the required infrastructural facilities for importing coal by sea, and this is true for others too. Developing such infrastructure will require huge resources. It will also be very expensive to transport coal from Northern Bangladesh to these sites if government decides to use local coal instead of imported coal in future. As the plants are expected to go into operation by 2015, it could be a wise decision to start at least one of the thermal plants somewhere in the North Bengal by using local coal. This could not

[61]Since 2009, additional 372 mmcf per day (mmcfd) gas production has been increased in the country, including about 240 mmcfd from Bibiyana. But the increase from July to December 2010 is mere 114 mmcfd.

[62]The country has a reserve of about 3 billion MT of coal, equivalent to 27 tcf of natural gas. It is estimated that this may be used to produce 10,000 MW of electricity over the next 50 years.

only save substantial foreign currency arising out of import of coal, but also create a base to start larger thermal power plant in near future using local coal resources.

Against this backdrop, there is a need to accelerate gas exploration both in the offshore and the remaining onshore blocks immediately. It is possible to increase extraction of gas by drilling additional development-wells in large sites such as Titas, Fenchuganj and Rashidpur. Besides rationalisation of gas price[63], there is also a need to increase gas transmission and compressor facilities across different important locations in the country. In this context, the proposed gas plan[64] needs to be finalised soon. On the other hand, coal extraction for power generation is of utmost importance at present. It is also advisable to increase coal extraction from Barapukuria to strengthen the generation capacity.[65] Also the government may give careful consideration to proposals made by such firms as Mitchell Group of Australia, to increase coal-fired power generation in the country. A medium-term strategy for the use of Bangladesh's coal resources has assumed critical importance as this is interlinked with the investments that will need to be made at present.

Medium-term strategy for the use of Bangladesh's coal resources has assumed critical importance

Proposals for Power Sector Development

a. Power tariff rationalisation will need to be undertaken periodically, taking into consideration the need for reducing the looming fiscal burden. Gas price rationalisation may also be considered to increase gas use efficiency.

b. Retrofitting the aged power plants demands serious policy attention to increase their level of efficiency. Introduction of smart grid for efficient power generation, transmission, distribution and end-use demands should also be given high priority in the policy agenda.

Power tariff rationalisation will need to be undertaken periodically, taking into consideration the need for reducing the looming fiscal burden

c. There is a need to start drilling more development-wells in the existing gas fields, on an urgent basis, to improve gas extraction situation. Besides BAPEX, contract signing multinational companies (MNCs) like Chevron, Tallow and Santos should be induced to increase their extraction by drilling more development-wells.

d. Further delay in offshore gas exploration will exacerbate the crisis situation in the long term. Government needs to finalise discussions with companies like Conoco Phillips and Tallow and go for further bidding for the remaining uncontested blocks.

e. Coal-based power generation using indigenous coal needs to be given highest priority. There is a need to increase power generation capacity of the Barapukuria thermal power plant besides ensuring its full generation capacity. Adoption of new technologies to produce clean coal-power by underground coal gasification using coal from the unmineable parts at Barapukuria or Jamalganj needs to be given careful consideration.

Coal-based power generation using indigenous coal needs to be given highest priority

f. Besides current practice of imposition of penalty in case of delay in power supply, the government may also consider additional penalty for the defaulting enterprises in case they fail to start delivery by more than three months and rewards for early providers. The government may also consider setting up a 'Citizen's Forum' with participation of civil society

[63]Rationalisation of gas pricing needs immediate policy attention. This should be adjusted upward soon.

[64]Under this plan the government is expecting to double the daily gas production by strengthening the capacity of BAPEX and increasing involvement of the private sector players, including the IOCs.

[65]At present the generation capacity at the Barapukuria thermal power plant is 220 MW against its maximum capacity of 250 MW.

representatives and power sector experts to monitor the implementation of planned activities.

4.3.4 Recent Trends in the Capital Market

Recent growth in capital market is indicative of inadequate investment opportunities in productive sectors, short-term speculative trading behaviour, weak oversight functions of regulatory bodies, and poor policy framework for the financial sector

The capital market in Bangladesh is increasingly coming under scrutiny as it is detracting from its core purpose, i.e. raising equity for industrial activities. It is maintained that recent growth in the capital market is difficult to relate to the growth of real economy, rather it is indicative of inadequate investment opportunities in productive sectors, short-term speculative trading behaviour underpinned by market irregularities and anomalies, weak oversight functions of regulatory bodies, and poor policy framework for the financial sector. From this perspective, four key issues may be highlighted in the context of the current state of affairs in the sector. These are: a) lack of investment opportunities in productive sector; b) poor governance in the capital market; c) market manipulation; and d) anomalies in the financial sector.

Since FY2005-06, stock market related indicators have registered significant rise[66]; these trends have continued in FY2010-11. Between July 2010 and December 2010, DSE (Dhaka Stock Exchange) General Price Index has registered a growth of 34.7 per cent; market capitalisation has increased by 29.5 per cent; and price-earnings (P/E) ratio has increased to 26.3. Overall market capitalisation at the end of December 2010 was as high as 51.5 per cent of GDP, which was 38.5 per cent of GDP even in June 2010 (Table 4.11). Market-related factors such as issuance of the highest number of IPOs in FY2009-10[67], entry of large number of small investors in the market with large volume of liquidity and revealed market anomalies in an inefficient market can only explain a part of this growth.[68]

Table 4.11: Major Indicators related to the Stock Market: FY2007-08 – FY2010-11 (November)

Indicator	FY2008	FY2009	FY2010	FY2011 (July - December)	Change in Per cent		
					FY2009 over FY2008	FY2010 over FY2009	FY2011 over FY2010 (July - December)
DSE General Index	3000.50	3010.26	6153.68	8290.41	0.33	104.42	89.24
Number of listed securities	378	443	450	445	17.20	1.58	7.23
Total number of companies	271	282	243	246	4.06	-13.83	4.24
Market capitalisation (billion USD)	14.07	19.02	38.51	49.86	35.18	102.47	86.11
Issued capital (million USD)	4149.71	6634.94	8755.02	9220.50	59.89	31.95	22.16
Turnover (million USD)	47.97	136.55	273.53	233.77	184.66	100.31	76.74
Market P/E	22.80	18.44	24.08	26.29	-19.12	30.59	2.50
GDP at current price (billion USD)	79.56	89.36	98.75	101.22	12.31	10.51	7.61
Market capitalisation as % of GDP	17.68	21.28	38.50	51.52	20.36	83.22	80.90
Number of IPOs	12	14	21	9	16.67	50.00	28.57
Oversubscription for IPOs (%)	-	94.00	93.60	-	-	-0.43	-
Growth of total investment (%)	14.31	13.40	12.23	-	-	-	-

Source: Based on information available in the websites of Dhaka Stock Exchange (DSE) and Ministry of Finance (MoF), Government of Bangladesh (GoB).

[66] Between FY2005-06 and FY2009-10, the DSE General Price Index has increased by about 200 per cent.

[67] During FY2009-10, a total of 21 IPOs were offloaded in the market.

[68] Anomalies in the capital market usually indicate the distortion in price and return of shares. Various kinds of market anomalies are observed in an inefficient market, such as fundamental anomalies (e.g. value investing), technical anomalies (e.g. moving averages, trading range break), calendar-based anomalies (e.g. year-end effect, turn-of-the-month effect, opening-day-of-the-week effect), and other anomalies (data mining, size effect, announcement-based effects and post-earnings announcement draft, insider trading, stock buy-back). These kinds of anomalies occur because of structural factors such as unfair competition, lack of transparency and regulatory actions, etc., and behavioural biases by economic agents (Schwert 2003).

Lack of Investment Opportunities in the Productive Sector

Lack of Investment Opportunities and Presence of Excess Liquidity

Growth of investment in the productive sectors experienced a slowdown during the recent years mainly because of the adverse impact of global recession, and crisis of energy and power. A large number of export-oriented and other industries are struggling to secure their return on investment. Private investment during FY2009-10 was Tk. 136,280 crore (i.e. 19.7 per cent of GDP), with the lowest level of growth over the last five years (12.7 per cent). As a result, a large volume of investible surplus was available in the banking sector (Tk. 28,849 crore at the end of October 2010). Banks had been offering modest rate of interest (7-10 per cent) on various savings instruments such as time deposit, Wage Earners' Bond and NSDs, which in the face of growing inflation meant that in real terms yields on these instruments was significantly low.[69] Small savers, who are the main investors in these savings instruments, were further discouraged because of reduction of deposit rates of NSD certificates and interest rate of Wage Earners' Bonds, as well as imposition of tax at source on interest income and cancellation of automatic reinvestment of Wage Earners' Bonds. Net investment in NSD certificates has declined by 49 per cent during July-September 2010, while it was as high as 270 per cent for the comparable period of the previous year.[70] Consequently small savers were prompted to look for alternate investment opportunities, more specifically in the capital market.

Growth of investment in the productive sectors experienced a slowdown during the recent years mainly because of the adverse impact of global recession, and crisis of energy and power

Investment in the capital market, particularly short-term trading in small size securities is found to be profitable compared to that of long-term investment in the stock market as well as investment in various savings certificates including the NSD certificates. This is evidenced by empirical data. According to Table 4.12, investors received relatively higher rates of return for long-term investment in the capital market. More than 80 per cent companies holding Annual General Meeting (AGM) in recent years have offered a return which was higher than that on savings certificates. Besides, 22 per cent of the companies holding AGM, offered right shares during FY2009-10. However, in some instances companies could not hold AGMs in due time, and did not offer return to their investors, which indicate risks associated with long-term investment.

Table 4.12: Return to Investment in the Capital Market for Over One Year

Type of Benefit	FY2007-08		FY2008-09		FY2009-10	
	No. of Companies	Cumulative Share (%)	No. of Companies	Cumulative Share (%)	No. of Companies	Cumulative Share (%)
Right share		0	3	1	25	22
50% and above	23	12	30	14	20	41
40%-49%	5	15	12	20	2	43
30%-39%	34	34	40	37	9	51
20%-29%	36	55	38	54	18	67
10%-19%	56	86	80	90	21	87
1%-9%	14	94	11	95	7	93
No dividend	10	100	11	100	7	100
Total companies held AGM	178		225		109	
Total number of listed companies	271		282		243	

Source: CPD estimates (2010).

Short-term return on trading appears to be much higher as is revealed from the estimation of capital gains of DSE 20 and z-category shares (Table 4.13). Although the return on a number of shares was negative which indicates the related risks associated with short-term trading of shares, on average return to blue chips and

[69] According to the data of October 2010, general inflation rate was 6.9 per cent.

[70] Investment in Family Savings Certificate, a newly introduced savings instrument, has registered growth during July-September 2010. One of the reasons for investment in this instrument is the opportunity of tax-free income.

Table 4.13: Potential Capital Gains on Different Categories of Shares

Category	FY2007-08			FY2008-09			FY2009-10		
	Highest	Average	Lowest	Highest	Average	Lowest	Highest	Average	Lowest
DSE 20	345.98	93.58	-21.51	99.39	11.78	-31.85	184.32	48.73	-25.85
Z-category	371.43	100.30	-6.82	330.77	78.68	-34.87	2198.73	341.10	-29.93

Source: CPD estimates.
Note: Potential capital gain of DSE 20 and shares of z-category is the difference between share prices of the first day and closing day of trading in the fiscal year.

z-category shares was considerably high. This may be true for other categories of shares. Low risk with high return in case of short-term trading has acted as a 'pull factor,' and has encouraged investors (mostly small investors) to divert funds from other sources to the stock market.

Huge Inflow of New Investors in the Stock Market Eager to Participate in the 'Keynesian Beauty Contest'

A large part of the investors have little knowledge about the market and participate in trading as if they are participating in a 'Keynesian Beauty Contest'

In recent years, there is an unexpected rise in the number of investors in the stock market. Total number of Beneficiary Owner (BO) account holders till 20 December 2010 was 3.21 million.[71] This number increased by 154 per cent between January to December 2010.[72] A large part of these investors have little knowledge about the market and participate in trading as if they are participating in a 'Keynesian Beauty Contest.'

A number of factors have facilitated the influx of investors to the stock market, such as opening of brokerage houses in various districts (590 branch offices of 238 brokerage houses of DSE are currently being operated in 32 districts)[73], organisation of 'share mela' in different districts, and introduction of internet-based trading operation. Also market-related information are now easily accessible through electronic and print media as well as internet. According to a number of studies (Tetlock 2007; Tumarkin and Whitelaw 2001[74]), a large number of investors are now participating in short-term trading. Besides, prediction about future flow of funds to the stock market is encouraging investors to participate more in the short-term trading.

Poor Governance of the Capital Market

Weak Performance of the Regulatory Authority

The capacity of the Securities and Exchange Commission (SEC) appears to be inadequate

The capacity of the Securities and Exchange Commission (SEC) appears to be inadequate in ensuring market regulation of the type that is required in view of the current scale and scope of the country's stock market. Various market regulating instruments[75] used by the SEC often appears to lack both appropriateness and effectiveness from the perspective of providing the required stewardship in the market.

[71] About 99.7 per cent are individual account holders and the rest are companies. The participation of NRBs was 4 per cent of the total BO account holders.
[72] Number of account holders in December 2009 was 12,59,320.
[73] 215 branch offices of 148 brokerage houses are currently being operated in the Chittagong Stock Exchange (CSE).
[74] See, http://pages.stern.nyu.edu/~rwhitela/papers/internet%20faj01.pdf;
http://citeseerx.ist.psu.edu/viewdoc/summary?doi=10.1.1.115.3757;
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=685145;
[75] These include changes in margin loan ratio, application of lock-in period, use of circuit breaker, taking punitive measures against illegal operations of market players, and in extreme cases, delisting the companies from the stock market.

There are several reasons for this observation. First, frequent changes in the rules by the SEC concerning margin loans have led to volatility during the 'buffer period.' This has also raised confusion with regard to the method of calculation of the margin. Second, application of lock-in period in case of sale of placement shares is not being properly maintained; rather in a number of incidences, the rule has been relaxed. Third, floating of right shares is increasingly becoming a way of mopping up money from the market.[76] A total of Tk. 2,014.5 crore was raised by 16 companies by way of issuance of right shares between July 2010 and second week of December 2010.[77] Fourth, lack of expertise in the area of competent examination of audited reports of listed companies, submitted in support of revaluation of assets, is a major operational weakness of the SEC. A number of companies have used the method of revaluation of assets with a view to raising the share prices, and thereby to collect additional funds from the market. Fifth, SEC has taken an inordinately long time to implement the guidelines set by the International Organization of Securities Commissions (IOSCO); because of the delay to apply these guidelines share prices of a number of listed companies have experienced unusual volatility.[78] Sixth, because of weak monitoring and surveillance system, the SEC is not suitably equipped to take actions against the incidence of possible insider trading in the market. Seventh, although price-sensitive information is supposed to be made public through daily trading operations, often such information is leaked out earlier or rumours are purposefully spread to influence the market behaviour.

Frequent changes in the rules by the SEC concerning margin loans have led to volatility during the 'buffer period'

Weak Institutional Capacity

SEC at present has to work with limited office staff, with lawyers who in many instances lack the required competences; SEC also has to work without chartered accountants.[79] With its limited human resource capacity SEC is able to monitor only two brokerage houses in a month. Moreover, SEC has no surveillance software of its own; rather it uses the softwares of DSE and CSE to monitor the market. Proper surveillance of transactions often becomes difficult because SEC has to depend on the support of others.[80] SEC is yet to initiate the project titled *Improvement of Capital Market* which includes a component of support to purchase a high-powered computer software for monitoring and surveillance operation.[81]

SEC is yet to initiate the project titled Improvement of Capital Market which includes support to purchase a high-powered computer software for monitoring and surveillance operation

The nature of relationship maintained by the SEC with the MoF[82] is not helpful for the market (e.g. face value harmonisation issue).[83] The Parliamentary Standing

[76]One of the reasons for floating of right shares by the companies was the compulsion to comply with the requirement of minimum paid-up capital as per the rules of BASEL II and the Insurance Act.

[77]During FY2009-10, only two companies raised capital through offering of right shares which was to the tune of Tk. 716.22 crore.

[78]Without taking the approval of SEC from 1 July 2010, the DSE has started to compute share price index of 24 newly listed companies by taking consideration of free floated shares, although market capitalisation of all shares should have been taken into account.

[79]There are 134 staff members in the SEC of which only 47 are officers. Four persons are currently working in the law department of the SEC to support the lawyers on different legal issues.

[80]The automated trading was initiated on 10 August 1998, while DSE 20 Index was introduced on 1 January 2001. The Central Depository System was initiated on 24 January 2004.

[81]Asian Development Bank (ADB) has allocated USD 3 million for this project. The main objective of this project is to improve technical, operational and management capability of the stock and insurance markets. The project includes, among others, purchase of high-powered computer software for monitoring and surveillance operation in the market (which costs USD 0.3 million). The project was supposed to be started in 2007, and to be ended in 2011.

[82]SEC is a statutory body and is attached to the MoF.

[83]A consultative committee of SEC proposed to harmonise the face value of all listed securities at Tk. 10. However, the proposal was in limbo because of no guideline for few months from the Standing Committee of the MoF. The proposal was revised several times, and it was finally decided that all new companies will offload their shares at Tk. 10, while the existing listed companies may fix the face value at Tk. 10 upon receiving the approval of the Board of Directors of the company.

Committee for the MoF in certain cases has taken an 'adversarial position,' thus creating unwarranted pressure in the operation of the SEC and the capital market.

The operation modalities of the DSE and CSE, on the other hand, are being questioned on many accounts. First, the software used in case of daily trading in DSE is alleged to be 'faulty' as all the trading baskets cannot open at a time, and it requires some time to get access to all the baskets after the trading starts at 11 am. To adjust such delays, CSE has introduced the so-called 'pre-hour transactions.' Second, there is a possibility of interruption of daily trading at DSE even if a few branches of brokerage houses do not operate properly due to technical problem. Third, often directives of the SEC related to trading are found to be difficult to implement because of lack of updated softwares in the DSE.[84] While DSE needs to invest more on improvement of its trading softwares, it has come under criticism for its investment in land purchase, for establishing a resort, raising questions about its allocative priorities. Fourth, there is a clear conflict of interest between DSE management board and brokerage houses as owners of different brokerage houses are also the members of DSE management board.

A number of irregular practices have been reported in various national dailies which indicate market manipulation by a number of bull cartels

Market Manipulation

A number of irregular practices have been reported in various national dailies which indicate market manipulation by a number of bull cartels.[85] It is alleged that these bull cartels comprise of only a limited number of people including some members of DSE/CSE, officials of SEC, political leaders, big businessmen, officials of financial institutions, and owners of brokerage houses. Various incidences have been reported in the newspapers as regards manipulating practices such as operation of curb market in case of offering placement shares of IPOs, lifting of lock-in period in favour of selected companies, speculative trading of 'z' category shares to artificially raise share prices, use of book building system through syndicated practices (Box 4.6), fake transactions through brokerage houses, and access to price sensitive information prior to public announcement.[86] Because of weak surveillance and monitoring system, SEC is usually unable to prevent such illegal practices.

Box 4.6: Book Building System:
Who is Getting the Benefit of the System?

Introduction of book building system in the recent past has regrettably, in some cases, turned out to be a tool for manipulating market prices. Instead of ensuring competition among big investors during the 'price discovery' stage, it is alleged that the system has been used by market syndicates for placement of shares at an artificially high price. This artificial price is maintained for a certain period (usually till the lifting of the lock-in period, i.e. 15 trading days) following which investors tend to offload their shares at a higher price. There are only three instances where book building system was practiced, of which two companies were directly listed in the market.

On one occasion, those who hold the private placements were able to siphon off a considerable amount of money by selling shares at a high price within the span of one month after offloading of the shares. As a result, share price of the company fell

(Box 4.6 contd.)

[84] Software used by the members is not updated.

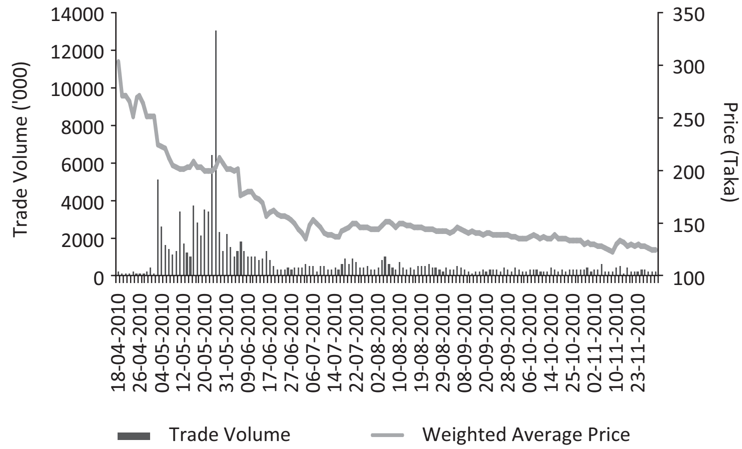
[85] According to newspaper reports the number of bull cartel operated in the stock market is more than 10. These kinds of bull cartels were operational in 1996 as well and played a major role to crash the market.

[86] There are rumours that these bull cartels with the support of share departments of the respective companies have access to undisclosed and secret information of the company such as information on buying and selling of shares by a large quantity.

(Box 4.6 contd.)

by 33 per cent within one month and by 50 per cent in next two months, and did not rise thereafter (Figure 4.15). Capital flight during the first 15 days of the transaction of shares of this company is estimated to be at least Tk. 83.7 crore. Similarly, in case of yet another company, only in the first two days of trading flight of capital has been estimated to be to the tune of Tk. 64.8 crore. However, this was not the case for a third company which was not directly listed, and indicative price of this share did not experience much volatility. However, the SEC was unable to take appropriate measures to address this kind of abnormal market behaviour, and those who were involved with such abusive practices were not met with sanctions.[87]

Figure 4.15: Daily Share Price of Company X Following Book Building System



Source: Based on Dhaka Stock Exchange (DSE).

Recently SEC has revised several aspects of the book building system such as putting a bar against mentioning the expected future earnings in company's prospectus, making it mandatory for bidders to participate in the roadshow organised by the issuer company, and shortening the period of processing the book building for new companies. Implications of the revised system of book building will need to be closely studied and appropriate lessons will need to be drawn.

Anomalies in the Financial System

Certain anomalous provisions of the financial system of the country concerning the capital market are adversely affecting the development of the capital market. First, although commercial banks are not allowed to invest more than 10 per cent of their deposits in the stock market[88], a total of 12 commercial banks have been identified by the Bangladesh Bank which have violated this rule. Though the central bank has instructed these banks to adjust their investment within the stipulated time of November 2010, things have not changed much. Second, funds disbursed to industrial enterprises in the form of term loan, working capital and overdraft against workers' salary, is reported to have been diverted to the capital market. The central bank has instructed commercial banks to adjust such loan portfolios (particularly loans worth more than Tk. 1 crore) by 15 February 2011. Third, unsubstantiated gossips and rumour with regard to enforcement of the *Insurance Act 2010* and the *Insurance Regulatory Authority Act 2010* have fuelled prices of shares of some of the listed insurance companies. Fourth, while merchant banks are supposed to be issue-managers, at least for one IPO in a year, a number of these banks were unable to comply with this target.[89] This would indicate that the number of merchant banks in operation is large compared to what the market could sustain.[90] Where the operation of the merchant banks should have been confined to portfolio management, often these banks are alleged to act as 'brokerage houses.'

Where the operation of the merchant banks should have been confined to portfolio management, often these banks are alleged to act as 'brokerage houses'

[87]Although SEC identified a number of incidences of illegal practices and also penalised some of the concerned persons (e.g. through deduction of penalty amount from the BO account of the persons concerned), these measures are yet to be enforced because of lack of authority to do so.

[88]According to Bank Company Act 26(2).

[89]During FY2009-10, 21 IPOs were issued which is the highest number of IPOs floated in a year, and the number of offloading of shares in July-November FY2010-11 was nine.

[90]A total of 35 merchant banks are currently operating in the market.

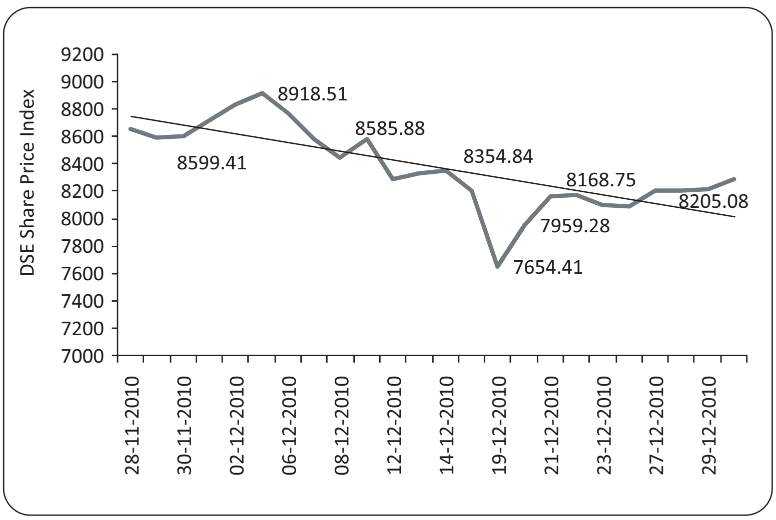
Lack of coordination among various financial markets including debt market, equity market and bond market is considered to be a major weakness for sustainable growth of the capital market. Decisions (or indecisions) of different market regulatory bodies taken at various points of time, have often contributed towards significant volatility in the market. For example, possible diversion of industrial credit to the capital market was anticipated by the Bangladesh Bank in its MPS for July-December 2010, but the required surveillance came only at a much later stage. Further, the margin rule instrument available to the SEC appears to have been applied without proper assessment of the overall money supply and demand situation prevailing in different sectors. Moreover, notwithstanding their mandated responsibilities, most market agents, such as brokerage houses, merchant banks, investment banks, institutional investors, members of DSE, are involved in short-term 'trading.' Overall, lack of proper coordination between two leading regulatory bodies of the financial sector, namely the Bangladesh Bank and the SEC is said to have contributed to the current volatile behaviour that is observed in the country's capital market.

Lack of coordination among various financial markets is considered to be a major weakness for sustainable growth of the capital market

Prospect of Smooth Landing of the Market?

In the backdrop of much apprehension about severe market correction, the capital market has experienced some hiccups in December 2010.[91] In this connection, on 19 December 2010, DSE witnessed the highest fall in a day in the history of stock market (6.7 per cent fall of total share price index in a day). It is to be noted that within 15 days (6-19 December 2010) share price index dipped by 1264 points (-16.1 per cent) incurring an estimated loss of capital of about Tk. 41,984 crore (Figure 4.16). Whilst a number of actions (and inactions) of the SEC is alleged to have contributed to this situation, mopping up of liquidity by the financial institutions in view of instructions of the Bangladesh Bank may have played a major role in this downward spiral in the share price index.[92] SEC has taken a number of urgent measures, such as refixing margin loan ratio, withdrawal of the requirement of extra deposit of the brokerage houses, bringing back the shares of Grameenphone and Marico to normal trading floor from spot market, and extending the timeline for reporting of loans of the commercial banks (as per instruction of Bangladesh Bank), which has temporarily smoothened the volatility in market prices.

Figure 4.16: Fall of DSE Share Price Index between November 2010 and December 2010



Source: Based on Dhaka Stock Exchange (DSE).

It is widely accepted that the current behaviour of the capital market is totally at variance with market fundamentals. The critical question is whether the stock market will ultimately experience a crash à la November 1996 or is it going to adjust smoothly? In 1996, within five months the share price index rocketed from 959 (June 1996) to 3064.9 (November 1996) recording a rise of as high as 219 per cent, but within the next few months it reverted back to the earlier position (957.4 in April 1997, or (-) 68.8 per cent) (Appendix Figure 4.4). The 1996 is

[91]On 6 December 2010, about 147 points; 7 December 186 points; 8 December 134 points; 15 December 149 points; and on 19 December 551 points.

[92]From 15 December 2010, Bangladesh Bank has increased CRR to 6 per cent from 5.5 per cent, and SLR to 19 per cent from 18.5 per cent.

stated to be a 'generated market' with a few players ('bull cartel') who had inside information about the market. Initially the market was interpreted as 'buoyant and robust,' but soon went bust causing huge losses to small investors.[93]

Optimists would like to stress that 2010 differs significantly from 1996 because of a number of distinctive features.[94] However, developments in the 'hardware' of the stock market should have been accompanied by effective 'software' instruments. An absence of those instruments has tended to encourage investors to invest more in the short-term trading segment of the market. In the absence of effective 'software' instruments market may experience some claming down for a short time, through various reactive initiatives and interventions; however, it will be very difficult to sustain the current 'buoyancy' in long-term. The 'boom' market may go 'bust' unless appropriate measures and initiatives are not taken immediately. In the following paragraphs, some of those measures are highlighted.

The 'boom' market may go 'bust' unless appropriate measures and initiatives are not taken immediately

Policy Suggestions

The overall analysis of this section reveals that challenges confronted by the stock market involve not merely lack of good stocks, but rather it is related to a number of problems associated with bad governance and manipulation in the market itself and anomalies in the financial sector. Following measures can be considered to address the attendant market anomalies and irregularities in the stock market.

Operational Measures

Imposition of capital gains tax may be extended to private investors to discourage short-term trading in the stock market

a) *Discourage short-term trading in the stock market:* Imposition of capital gains tax (CGT) on short-term trading which is currently applicable on institutional investors, may be extended to private investors to be applicable for short-term trading.[95] CGT on short-term trading by private investors can be a good source for revenue generation. Advanced trading software needs to be installed both at SEC as well as at brokerage houses, to estimate capital gain for each transaction and the related revenue to be paid to the NBR.

b) *Strengthen surveillance mechanism of the SEC:* Current strength of SEC needs to be increased to monitor the various brokerage houses to ensure that transactions in the stock market are made in accordance with the relevant rules. SEC should strengthen its legal advisory support system as well as financial auditing and monitoring capacities by appointing experienced and well-reputed professionals for these purposes.

c) *Appropriate measures for effective operation of the market:* SEC may consider a number of measures in order to improve the operational efficiency of the market. These include extension of lock-in period for trading of placement shares, particularly for institutional placements, especially under the book building system; appropriate scrutiny of audited reports submitted by the listed companies in order to ensure their quality and authenticity.

d) *Enforce disciplinary measures against improper/illegal activities:* SEC should take disciplinary measures against various kinds of illegal activities, such as punishment for spreading rumours and short buy/sale; halting transaction of

SEC should strengthen its legal advisory support system as well as financial auditing and monitoring capacities

[93]The bust of 1996 stock market was termed as "slaughter of the innocent" (The Economist 1996).

[94]These distinguishing factors included introduction of automated trading system, introduction of central depository system, and abolition of paper trading which was afflicted with forged and fake shares, abolition of curb market, operations of BO accounts to identify investors, and opening of brokerage houses in and out of Dhaka.

[95]At present CGT is imposed on companies (10 per cent), sponsor shareholders or directors (5 per cent), and premium value shares of companies (3 per cent).

shares showing abnormal rise/fall in the prices, and penalising brokerage houses or cancellation of their licenses if settlement of accounts is not carried out in an appropriate manner.

e) *Strengthen educational programmes for new investors:* SEC should undertake more educational programmes through its newly established Capital Market Institute for new investors to educate them on market fundamentals, market players and their role, anomalies and irregular practices in the market and their impact on share prices, legal measures at the disposal of SEC and law enforcing authorities when rules of game are violated or tampered with.

DSE should take appropriate measures for demutualisation in the market through enforcement of appropriate regulations

Management-related Measures

a) *Strengthen the SEC Management:* The SEC should be staffed by a group of people who are conversant with the nitti-gritties of the market, are highly competent, and are of good reputation with wide public exposure. They should be honest and be able to take stern actions against misdeeds, wrong-doings and illegal practices. The high profile of the management body of the Securities and Exchange Board of India (SEBI) in India should act as an example for Bangladesh if any such restructuring of the management of the SEC is contemplated.

b) *Demutualisation:* DSE should take appropriate measures for demutualisation in the market through enforcement of appropriate regulations by putting in place restrictions so that owners of brokerage houses cannot become members of DSE management board.

Government should offload shares of SoEs without delay

Policy-related Measures

a) *Government's decision to offload shares in the market:* The progress with regard to offloading of shares of SoEs has been rather scant, although on a number of occasions government had announced (latest in November 2010) offloading of those shares, particularly of eight SoEs. Government should offload those shares without delay.

b) *Increase spread of corporate tax rates between listed and non-listed companies:* The existing spread of corporate tax rates between listed and non-listed companies (10 per cent) may be further widened from its existing level (27.5 per cent) by further reducing tax rates to encourage new enlistment in the market.

4.3.5 Overseas Employment and Remittances

Deceleration in overseas migration owes to both demand-side developments in importing countries and the supply-side constraints arising from the structural weaknesses which characterise Bangladesh's migrant workforce

Both in terms of the number of workers going abroad and the remittance flow, the first half of FY2010-11 has posed formidable challenges for Bangladesh. Number of migrant workers has decreased by almost half compared to average figure for comparable periods of FY2006-07 and FY2007-08, and for the first time growth of remittance has entered into negative terrain. Both of these performance indicators are likely to have adverse impact on Bangladesh's labour market and BOP situation.

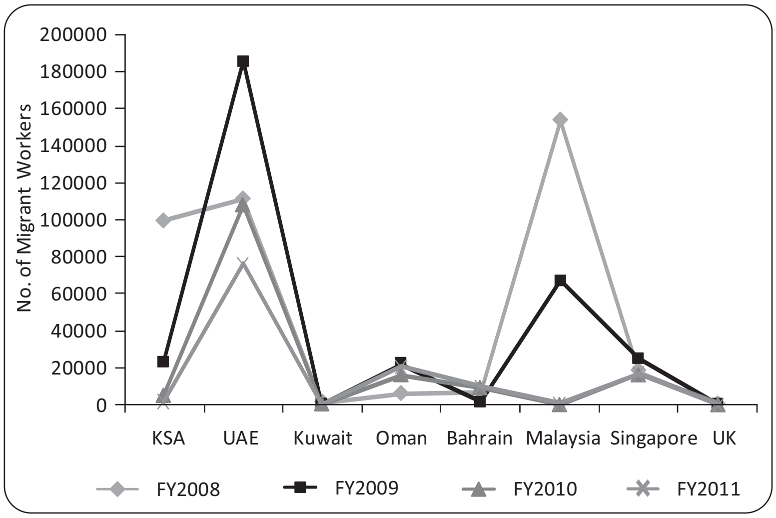
Deceleration in Overseas Migration

During the first five months of FY2010-11 (July to November), overseas migration fell by about (-) 24 per cent compared to the corresponding period of the previous fiscal year. This disturbing development owes to both demand-side developments in importing countries and the supply-side constraints arising from the structural weaknesses which characterise Bangladesh's migrant workforce.

Changing Economic Scenario in the Post-crisis Period

In the backdrop of the post-crisis macroeconomic scenario, particularly the slowdown in economic activities in the construction sectors, traditional manpower destinations of Bangladesh have hosted lower number of migrant workers in the recent past. Although by now recovery has set in motion in most of these countries, the lagged response of the crisis is reflecting on the number of workers demanded in various sectors of the economy in these host countries. This is corroborated by the fact that overseas migration from Bangladesh to Kingdom of Saudi Arabia (KSA) and the UAE, two of her key manpower export destinations, fell by (-) 51.7 per cent and (-) 10.3 per cent respectively during the July-November period of the current fiscal compared to the corresponding period of FY2009-10 (Figure 4.17). Similar trend is also found for several other markets where Bangladesh has been a major supplier of migrant labour force in the past.

Figure 4.17: Overseas Migration from Bangladesh to Major Manpower Importing Countries (July-November)



Source: Bureau of Manpower Employment and Training (BMET).

Increased market share of non-Middle Eastern countries in recent times is indicative of some market diversification away from the Middle Eastern countries; however, share of these countries is relatively low, also because these tend to demand more skilled manpower. In spite of some improvements in the skill composition of migrant labour force in recent times, the share of 'less' and 'unskilled' category continues to dominate Bangladesh's migrant workforce (more than 74 per cent of total overseas migrants from Bangladesh during July-October, 2010 belonged to the 'less-skilled' category). This has handicapped Bangladesh's capacity to access the newly emerging opportunities in the post-crisis global labour market.

Stringent Regulatory Measures in the Host Countries

Bangladesh's problems have been compounded by the moratorium on issuing of new work permits (*akamas*) and their renewal by the Saudi Government. Although they had earlier indicated that they would allow transfer of *akama* for Bangladeshi workers, which would enable them to switch to new employers after expiry of the initial job contract, till now no progress has been made on this front. Discussion with various stakeholder groups[96] indicates that due to the current policy, Saudi employers are unwilling to issue work visas to Bangladeshi citizens. This has undermined employability, and led to illegal status of workers in many instances. As a consequence, remittance flow from Saudi Arabia has been adversely affected.

In the backdrop of the post-crisis scenario, particularly in the construction sector, traditional manpower destinations of Bangladesh have hosted lower number of migrant workers in the recent past

Illegal Stay of Bangladeshi Workers Abroad

As was noted above, because of *akama*-related complexities, a large number of Bangladeshi workers have lost their legal status in Saudi Arab. Similar has also

[96]This included manpower exporters, returned migrants, and officials from BMET and the Welfare Association for the Rights of Bangladeshi Emigrants (WARBE).

been the case in Malaysia. This had two negative impacts: as was found from discussion with returned migrants from Malaysia, many such workers are discouraged to leave Malaysia and return, since they are apprehensive that once they leave Malaysia they will not be able to go back.[97] Recent reports suggest that more than 0.4 million Bangladeshis are now residing illegally in Malaysia. Secondly, the emergent situation has induced the Malaysian Government to put embargo on recruitment of workers from Bangladesh.

A worker from Bangladesh has to incur more than twice or thrice the cost borne by a worker from India, Pakistan or Nepal to go overseas

High Cost of Migration

Cost of overseas migration has traditionally been higher in Bangladesh compared to neighbouring countries. Many of the players involved, including recruiting agents, have connived to exploit the workers. This has led to this higher migration cost in Bangladesh. It has been found that in most cases a worker from Bangladesh has to incur more than twice or thrice the cost borne by a worker from India, Pakistan or Nepal to go overseas. For instance, although the government has fixed payment for workers going to Malaysia at a maximum of Tk. 84,000/worker (as of 2009), interviews with returned workers reveal that they had to spend on average about Tk. 2 lakh. Besides, discussion with a group of South Africa-bound Bangladeshi migrant workers revealed that, the workers were contracted to pay Tk. 6 lakh each if they were successful to finally enter South Africa.[98]

Three banks are currently offering specialised loan facilities to the migrant workers; however only 97 aspirant workers had so far received loans from these banks in 2010

As is known, three banks are currently offering specialised loan facilities to the migrant workers. A study on migrant workers conducted by the Refugee and Migratory Movements Research Unit (RMMRU) indicates that, only 97 aspirant workers had so far received loans from these banks in 2010. The study also pointed out that high interest rate and lack of efforts on the part of the banks' officials at the field level tends to discourage potential migrant workers from taking loans from the offering banks.

Changing Preferences of Major Labour Importing Countries

The problem from the supply-side has been compounded by the policies of some of the host countries. KSA and Malaysia are two relevant examples. The GoB has been trying to address the situation through high-level official visits and discussion at various levels. Tangible results of these efforts are yet to be seen.

Some of the key manpower importing countries appear to have shifted their focus from traditional manpower exporting countries to prospective new ones

Some of the key manpower importing countries appear to have shifted their focus from traditional manpower exporting countries to prospective new ones. According to a number of returned migrants and recruiting agents, Saudi Arab and Malaysia now prefer workers from Nepal. It may be mentioned here that Nepal alone has sent about 18,019 workers to Saudi Arab and more than 42,454 to Malaysia during July-October period of FY2010-11.[99] To compare, Bangladesh's manpower export to these two countries during the same period was 1,742 and 434 respectively. There is a need for more persistent diplomatic efforts to change the situation. It may be recalled here that recently the Malaysian government has offered to recruit a sizeable number of Bangladeshi workers on government-to-government basis. Bangladesh should try to take advantage of this opportunity by ensuring that the rules and regulations stipulated by the host country are strictly adhered to.

[97] Since they had already spent significant amount of money to go to Malaysia, this reluctance is well-understood.
[98] Findings from the Expert Group Meeting at CPD held on 23 December 2010.
[99] Department of Foreign Employment, Government of Nepal.

Unscrupulous Practices by Recruiting Agents

Besides charging abnormally high processing fees, a number of recruiting agents in Bangladesh are reported to provide false information to aspirant migrant workers regarding job contract, wages, tenure, fringe benefits, etc. This, on many occasions, results in illegal stay of workers in the host countries as they leave the initially contracted job due to disagreement over wages and benefits. Furthermore, some of the returned migrants have also informed that a number of recruiting agents offer job contracts in overseas companies which do not have appropriate vacancies. As a consequence, these migrants get engaged in jobs offered by other companies, a practice which is considered to be illegal by the host countries.

The anecdotal information also suggests that some recruiting agents from a number of other labour exporting countries (including Nepal) are engaged in sending Bangladeshi workers to the Middle East and other destinations, with fake passports, by introducing them as citizens of their own country. This does not seem unreal in view of the fact that Bangladesh has an abundant supply of workers willing to go overseas, and countries such as Nepal are short of workers when compared to the large number of offered job opportunities. Such practice also increases migration cost as the aspirant migrants have to go through indirect routes to reach the destination countries.

Some recruiting agents from a number of other labour exporting countries are engaged in sending Bangladeshi workers to the Middle East and other destinations with fake passports

Falling Remittance Flow

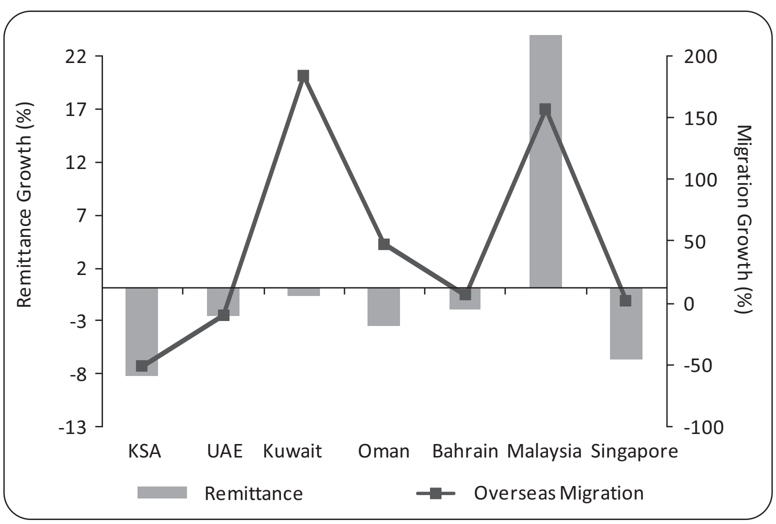
There has been a significant deceleration in the growth of remittance inflow to Bangladesh during the first five months of the current fiscal (July to November). Total remittance inflow has declined by (-) 1.7 per cent over this period compared to the same period of FY2009-10. To compare, remittance rose by 24.4 per cent in FY2009-10. A number of factors have contributed to this situation.

Decelerating Manpower Export

As Figure 4.18 suggests, there is a correlation between the negative growth in remittance inflow and the deceleration in the flow of overseas migration. Remittance inflow from major manpower importing countries except Malaysia has seen a fall over the recent months, to varying degrees. Although the 'stock effect' should have, at least in the near-term, compensated for the (lower) 'flow effect,' it is disquieting to see that lower levels of migration has tended to be accompanied by lower remittance flow.

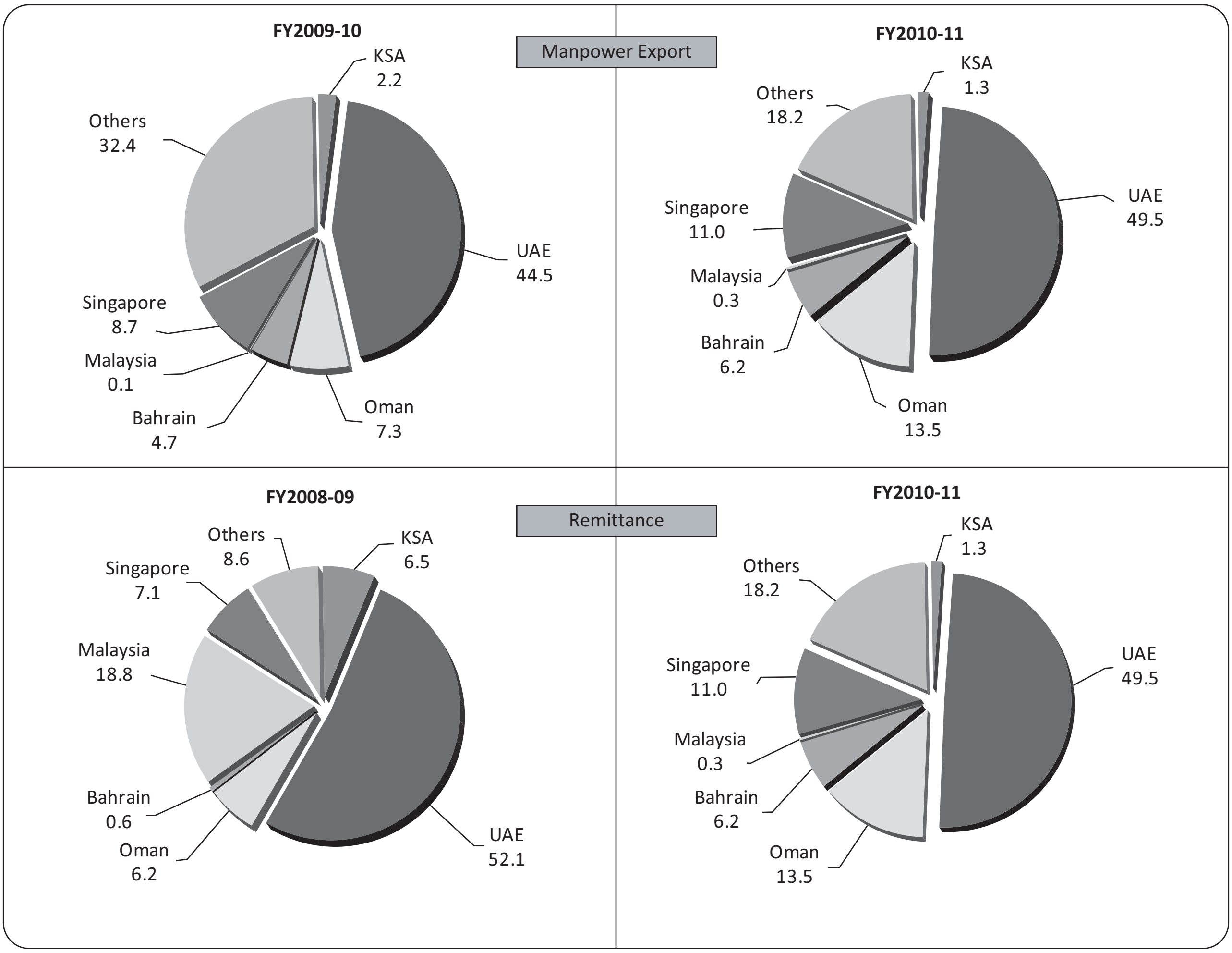
However, one needs to be cautious in interpreting the impact of compositional changes in manpower export markets on remittance inflow to Bangladesh. As Figure 4.19 shows, despite some significant changes in the share of different countries as manpower importers from Bangladesh, their share in terms of sources of remittance has remained rather less differentiated in the recent past. This would indicate that

Figure 4.18: Market-specific Growth in Overseas Migration and Remittance: FY2010-11 over FY2009-10 (July-November)



Source: Bureau of Manpower Employment and Training (BMET).

Figure 4.19: Market Composition for Bangladesh's Manpower Export and Remittance Earnings: Share of Major Labour Importing Countries (July - November)



Source: Bureau of Manpower Employment and Training (BMET); Bangladesh Bank.

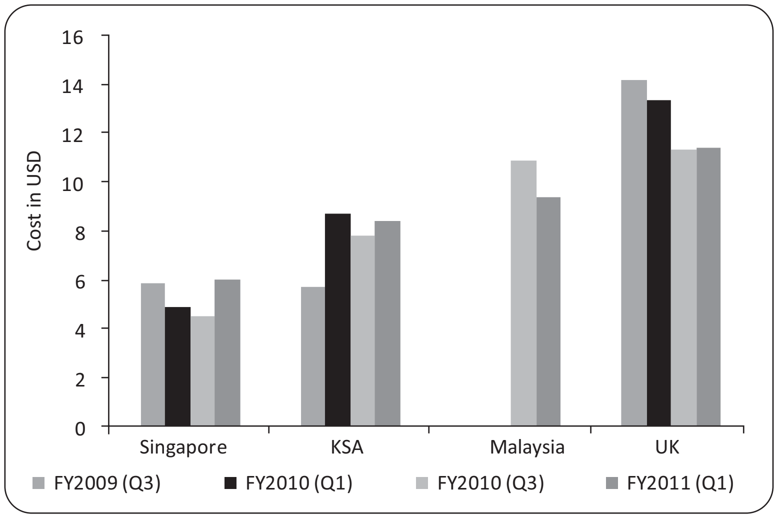
while lower overseas migration may have contributed to decreased remittance inflow, the stock effect have somewhat compensated for this, particularly in host countries where a sizeable number of workers already exist. Nevertheless, if the deceleration in overseas migration continues, its lagged impact on remittance inflow will eventually catch up in the medium-term, even in those countries; in that case the growth in remittance flow is likely to go down further.

In view of the significant fall in remittance inflow from Saudi Arab, it is perhaps worth investigating as to whether the restrictions arising from *akama* has induced the Bangladeshi workers to opt for informal channels (*hundi*) to remit earnings to Bangladesh.

Cost of Remittance

The cost of sending remittances is falling world-wide in recent times. Bangladeshi workers have also been able to take advantage of this, thanks also to a number of steps taken by Bangladesh's policymakers to facilitate the transfer. An analysis of cost of remitting money to Bangladesh from different countries shows that it has seen some decrease during the first quarter of FY2010-11 compared to the same period of FY2009-10, for Saudi Arab, Malaysia and UK; however, there has been some rise for Singapore (Figure 4.20).

Figure 4.20: Cost of Sending Money to Bangladesh from Selected Countries



Source: World Bank.
Note: Data was available only for FY2009-10 (Q3) and FY2010-11 (Q1) in case of Malaysia.

While a worker had to pay an average of USD 4.89 to remit USD 200 from Singapore to Bangladesh during Q1 of FY2009-10, the transaction fee increased to USD 5.99 during Q1 of FY2010-11. However, for remitting equivalent amount, the processing fee in Saudi Arab had decreased to USD 8.39 in Q1 of FY2010-11 from USD 8.7 in Q1 of FY2009-10; for UK, the corresponding charges were USD 11.43 and USD 13.37 respectively. Available information suggests that the processing fee for transfer of remittance in Malaysia decreased from USD 10.91 to USD 9.36 between Q3 of FY2009-10 and Q1 of FY2010-11. Indeed, total remittance from Malaysia has increased from USD 158 million in Q3 of FY2009-10 to USD 168 million in Q1 of FY2010-11. However, notwithstanding that the cost of remittance had declined for Saudi Arab and UK, remittance from these two countries declined by (-) 2.4 per cent and (-) 3 per cent respectively during the comparable periods.

Way Forward

- While announcing the national budget for FY2010-11, the government had set a target of sending 5.77 lakh workers abroad in the current fiscal. In view of the record so far (first five months), to achieve this target, an average of more than 60,000 workers will need to go abroad for work each month over the next seven months. However, given the current trend, attainment of this target appears to be highly unlikely. Since the number of migrant workers constitute a significant proportion of the annual incremental labour force of the country, such deceleration in overseas migration from Bangladesh will create additional pressure on the already challenged domestic labour market. CPD survey indicates that there is a common understanding among the relevant stakeholders to the effect that if the current deceleration in manpower exports from Bangladesh is to be reversed, the key strategy ought to be the revitalisation of the job markets in the Middle East. The government has been taking a number of initiatives to address the attendant situation, but till now the results have not been very encouraging. A proactive and aggressive diplomacy will need to be pursued in two areas if the present situation is to be addressed: resolving the *akama* problem and ensuring the continuation of new recruits from Bangladesh.

In order to reverse the current deceleration in manpower exports from Bangladesh, job markets in the Middle East need to be revitalised

- Government should continue the dialogue with major labour-importing countries, particularly in the Middle East, to allow change of jobs by Bangladeshi migrant workers (without transfer fee). A recent study projects that about 5 lakh people, in different workmanship categories, will be needed in Saudi Arabia for the ongoing construction of new cities.[100] The awarding of Qatar, to host the Football World Cup 2022 is also likely to create hundreds of thousands of jobs in the construction sector.

[100] A study by *Dr Joseph Chamie*, Director of Research at the Center for Migration Studies, New York.

Negotiations should be initiated so that Bangladesh is able to take advantage of these emerging opportunities.

A time-bound plan should be put in place so that workers willing to travel abroad have the opportunity to undergo skill upgradation training

- Efforts should now be strengthened so that Bangladesh is able to cater to the emerging needs in new markets for skilled migrant workers in the developed world, particularly in caring services, nursing, medical technicians, etc. Besides, countries such as Qatar and the UAE are likely to demand more workers in the professional and highly-skilled categories for the service and knowledge-based economy that they are trying to build (IOM 2010). To access such opportunities, a time-bound plan should be put in place so that workers willing to travel abroad have the opportunity to undergo skill upgradation training.
- Available reports suggest that demand for migrant workers is set to go up also in South Korea and in Libya. Unfortunately though, only 1,409 people went to South Korea during the first five months of FY2010-11 (however, this number was more than double the number that went to Malaysia during the same period), and none to Libya (whereas more than 12,000 people went to the country during the last six months of FY2009-10). Efforts should be made to exploit the opportunities in the Libyan market. In recent times, people from Bangladesh have started to go to a number of African countries including Angola, Algeria, Nigeria, Botswana and South Africa. In view of the ongoing deceleration in manpower export to the traditional markets, policy emphasis should be put to facilitate increased migration to these new and emerging markets.

Bangladesh should carefully study the policies pursued by other countries in view of boosting remittance inflow and draw the necessary lessons

- Mohapatra *et al.* (2010) estimates indicate that low-income countries will attain an average of 8.2 per cent growth in remittance in 2010, and the forecasts are that in 2011 and in 2012 the growth rates could reach 8.7 per cent and 9 per cent respectively. Bangladesh's current growth rate of remittance is way below the levels suggested by these optimistic projections. There is thus an apprehension that Bangladesh is not being able to take advantage of the emerging global opportunities. If Bangladesh is to match the expected performance of the low-income countries and attain growth rate of about 8-9 per cent by the end of FY2010-11, it will have to maintain a monthly average growth rate of 24 per cent during the remaining period of FY2010-11. Indeed, Bangladesh should carefully study the policies pursued by other countries in this regard and draw the necessary lessons.
- Strict monitoring and implementation of visa processing fees which is fixed by the government is urgently required. Because of excessively high expenditure that a Bangladeshi worker has to incur, length of stay abroad, level of wages, timely payment of wages, and opportunity for working overtime are critically important for the workers. Rationalisation of cost of migration and ensuring compliance of the same by the recruiting agents must be given high priority on the government's agenda. Work of the recruiting agencies should be monitored on a regular basis. If agencies are found to be involved in malpractice such as failure to provide appropriate and truthful information to aspirant workers, it should be strictly dealt with and those responsible should be legally obliged to pay the due compensation to the migrant workers.

Malaysia has recently expressed her intention to import manpower from Bangladesh only through the government channels

- Malaysia has recently expressed her intention to import manpower from Bangladesh only through the government channels. The objectives of such a proposal are to reduce migration cost and to ensure some discipline to the process. According to available information, the GoB will need to ensure that migration cost to Malaysia is kept between Tk. 25,000 to Tk. 35,000 and these workers get work permit for five years. In view of this changing situation, government should play a proactive role to increase the capacity of BMET to send a larger number of migrant workers through legal channel. Aspirant workers should be given appropriate information with regard to emigration procedure, laws, language and culture of the destination countries.

- Regrettably, in recent times Bangladesh is losing some of her manpower market to Nepal and a number of other countries. GoB should look into the matter, identify reasons and take measures to address the situation. The allegations of recruitments of Bangladeshi workers by recruiting agencies of other countries should also be properly investigated.

4.4 SHORT-TERM OUTLOOK AND CONCLUDING OBSERVATIONS

For sustainable inclusive development, Bangladesh economy needs to experience a structural change based on promotion of productive sectors

The crucial importance of how the Bangladesh economy performs in FY2010-11 ought to be judged *inter alia*, from the following two perspectives. First, globalising economies such as Bangladesh will have to be able to capitalise on the ongoing turnaround in global economy. Second, FY2010-11 being the first year of the Sixth Five-Year Plan (2011-2015), a good kick-off in the first year will help to materialise the medium-term objectives of the Plan.

Growth for Structural Change

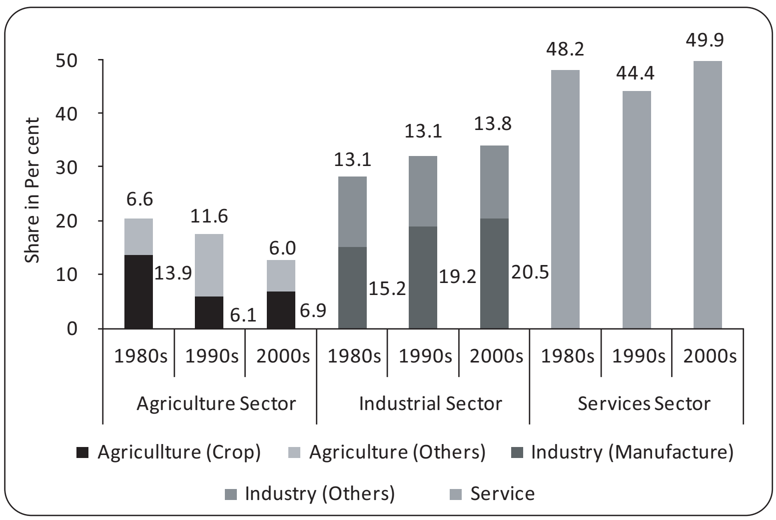
For sustainable inclusive development, Bangladesh economy needs to experience a structural change based on promotion of productive sectors. Given the resource endowment of the country, it is maintained that an employment-intensive, but highly productive manufacturing sector has to spearhead such a structural change. In view of the above, growth experience of Bangladesh in past three decades reveals two broad phases.

(i) GDP growth during 1980s and 1990s had originated mainly in rapid growth of the manufacturing industries (Figure 4.21).

(ii) In 2000s, services sector provided a substantial base to augment additional national income, while manufacturing and crop sector held their positions.

These relative developments among the GDP components indicate elements of structural change within the Bangladesh economy. In this process, while agriculture sector has ceded its relative share, services sector, not manufacturing sector, has largely picked up the space. This has happened notwithstanding acceleration of the GDP growth rate observed in the recent past. Thus, the *Outline Perspective Plan of Bangladesh 2010-2021: Making Vision 2021 A Reality* has rightly emphasised that the contribution of manufacturing sector in GDP has to be enhanced to 26 per cent and 30 per cent by FY2014-15 and FY2020-21 respectively (Table 4.14) from the existing level of 17.3

Figure 4.21: Incremental Share of GDP by Broad Sectors



Source: Estimated from MoF (2010a) data.

Table 4.14: Sectoral Share of GDP

(in Per cent)

Sector	FY2010	FY2015 (Target)	FY2021 (Target)
Agriculture	19.5	16.0	15.0
Industry	28.9	35.0	40.0
Manufacturing	*17.3*	*26.0*	*30.0*
Services (including CD)	51.6	49.0	45.0

Source: Bangladesh Bureau of Statistics (BBS) and Planning Commission (2010).

per cent (FY2009-10). Admittedly, attaining these challenging targets will require considerable acceleration in the manufacturing production.

Required Sectoral Contributions for Attaining Growth Target

Economic growth beyond 5 per cent is mostly determined by manufacturing sector's level of output

Given the slowdown in the incremental share of the manufacturing sector in the recent enhanced growth performance, attaining the GDP growth target in FY2010-11 will depend, at the margin, on added contribution from this sector. Indeed, in view of current structure of GDP, economic growth beyond 5 per cent is mostly determined by manufacturing sector's level of output.

GDP growth target for FY2010-11 has been set at 6.7 per cent. The last time a 'more-than-six-and-half-per-cent' growth was achieved was in FY2005-06, when manufacturing sector contributed more than 25.8 per cent of the aggregate growth (Table 4.15). An analogous performance will need to be registered from the manufacturing sector in FY2010-11 (about 40 per cent from industry). The growth contribution from agriculture sector also has to be as good as in the last year (FY2009-10) (about 10 per cent). Historically, steady performance by the services sector (about 50 per cent) has been underwritten by moderate achievements in the other sectors. About 49.3 per cent incremental contribution in GDP needs to be registered by this sector in FY2010-11.

Table 4.15: Sectoral Contribution to GDP Growth

(in Per cent)

Sector	FY2006	FY2007	FY2008	FY2009	FY2010	Required in FY2011 (CPD Projection)
Agriculture	16.7	15.6	11.3	14.0	15.5	11.9
Crops	*9.1*	*7.8*	*4.8*	*8.8*	*10.3*	*9.0*
Industry	39.4	35.9	30.6	31.6	29.3	37.3
Manufacturing	*25.8*	*25.0*	*19.4*	*19.3*	*17.2*	*25.4*
Service	45.5	51.6	50.0	52.6	53.4	49.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Estimated from MoF (2010a) data and CPD projection.

Growth Outlook for FY2010-11

At the halfway mark of FY2010-11, there are several indications that the economy has gained some momentum, particularly due to pick in the external demand. Enhanced export receipts during the early months of FY2010-11 also speak about the upbeat manufacturing growth. Greater investment demand is reflected in strong industrial credit flow leading to growing imports demand for capital machinery and other production inputs. The outcome of crop sector is also expected to match the recent past performance. The productions of Aus and Aman have been satisfactory, while optimistic outcome is being forecasted for the Boro yield by several quarters. The performance of services sector generally has been very steady in nature, and should be consistent with the energetic performance of the real sectors. Thus, in the final analysis, broad-based manufacturing growth will define the final growth outcome in FY2010-11.

At the halfway mark of FY2010-11, there are several indications that the economy has gained some momentum, particularly due to pick in the external demand

However, there are a couple of disquieting factors which may subdue the GDP growth figure for the current fiscal year. The dismal performance of small manufacturing industries could inhibit the potential expansion of manufacturing output.[101] Further, considering the employment linkages of small-scale manufacturing industries, low performance of the sector would have an adverse impact on labour market. Moreover, sluggish implementation of public investment programme is not only failing to provide the much needed

[101]Small manufacturing industrial production declined by 9.2 per cent in the first quarter of FY2010-11. The data for large and medium manufacturing industries is available for only one month; July FY2010-11 data shows 15.3 per cent growth for this sector compared to the matching month of previous fiscal year.

infrastructure services, but this is also holding back private investment prospects. Furthermore, the emerging power supply situation may not be adequate to accommodate the potential expansion of agriculture and manufacturing sectors in the coming summer season. Slow visible progress in the energy and power sector is becoming a binding constraint for the growth and competitiveness of the processing activities, as well as for further development of business supportive services.[102] In addition, the unhealthy trend in domestic capital market is also diverting funds and attention from the development of the real sectors. Given the current context, it will be challenging to attain the GDP growth target at the end of the fiscal year if the manufacturing sector does not experience a broad-based boost, promoting structural change.

It will be challenging to attain the GDP growth target at the end of the fiscal year if the manufacturing sector does not experience a broad-based boost, promoting structural change

Macroeconomic Management in view of the Growth Target

The review of key economic variables suggests that macroeconomic stability in FY2010-11 is coming under some strains on a number of fronts. These emerging strains may have implications for attaining the GDP growth objective. The size of the budget deficit at the end of the fiscal year will remain within the programmed target, but there is a need to pay specific attention in ensuring balance among the different sources of deficit financing. Rationalisation of prices of public utilities will be necessary to reduce fiscal burden. Rising food inflation may generate an overall cost push, although there is no indication of any foodgrain shortage in the country. There is also a growing concern over the BOP situation due to weak remittance inflow and growing trade deficit. In this context, stability of exchange rate will be of importance in maintaining the macroeconomic stability.

In order to address the issue of rising commodity prices (including fuel and food), volatile capital market, slow recovery of investment demand, and the pressure on BOP, appropriate fiscal and monetary policy support for facilitating the growth process will be required. Indeed, in this case fiscal policy has to take the lead with monetary policy taking an accommodative stance commensurate with the emergent needs. It is pertinent to mention that delivery of the envisaged investment plan for achieving the growth target warrants moderately expansionary monetary policy. In view of the current inflationary trend, it is often suggested that, it is time that the monetary authority slows down the credit growth to protect the macroeconomic stability. However, given the nature of inflation in Bangladesh, reining in domestic credit growth in the current context will be not only pre-mature, but may also prove to be counter-productive. In a situation of a disincentive to the supply-side, inflation may soar further as one is aware of the limits of the demand-side inflation management, which often readjusts the economy at a low level equilibrium.

In order to address the issue of rising commodity prices, volatile capital market, slow recovery of investment demand, and the pressure on BOP, appropriate fiscal and monetary policy support for facilitating the growth process will be required

There is a growing need to backstop the BOP in the coming months. However, the current reserve situation does not warrant any panic in this regard. The current BOP situation is yet to generate an adequate rationale for seeking financially expensive and policy conditional loans from foreign sources. It is not clear under what arrangements current negotiation with the IMF is being held. It is important that the government is able to maintain its growth-supportive policy space including fiscal expansion and enhanced subsidies to critical sectors. If the conditionalities of the said loan is at variance with the declared development policy framework of the government, such inconsistencies could undermine domestic ownership over the development agenda. Indeed, a public disclosure of

[102]Including implementing the large public sector electricity generation projects, coal-based power plants, the planned nuclear power project, natural gas and coal extraction, etc.

the soon-to-be-finalised IMF programme may enable us to have an informed discussion in this regard.

CPD maintains that given the present state of the economy, policymakers should not get overly pre-occupied with concerns about stability; rather all possible policy measures should be geared towards a broad-based, inclusive and accelerated growth.

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APPENDIX TABLES AND FIGURES

Appendix Table 4.1: Target, Achieved and Required Growth for NBR Revenue

Source	Annual Growth Target FY2010-11	Growth FY2010-11 (July-October)	Required Growth FY2010-11 (October-June)
Import Duty	15.4	9.7	19.3
VAT Import	11.1	22.0	4.7
Supplementary Import	11.8	25.8	2.9
Trade Total	**13.1**	**17.4**	**10.3**
Excise Duty	-20.9	7.0	-21.2
VAT Local	13.0	29.7	3.5
Supplementary Local	23.6	28.1	20.8
Turn Over Tax	28.5	-34.8	59.9
Local Total	**16.2**	**29.1**	**8.7**
Income Tax	22.4	31.9	18.9
Travel Tax	21.0	13.0	26.5
Others	78.6	-	57.1
Total Direct Tax	**22.4**	**31.3**	**19.1**
NBR Total	**16.8**	**24.8**	**12.5**

Source: Estimated from NBR (2010) data.

Appendix Table 4.2: Estimated Foodgrain Production in FY2010-11

(in '000 MT)

Foodgrain	FY2007-08	FY2008-09	FY2009-10	FY2010-11 (Targeted)	Projected Growth in FY2010-11 (%)
Aus	1507	1895	1709	1973*	15.45
Aman	9662	11613	12207	13500	10.59
Boro	17762	17809	18341	19169	4.51
Total Rice	28931	31317	32257	34642	7.39
Wheat	844	849	901	1162	28.97
Total	29775	32166	33158	35804	7.98
Growth (%)	6.06	8.03	3.08	-	

Source: Bangladesh Bureau of Statistics (BBS); and Department of Agricultural Extension (DAE).
Note: * indicates estimated production.
According to DAE, Aman area has decreased by 1.84 per cent in the current season (from 5.96 million hectares in FY2009-10 to 5.85 million hectares in FY2010-11); and it will require a significant increase in yield to achieve the target of 13.50 million MT in FY2010-11.

Appendix Table 4.3: Per Capita Availability of Foodgrain in Bangladesh

(in '000 MT)

Fiscal Year	Domestic Production (Gross)			Net Production (Deduct 10% for Seed, Feed and Wastage)	Mid-year Population (Million)	Foodgrain Consumption Requirement (453.6 gm/ day/capita)	Private Imports	Public Distribution	Domestic Procurement	Net Domestic Availability (5+8+9-10)	Per Capita Availability (gm/day)
	Rice	Wheat	Total								
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
2000-01	25085	1673	26759	24083	130.0	21507	1063	1774	1088	25832	544
2001-02	24299	1606	25905	23315	132.0	21788	1280	1464	1053	25006	519
2002-03	25188	1507	26694	24025	133.0	22086	2966	1435	952	27474	566
2003-04	26189	1253	27442	24698	135.0	22384	2480	987	843	27322	554
2004-05	25157	976	26133	23520	137.0	22682	2980	1367	899	26968	539
2005-06	26530	735	27265	24539	141.0	23345	2265	1245	945	27104	527
2006-07	27312	737	28049	25244	143.0	23676	2209	1463	1144	27772	532
2007-08	28931	844	29775	26798	146.0	24172	2916	1329	1300	29743	558
2008-09	31317	849	32166	28949	147.8	24470	2217	2160	1482	31844	590
2009-10	31975	901	32876	29588	149.6	24768	2899	1961	610	33838	620

Source: CPD estimation based on data from Food and Agriculture Organization (FAO); Bangladesh Bureau of Statistics (BBS); Department of Agricultural Marketing (DAM); Department of Agricultural Extension (DAE); and Food Planning and Monitoring Unit (FPMU).

Appendix Table 4.4: Changes of Monetary Sector Variables: FY2010-11 over FY2009-10

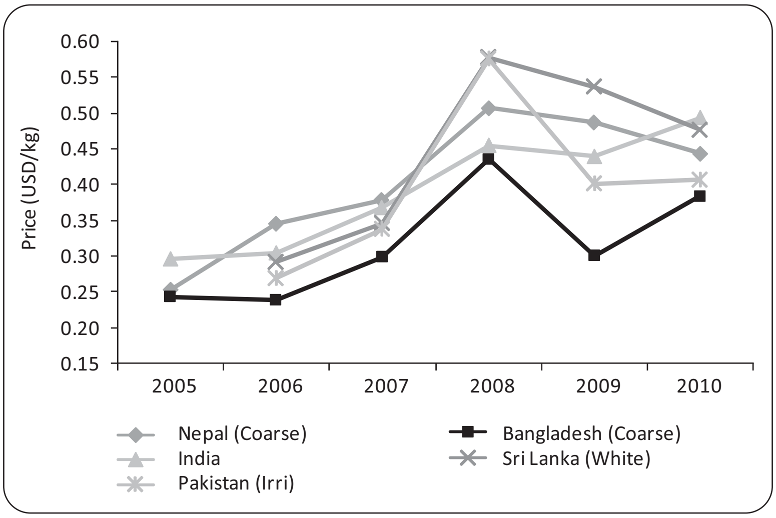
(in Per cent)

Indicator	FY2009-10		FY2010-11	
Inflation rates (October)				
- Point-to-point	6.71		6.86	
- 12-month average	5.11		8.12	
Growth in money supply (end of the period)				
- Broad money (M2) (end of August)	19.13	(303606.40)	22.89	(373099.90)
- Reserve money (end of August)	29.71	(68530.60)	19.77	(82076.10)
- Demand deposit (end of August)	12.66	(28614.10)	40.01	(40061.50)
- Time deposit (end of August)	21.19	(237620.80)	19.12	(283049.90)
- Excess liquidity (end of October)	68.37	(35111.10)	-17.83	(28849.44)
Growth in credit (end of August)				
- Domestic credit	14.71	(290483.00)	20.22	(349204.80)
- Credit to government sector	18.39	(54771.30)	-2.45	(53426.90)
- Credit to other public sector	7.78	(12829.20)	19.05	(15273.40)
- Credit to private sector	14.26	(222882.50)	25.85	(280504.40)
Growth in agricultural credit (end of October)				
- Disbursement	5.21	(1062.25)	1.20	(1075.02)
- Recovery	72.71	(641.51)	27.28	(816.52)
Growth in industrial credit (July-September)				
- Term loan (disbursement)	9.14	(5403.23)	38.32	(7473.51)
- Working capital (disbursement)	2.03	(12667.13)	32.13	(16736.71)
Percentage share of total classified loan to total outstanding (September)	10.36		8.47	
Interest rates (end of the period)				
- Lending rate (October)	13.07		11.81	
- Deposit rate (October)	7.39		7.22	
- Spread (October)	5.68		4.59	
- Call money rate (October)	2.82		6.20	
Exchange rate (period average)				
BDT/USD (April)	69.17	(as of 7 December 2009)	70.57	(as of 7 December 2010)
BDT/EURO (October)	102.31		97.86	
BDT/INR (February)	1.48		1.59	

Source: Bangladesh Bank (2010a).

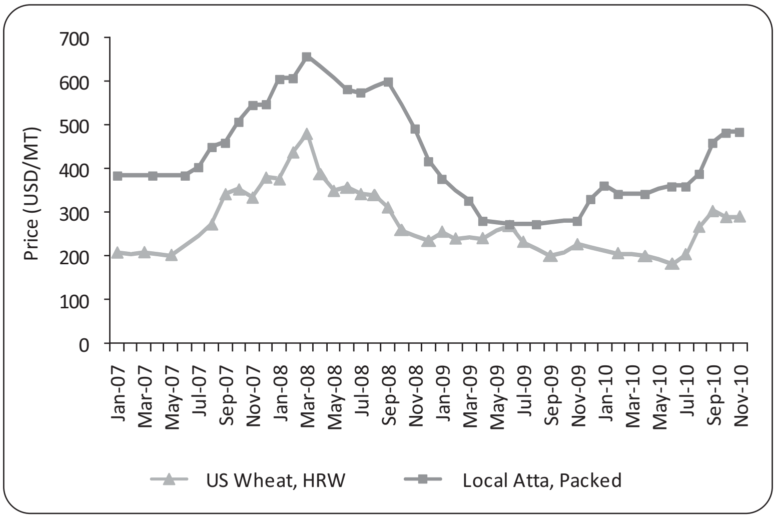
Note: Figures in parentheses refer to amount in Crore Taka.

Appendix Figure 4.1: Domestic Prices of Rice in SAARC Countries



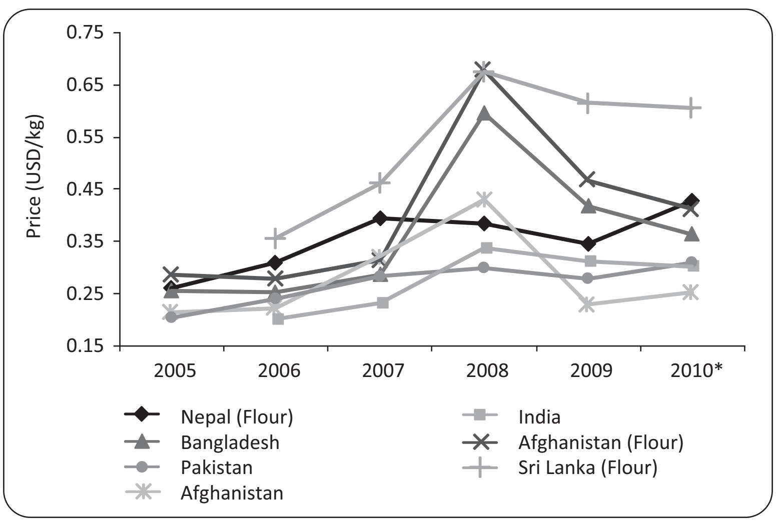
Source: Global Information and Early Warning System on Food and Agriculture (GIEWS).

Appendix Figure 4.2: International Price of Wheat and Local Price of Atta



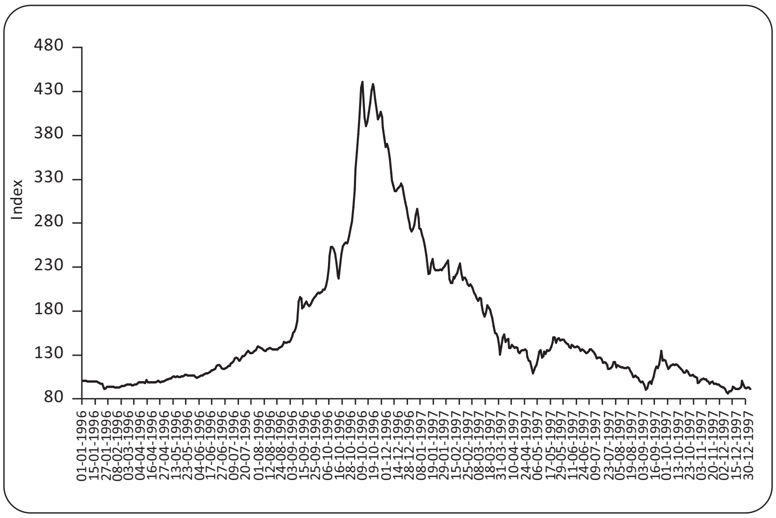
Source: DAM, Wheat, FAO, International Commodity Prices data; extracted from http://www.fao.org /es/esc/prices/CIWPQueryServlet

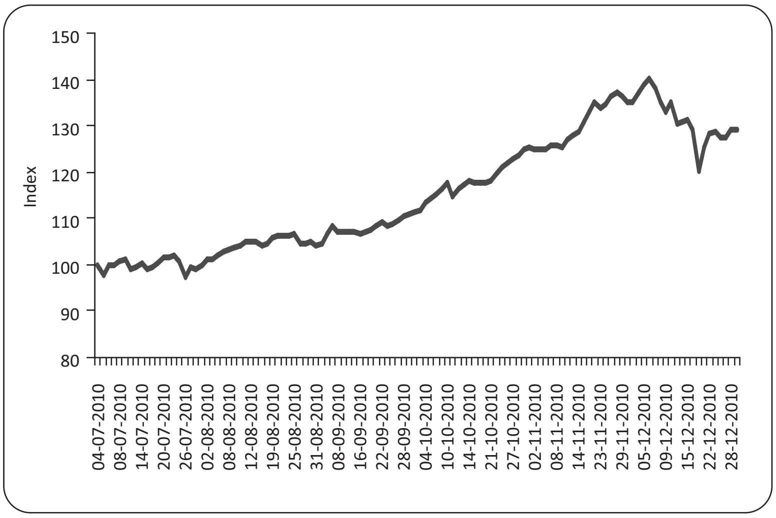
Appendix Figure 4.3: Domestic Prices of Wheat in SAARC Countries



Source: Global Information and Early Warning System on Food and Agriculture (GIEWS).

Appendix Figure 4.4: Trends of Share Price Index in the DSE during 1996 and 2010 (1 January 1996=100 and 4 July 2010=100)





Source: Dhaka Stock Exchange (DSE).

EXPERT GROUP

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CPD IRBD 2011: State of the Bangladesh Economy in FY2010-11 (First Reading)*

(Held on 23 December 2010 at the CPD Dialogue Room, Dhaka)

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**CPD IRBD 2010-11 Team alone remains responsible for the contents of this report. The Expert Group Members do not carry any responsibility in this regard.*

ANNEX 1

Dialogue Report on

State of Bangladesh Economy in FY2009-10 and Analysis of Budget FY2010-11

This dialogue report was prepared by Mr Ashiqun Nabi, Research Associate and Mr Shouro Dasgupta, Programme Associate, Centre for Policy Dialogue (CPD).

THE DIALOGUE

The dialogue on *State of Bangladesh Economy in FY2009-10 and Analysis of Budget FY2010-11*, organised by the Centre for Policy Dialogue (CPD), was held on 19 June 2010 at the Dhaka Sheraton Hotel. The programme was organised with a view to share CPD's observations and analyses as regards the national budget for FY2010-11 which was presented at the national parliament on 10 June 2010, and allow various stakeholders to put forward their views on both the macroeconomic framework of the budget and concrete budgetary proposals set by the government.

Mr A M A Muhith, *MP,* the Hon'ble Finance Minister was present as the Chief Guest. *Dr Masihur Rahman*, Economic Affairs Advisor to the Hon'ble Prime Minister attended the dialogue as the Special Guest; and *Dr A B Mirza Azizul Islam* and *Professor Wahiduddin Mahmud*, Former Advisors to the Caretaker Government were present as the Guests of Honour. *Professor Mustafizur Rahman*, Executive Director, CPD presented the keynote paper. *Professor Rehman Sobhan*, Chairman, CPD was the Chair of the dialogue.

The dialogue witnessed a broad representation of various civil society groups as well as government officials. Senior government officials and policymakers, lawmakers, political leaders, grassroots organisations and business communities, academicians, representatives of development partners and other relevant stakeholders attended the dialogue. A complete list of participants is attached at the end of the dialogue report.

OPENING REMARKS BY THE CHAIR

Professor Rehman Sobhan initiated the session expressing his deep appreciation to all participants who had volunteered their time to share their thoughts at the platform created by the CPD which had by now become a traditional and well-recognised feature of the institutional landscape of Bangladesh. He welcomed *Mr A M A Muhith*, *MP* for his readiness to listen to, and react to the opinions on budget FY2010-11 proposals as the Chief Guest; and thanked *Dr Masihur Rahman*, *Dr A B Mirza Azizul Islam* and *Professor Wahiduddin Mahmud* for their presence. He also mentioned that all of them have been alumni of the CPD's budget discussion for many years, and that he looked forward to their valuable observations and comments on Budget FY2010-11. *Professor Sobhan* hoped that the comments and recommendations emerging from the dialogue will provide the Finance Minister with useful insights and will add value in the process of revision and finalisation of the budget through discussion in the parliament. He felt that the discussion will also be helpful from the perspective of raising the quality of implementation. He expressed his profound thanks to the audience who were present in large numbers at the session. He hoped that their views and feedbacks will be useful to the Hon'ble Minister. He thanked *Professor Mustafizur Rahman*, Executive Director and his colleagues at the CPD for their efforts in preparing the analytical report and invited *Professor Rahman* to make his keynote presentation on behalf of the CPD team.

THE KEYNOTE PAPER*

In his introductory comments, *Professor Rahman* appreciated the presence of such a distinguished audience and thanked the Chief Guest, Special Guest and Guests of Honour for their participation at the dialogue and their continuing support to the CPD.

He noted that the requirement of the Bangladesh economy calls for significant role to be played by the government and the public sector. He focused on some of the key features of the national budget including macroeconomic framework that informed the budgetary proposals, and important sectoral proposals in the budget for FY2010-11. *Professor Rahman* stressed on the need for timely implementation of various proposals with expected quality. He emphasised on the continued efforts to mitigate the adverse lagged impact of the global financial crisis by taking advantage of the opportunities in view of the recent recovering trends. He appreciated measures to widen the tax net, but observed that the personal income tax ceiling could have been revised upwards in consideration of the inflationary pressure on the economy. He particularly stressed the need for raising the efficacy of the delivery mechanism of the annual development programme (ADP) and the formulation of comprehensive public-private partnership (PPP) guidelines, on an urgent basis, to enhance sourcing of investment opportunities in the country. He underscored the need for ensuring coherence between fiscal and monetary policies.

OPEN FLOOR DISCUSSION

Divided Observation about GDP Growth Target

Opinion about the growth performance of gross domestic product (GDP) varied. *Mr M Fazlul Azim*, *MP* expressed satisfaction with regard to the registered GDP

*The full keynote paper has been presented in the Chapter 2 of the present volume.

growth of the last fiscal year. He urged all the relevant agencies to implement the budgetary proposals effectively and with quality in order to achieve higher GDP growth target for FY2010-11. *Dr M Osman Farruk*, Member, Advisory Council of the Chairperson, Bangladesh Nationalist Party (BNP) and Former Education Minister, on the other hand, remarked that it would be very difficult to achieve the growth target. He also felt that the medium term growth projections were rather conservative.

Tax Burden on Public should be Kept to a Minimum

The target of widening the tax net was generally appreciated by the audience. Some in the audience thought the revenue targets to be ambitious; however, there was a consensus that attaining such target was necessary to provide essential services to the public. *Major (Retd) Akhtaruzzaman*, Former MP cautioned that despite the fact that public expenditure needed to be expanded, the burden of taxes on the public should be kept to the minimum. *Mr Habibullah N Karim*, Managing Director, Technohaven Group of Companies felt that the revenue targets could be difficult to achieve unless the revenue collecting agencies were able to coordinate their actions effectively.

Mr Manzur Ahmed, Chairman, Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) Standing Committee remarked that government's revenue mobilisation target was perhaps too ambitious. In his opinion some of the truncated VAT (value added tax) proposals will increase the cost of production. *Mr Muhammad Shams-Uz Zoha*, Vice-Chairman, Bangladesh Jute Spinners Association (BJSA) argued that increased income tax at source on export will harm the interests of the exporters, and requested the Finance Minister to reconsider this particular proposal.

Mr Ali Ahmed, Former Member, National Board of Revenue (NBR) observed that the newly proposed structure of supplementary duty (SD) on vehicles will favour the higher income earners as it will increase the price of lower to mid-range vehicles rather than those of which were more luxurious in nature. He also felt that although the proposed tax structure for real estate sector was progressive, there remains a possibility that the burden would be passed on to the consumers. Similarly, he felt that VAT imposed upon private university education would be passed on to the students and increase the cost of education. He strongly urged the government to reconsider these decisions.

Mr Abdul Hafiz Choudhury, Former President, MCCI also observed that the VAT on private universities, is in effect, a tax on education and will hurt students and parents. On a similar note, *Dr M Osman Farruk* remarked that the tax on book publishers and printers are often too high and urged the government to reconsider this to encourage knowledge spreading.

Ms Meher Afroz, *MP* and Chairman, Parliamentary Standing Committee on Ministry of Women and Children Affairs congratulated the Finance Minister for a favourable budget and welcomed the proposal to increase tax on tobacco. *Ms Khushi Kabir*, Member, CPD Board of Trustees and Coordinator, Nijera Kori also agreed with the proposal of increasing tax on tobacco producers and hoped that this will discourage tobacco cultivation.

Mr Abdul Hafiz Choudhury stated that some of the tax laws are outdated in the context of recent development in Bangladesh economy and should be rewritten.

ADP Implementation Remains Key Challenge

A large number of discussants put emphasis on the issue delivery of budgetary proposals. According to them, implementation of ADP remained a weak link, and coordination and effective participation of the entire government machinery will be required to produce the desired outcomes.

Mr M Fazlul Azim, *MP* commended the efforts of the government in accelerating the pace of ADP implementation in FY2009-10; however, he recommended that overlapping of ADP projects be brought to a halt so that duplication of resource allocation could be avoided. *Mr Azim* also remarked that there is a strong need for qualitative assessment of ADP implementation, not only the expenditure justification. *Dr M Osman Farruk* also called upon the government to monitor the qualitative aspects of ADP implementation. Echoing the earlier speakers, *Mr Manzur Ahmed* remarked that ADP implementation must be well monitored in order to provide essential services to the masses, and to support and crowd in the private investment.

Energy Sector: Most Significant Constraint to Growth

According to many participants, the energy sector remained the single most significant constraint to growth and development in the country. The discussants in the dialogue urged the government to prioritise this particular sector and to address the concerned issues adequately.

Ms Meher Afroz, MP expressed her concerns regarding the lack of improvement in power generation and overall governance of the sector, and suggested that progress of different projects in the sector must be monitored closely.

Mr M Fazlul Azim, MP observed that the GDP growth performance has not been up to par due to the shortfall of power supply, and thought that reduction of corruption in the energy sector would improve its performance drastically. *Major General Shubid Ali Bhuiyan*, *MP* and Chairman, Parliamentary Standing Committee on Ministry of Energy and Mineral Resources also asked the relevant authorities to take steps towards reducing corruption in order to utilise available resources with higher efficiency. He, however, appreciated the proposed enlarged allocation for the power sector, and noted that it was crucial that more new projects were added for implemention in this sector.

Mr Manzur Ahmed noted that duties on diesel and furnace oil should be reduced to encourage small-scale power plants which would help reduce the load on the national grid. He further suggested that the government should declare a realistic policy regarding the power sector. *Mr Abdul Hafiz Choudhury* agreed with Mr Manzur Ahmed, and urged the Finance Minister to take necessary actions in this regard.

Brigadier General (Retd) M Mofizur Rahman, *psc*, Executive Director, International Business Forum of Bangladesh (IBFB) was of the opinion that coal and gas extraction should be encouraged towards larger generation of power in the country.

Health and Education Sectors are Key to Attain MDG Targets

Health and education sectors were perceived by many participants to be the keys to attaining the Millennium Development Goals (MDGs) (One to Seven) targets by Bangladesh. Accordingly, expedited and timely implementation of various projects in this sector was critical to attaining MDG targets by 2015. There was a need for coherence among the relevant policies and proposals in order to achieve the declared targets.

Ms Khushi Kabir commended the expansion of the *Maternal Health Voucher Scheme* from 17 to 45 upazilas and urged the Ministry of Health and Family Welfare (MoHFW) to implement the programme in a timely manner. Realising the need for increasing the quality of education and health facilities in the country, *Mr Muhammad Shams-Uz Zoha* called upon the government to allocate more resources in these two critically important areas.

Dr Ahmed Al-Kabir, Chairman, Rupali Bank Limited expressed his disappointment regarding the fact that family planning has been largely ignored in the new budget. He observed that the lack of human resources in the health sector is largely responsible for the poor quality of service delivery. *Ms Priti Chakraborty*, Chairman, Xenergia Foundation recommended that the government should establish an exclusive fund for development of human resources in the country.

Stagnant Coverage of Social Safety Net Programme is a Major Concern

Although the budget has made an effort towards widening the social safety net programmes, concerns regarding stagnant coverage continued to drag performance. Participants in the dialogue expressed disappointment at the fact that the *Ghore Fera* programme was discontinued by the government.

Dr Wajedul Islam Khan, General Secretary, Bangladesh Trade Union Kendra remarked that adequate funds should be provided to underwrite administrative costs of employment generation programmes in order to ensure effective implementation. He further added that Day Care Centres should be included under the safety net programmes.

Dr Badiul Alam Majumder, Member Secretary, SUJAN and Country Director, The Hunger Project remarked that the government should ensure proper implementation of safety net programmes in order to reduce poverty in the country. *Dr Ahmed Al-Kabir* commended the development of the social safety net programme database; it was a welcome initiative towards developing well administered programmes of this nature in the country, he felt.

Reduced Allocation in Agriculture and Allied Sectors Remain a Concern

As apprehension regarding food security originating from climate change and international price volatility lingers, reduction in share of agriculture and allied sectors in the total allocation remained a concern, noted many dialogue participants. Some thought that the observed volatility in international price should induce an upward revision in the subsidy for fertiliser.

Dr M Osman Farruk remarked that there were unrealised potentials regarding agricultural growth, and asked the authorities to utilise the budgetary allocation efficiently. *Dr Mahabub Hossain*, Executive Director, BRAC commented that incremental contribution in agricultural growth comes from a variety of sources including the crop sector; all these components must be given proper attention in order to maintain robust performance of the agricultural sector. He observed that there was a lack of appropriate policies for the poultry sector. He argued that proposed reduction in the customs duty (CD) of imported milk would hurt local producers. *Major General (Retd) Amjad Khan Chowdhury*, Chief Executive Officer, PRAN Group also felt that the reduction of import duty on milk powder will be counter-productive. However, he stated that the duty structure on fruit juice would encourage local producers.

Mr Muhammad Shams-Uz Zoha observed that the government should focus on adequate and timely availability of seeds, as more than 80 per cent of seeds used in the country were imported from India and any disruption in the supply chain will limit possibilities of enhancing agricultural production.

A Push is Needed for a Rapid Industrial Growth

Growth of industrial GDP will hinge on accelerating growth of total investment. Severe power crisis was also a serious concern, according to many of the discussants.

Dr M Osman Farruk argued that a push was needed for the rapid growth of the industrial sector, and there was a need for concerted efforts towards improvement of the power and energy situation in the country. *Brigadier General (Retd) M Mofizur Rahman*, *psc* expressed concern with regard to the fact that Bangladesh's position has dropped over the last two years, according to the International Finance Corporation (IFC) rating. He thought that the government should implement the budgetary proposals with due quality in order to encourage private investment.

In the opinion of *Mr Sayeeful Islam*, Former President, Dhaka Chamber of Commerce and Industry (DCCI), the government needs to provide adequate incentives to the industrial sector, in different forms, to energise investment in the country. He remarked that information technology (IT) firms need to be assisted in their quest to establish quality brands. *Mr Habibullah N Karim* argued that allocation for information and communication technology (ICT) was rather inadequate from the perspective of achieving the goals of a *Digital Bangladesh*. He further observed that the growth of the telecommunication sector has stalled, and tax on SIM card should be rationalised.

Resources for PPP are Spread Thin over Too Many Sectors

The PPP initiative was conceived as a key mechanism to stimulate investment if Bangladesh was to achieve 8.0 per cent GDP growth by FY2013-14. However, the PPP process has been rather slow and had failed to materialise till now. This was the view of many. Inclusion of 23 PPP projects under the purview of the ADP as a step to activate the process was praised by the participants.

Mr Manzur Ahmed noted that although PPP has been finalised, the resources are spread thin over too many sectors. He asked the government to focus on the priority areas.

Participants at the dialogue commended the decision of setting up Bangladesh Infrastructure Finance Fund (BIFF). In this connection *Brigadier General (Retd) M Mofizur Rahman, psc* remarked that the BIFF initiative should be closely monitored and asked the authorities to ensure its implementation without any delay.

SEC should be Strengthened on a Priority Basis

The discussants observed that institutional strengthening of the Securities and Exchange Commission (SEC) needed to be seen as a priority for the government; however, no projects to enhance SEC's capacity for surveillance and monitoring and operational restructuring has been included in the budget for FY2010-11.

Mr Manzur Ahmed argued that imposition of the stock trading tax will discourage investors and reduce capital outlay in the market. *Mr Suhel Ahmed Choudhury*, Former Secretary and Former Chairman, Janata Bank criticised imposition of income tax on merchant bankers, while he urged the government to formulate policies to encourage small investors in the capital market.

Mr Habibullah N Karim, on the other hand, welcomed the imposition of tax on stock trading and commented that SEC should be strengthened to reign-in disruptive and speculative investment in the share market.

Imposition of Tax on Pensioners' Savings Certificate Scheme was Criticised by Many

The proposal to levy tax on the Pensioner's Savings Certificate Scheme was criticised by many participants since this would reduce the interest earned by pensioners.

Mr M Hafizuddin Khan, Chairman, TIB Board of Trustees, Former Advisor to the Caretaker Government and Former Comptroller and Auditor General of Bangladesh remarked that the tax would reduce the rate of real return on pension schemes and requested the Finance Minister to reconsider the proposal. *Mr Suhel Ahmed Choudhury* reiterated Mr Khan's views and felt that this would impose an unnecessary burden on pensioners.

Transparency in Policy Making and Execution must be Ensured

Discussants at the dialogue observed that a significant improvement in governance would be needed in order to root out corruption which often hinders economic development. The participants also asked the authorities to increase transparency in policy making and execution.

Dr M Osman Farruk noted that procurement policy has been a critical issue for a while, and advised the government to increase transparency in such policies. *Ms Meher Afroz, MP* agreed with Dr Farruk and emphasised that transparency needs to be ensured in all government projects, which in turn will enhance efficiency.

Dr Badiul Alam Majumder remarked that further measures to curb corruption are necessary. He also noted that local government agencies must be strengthened in order to improve the quality of project implementation.

Mr Sayeeful Islam observed that there is a need for transparency and continuation of policy stances in order to effectively implement the budgetary proposals. *Ms Khushi Kabir* reiterated Mr Islam's views, and added that the government must ensure the rights to information to safeguard the interests of the common public.

No Mention of Specific Policies for SME Sector in the Budget

Mr M Fazlul Azim, MP observed that there were no specific policies regarding the small and medium Enterprise (SME) sector of the country and expressed his disappointment regarding the fact that most of the proposals of last year's budget have not been realised. *Dr Ahmed Al-Kabir* felt that employment generation may be hindered due to lack of incentives in the SME sectors.

COMMENTS FROM THE GUESTS OF HONOUR

Professor Wahiduddin Mahmud, Former Advisor to the Caretaker Government

Professor Wahiduddin Mahmud appreciated the government's efforts towards implementing a progressive tax system and welcomed its actions to alleviate the impact of the global financial crisis. He also remarked that GDP growth rate in FY2009-10 was commendable when impact of the crisis is taken cognisance of. Addressing the issue of the conflict in GDP growth estimates by the Bangladesh Bureau of Statistics (BBS) and the Ministry of Finance (MoF), *Professor Mahmud* observed that these two organisations suffer from weaknesses in terms of analytical capacities which need to be addressed. He felt that there was a need to raise quality of service in all institutions of the government.

Professor Mahmud noted that the authorities should focus on the qualitative aspects of ADP implementation, and not simply on fund disbursement. However, the share of ADP in the total budget has decreased over the years, he added. *Professor Mahmud* also emphasised that the implementation of ADP must be increased in order to encourage private investment. He noted that the outcome of development expenditure in the country must also be monitored closely.

Recognising the importance of continuing the stimulus packages to mitigate the impact of the global financial crisis, *Professor Mahmud* remarked that implementation of policies to deal with the crisis has been commendable.

Professor Mahmud expressed his concerns regarding the fact that although inflation was on the rise, real wages have not increased in tandem over the past years. He drew attention to the need for sound economic governance to protect people's purchasing power.

There is also a need for synchronisation between the industrial policy and the fiscal policy so as to reduce conflict and to encourage economic activity, commented *Professor Mahmud*. He also observed that the USD-Taka exchange rate should be rationalised as there are large discrepancies in foreign exchange transactions.

Dr A B Mirza Azizul Islam, Former Advisor, Ministries of Finance and Planning

Dr A B Mirza Azizul Islam, Former Advisor to the Caretaker Government remarked that the size of the ADP was not ambitious compared to the economic needs of the country; however, it may be ambitious compared to the implementation capacity of the government. *Dr Islam* also noted that although the share of revenue budget has increased due to the higher requirement for interest payment and implementation of the new government pay-scale, it should not emerge as a concern as long as the development budget was implemented effectively. He urged for special attention to be given to improving the power sector of the country, emphasising that it was the most binding constraint to growth. *Dr Islam* observed that an additional 200 MW of electricity should have been produced by June 2010, but this could not be realised. He urged the government to put emphasis on the financing and procurement issues that were impeding the development of the power sector. *Dr Islam* also expressed his concerns whether the proposed rental power producers would be able to deliver on their promises. There was also a need for rationalising the price of gas, noted the Former Advisor to the Caretaker Government.

Addressing the issue of VAT, *Dr Islam* remarked that a major concern was to what extent the burden of tax would be shifted to the consumers and whether economic activities would be hampered because of this. He also noted that there was a need for exemption of SD for refrigerators. Regarding the issue of import duty, *Dr Islam* emphasised the importance of estimating the effective rate of protection and its linkage with redirection of resources. He added that a 12 per cent import duty on milk powder would result in an actual levy of 40 per cent, while a 25 per cent import duty would result in about 80 per cent duty, and questioned whether such protection was necessary.

Dr Islam also commented that the present increase in foreign exchange reserves took place because of slowdown of imports; however, the time may not be right for deliberate currency appreciation.

Addressing the issue of state-owned enterprises (SoEs), *Dr Islam* remarked that since privatisation of such institutions have been suspended, the Privatization Commission should also be abolished so as not to tie down valuable resources. He, however, felt that the loss-incurring jute industries should be privatised. Raising the issue of subsidies, *Dr Islam* was of the opinion that the assumption of higher subsidies leading to increased output must be tested before the allocation is increased.

Dr Islam observed that the numerous tax exemptions and holidays in effect should be revisited, while the status quo on the Pensioner's Savings Scheme should be maintained as the effective rate of interest has eroded due to high inflation rates. He also expressed his disappointment regarding the fact that no policy measures to reduce the emergent regional imbalance in country were included in the budget.

COMMENTS FROM THE SPECIAL GUEST

Dr Masihur Rahman, Economic Affairs Advisor to the Hon'ble Prime Minister noted that the structure of the budget has improved; however, he observed that there was some overlapping between development and non-development budget. He also emphasised the importance of the Medium Term Budgetary Framework (MTBF) in the planning process.

Acknowledging the importance of decentralisation of economic activities, *Dr Rahman* was of the opinion that spatial development along Dhaka-Chittagong Axis needed to be encouraged, and expressed his disappointment regarding the fact that no such policies were mentioned in the budget.

Dr Rahman also remarked that in order to protect local producers in the backdrop of the global financial crisis, import duties needed to be increased where appropriate. He also recommended that the BBS would have to be strengthened to reduce the significant weaknesses with respect to data and analytical capacity that continues to be associated with official statistics.

RESPONSE FROM THE CHIEF GUEST

Mr A M A Muhith, *MP*, the Hon'ble Finance Minister appreciated the initiatives of the CPD and thanked the Guests of Honour, Special Guest and the discussants for their valuable insights on various proposals made in the budget.

Mr Muhith noted that the power sector would focus on rental power plants in order to meet the short-term demands. He also commented that a number of projections made by the previous governments have not materialised, which has contributed worsening of problems in many sectors. The Finance Minister assured the audience that although the government is moving rapidly with projects in the power sector, procurement transparency will not be compromised at any stage.

The Finance Minister mentioned that the major objective of the government's policies is to reduce the size of dependent population and that the government has proposed to widen the income tax base to improve public welfare. He also hoped that the proposed budget will be able to help in creating employment opportunities by instituting changes to domestic production and effective redistribution of wealth. *Mr Muhith* also noted that it was necessary to expand the VAT net to ensure revenue security, and remarked that some of the debated proposals such as income tax on Pensioners' Savings Scheme and vehicle tax might be reviewed before full passage of the budget.

In response to the comments regarding real estate tax, *Mr Muhith* felt that this was not likely to be a heavy burden, and he felt that it was necessary. Addressing the issue of sectoral allocation, he assured that all the additional necessary demands will be met for strategically important sectors such as power, agriculture and ICT.

Mr Muhith emphasised on the implementation aspects of the national budget and mentioned that the quality of the projects will be monitored as well. He informed the forum that the actual ADP for FY2009-10 will be around Tk. 28,000 crore. *Mr Muhith* agreed with Dr A B Mirza Azizul Islam that implementation capacity of the relevant agencies should be enhanced and assured the audience that the government is actively trying to do so. The Finance Minister, however, noted that major portion of the investment must come from the private sector.

In response to comments from Professor Wahiduddin Mahmud, *Mr Muhith* agreed that the *Trade and Investment Policy* should be reintroduced and informed that the government is reviewing this proposal. The Finance Minister also remarked that the domestic protectionism introduced is not permanent and will be withdrawn as soon as the "infant industry argument" period was perceived to be over. He further added that the government has managed to reduce fraudulent activities in safety net programmes, which has enhanced the efficiency of execution.

In response to points raised by some of the participants, *Mr Muhith* remarked that the issue of jute will be addressed in the forthcoming *Industrial Policy*. He stated that prices of dairy products have increased internationally and reduction of import duty should not limit the protection for the local producers. Rather, he felt, this would help the purchasing power of the local consumers.

The Finance Minister also informed the participants about the appointment of the *Labor Wage Commission* to address and finalise the legal minimum wage in the garments industry. Recognising the importance of addressing the problems with unplanned urbanisation, he informed that the government is working on developing rural habitation centres.

The Chief Guest hoped for cooperation from all the relevant stakeholders in successful implement action of the budget. He concluded by thanking everyone involved in the dialogue and expressed his appreciation for the initiative CPD has taken to organise the discussion. He thanked the keynote speaker and all those who have participated in the discussion for their valuable insights.

CLOSING REMARKS BY THE CHAIR

In his closing remarks, *Professor Rehman Sobhan* noted that the budget is a commitment by the government to the public and they must work towards its effective implementation. He emphasised on qualitative and institutional changes while implementing the budget. *Professor Sobhan* felt that in realising the promises made in the budget the government must be aware of how the lives of the people were being affected in the process, and then closely monitor the actual outcome of the budget expenditures. He further added that raising revenue is crucial to finance the promises made in the budget and reminded that Bangladesh is still struggling to reach a 10 per cent Tax-GDP ratio.

Professor Sobhan commented that budgetary measures which were geared to ensure benefit for farmers and workers were of high significance and importance, and urged the Finance Minister to take necessary steps to ensure that the benefits reach the intended target. However, he expressed his disappointment at not seeing a clear vision in the proposed budget and policies to eradicate poverty. He felt that the coverage of safety nets was inadequate in relation to the emerging needs.

Bringing the dialogue to a close, *Professor Sobhan* registered his deep appreciation to all the participants including the Chief Guest, Special Guest and the Guests of Honour for being present at the dialogue, and for their valuable comments and insights. He hoped that policymakers would be benefited from the suggestions put forward by such a distinguished audience who had assembled in response to the invitation of the CPD.

ANNEX 1

List of Participants

Ms Meher Afroz, MP
Chairman, Parliamentary Standing Committee on
Ministry of Women and Children Affairs

Ms Selima Ahmad
President, Bangladesh Women's Chamber of Commerce and Industry and Vice Chairman, Nitol Group

Mr Ali Ahmed
Former Member, NBR

Mr Mahbub Ahmed
Secretary, Ministry of Youth & Sports
Government of Bangladesh

Mr Manzur Ahmed
Chairman, FBCCI Standing Committee

Mr Nasiruddin Ahmed
Secretary, Internal Resources Division (IRD)
Ministry of Finance, Government of Bangladesh and
Chairman, NBR

Mr Shahab Ahmed Mahfuz
Student of Department of Economics, BRAC University

Major (Retd) Akhtaruzzaman
Former Member of Parliament

Mr Md Jahangir Alam
Customer Relations Officer, Mutual Trust Bank Ltd.

Engineer Rabiul Alam
Managing Director, Energypac Power Generation Ltd.

Dr Shamsul Alam
Member, General Economics Division
Planning Commission, Government of Bangladesh

Dr Anisuzzaman
Member, CPD Board of Trustees and
Professor Emeritus, University of Dhaka

Mr M Fazlul Azim, MP
Chairman, Azim Group

Dr Maleka Banu
General Secretary, Bangladesh Mahila Parishad

Dr Anwara Begum
Senior Research Fellow, BIDS

Major General Shubid Ali Bhuiyan, MP
Chairman, Parliamentary Standing Committee on
Ministry of Energy and Mineral Resources

Mr Arup K Biswas
Senior Advisor, Development Affairs
Royal Norwegian Embassy

Ms Priti Chakraborty
Chairman, Xenergia Foundation

Mr Tapan Kumar Chakraborty
PS to the Economic Affairs Advisor to the Hon'ble Prime Minister, Government of Bangladesh

Mr Abdul Hafiz Choudhury
Former President, MCCI

Mr Suhel Ahmed Choudhury
Former Secretary and
Former Chairman, Janata Bank

Mr Siddiqur Rahman Choudhury
Former Secretary, Finance Division and
Former Chairman, Agrani Bank

Major General (Retd) Amjad Khan Chowdhury
Chief Executive Officer, PRAN Group

Mr Enam Ahmed Chowdhury
Member, Advisory Council of the Chairperson, BNP and
Former Chairman, Privatization Commission

Mr Jahangir Alam Chowdhury
Tax Lawyer

Mr Khaled Iqbal Chowdhury
Communications Officer, Embassy of Switzerland

Mr Mohammad Muslim Chowdhury
Joint Secretary, Finance Division
Ministry of Finance, Government of Bangladesh

Mr M S Shekil Chowdhury
Chairperson, Centre for Non Resident Bangladeshis
President and CEO, TCBL Group and
Senior Vice President, DCCI

Mr Rezaul Karim Chowdhury
Convener, Equity and Justice Working Group and
Executive Director, COAST Trust

Mr Dileep Kumar Das
Joint Secretary, UN, Economic Relations Division (ERD)
Ministry of Finance, Government of Bangladesh

Mr Sheikh Jafar Emran
Lecturer, Department of Development Studies
University of Dhaka

Ms Maren Fallet
Trainee, Royal Norwegian Embassy

Dr M Osman Farruk
Member, Advisory Council of the Chairperson, BNP and
Former Education Minister

Ambassador Nasim Firdaus
Executive Director, Bangladesh Alliance for Women Leadership

Mr Oddvar Hesjedal
Managing Director, Grameen Telephone

Professor Dr Khondoker Bazlul Hoque
Chairman, Department of International Business
Dhaka University and Chairman, Agrani Bank

Dr Mahabub Hossain
Executive Director, BRAC

Mr Nazmul Hossain
Student of Department of Economics, Dhaka University

Dr Zahid Hussain
Senior Economist, The World Bank

Mr Anwarul Islam
Former Secretary

Dr A B Mirza Azizul Islam
Former Advisor to the Caretaker Government
Ministries of Finance and Planning

Mr A K M Mayeedul Islam, MP
Member, Parliamentary Standing Committee on
Ministry of Finance

Mr Nazrul Islam
Executive Director and CEO
Infrastructure Investment Facilitation Center (IIFC)

Mr Nazrul Islam
Research Officer, Unnayan Shamannay

Mr Qazi Baharul Islam
Chairman, Sonali Bank Ltd.

Mr Rabiul Islam
Research Officer, Institute of Microfinance (InM)

Mr Sayeeful Islam
Former President, DCCI and
Managing Director, Concord Garments

Mr Syed Monjurul Islam
Additional Secretary, Ministry of Finance
Government of Bangladesh

Professor Rounaq Jahan
Senior Research Scholar and Adjunct Professor
Southern Asian Institute, Columbia University, USA

Mr Md Abdul Jalil, MP
Chairman, Parliamentary Standing Committee on
Ministry of Commerce

Mr Mahbub Jamil
Former Special Assistant to the Chief Advisor and
Chairman, Singer Bangladesh Ltd.

Ms Amanda Jennings
Second Secretary, Australian High Commission

Dr Ahmed Al-Kabir
Chairman, Rupali Bank Ltd.

Ms Khushi Kabir
Member, CPD Board of Trustees and
Coordinator, Nijera Kori

Mr Habibullah N Karim
Managing Director, Technohaven Group of Companies

Mr Ranjan Karmaker
Executive Director, Steps Towards Development

Mr M Hafizuddin Khan
Chairman, TIB Board of Trustees
Former Advisor to the Caretaker Government and
Former Comptroller and Auditor General of Bangladesh

Dr Omar Farooq Khan
Senior Development Advisor, CIDA
Canadian High Commission

Dr Wajedul Islam Khan
General Secretary, Bangladesh Trade Union Kendra

Ms Ayesha Khanam
President, Bangladesh Mahila Parishad

ANNEX 1

Dr Eteri Kvintradze
Resident Representative, International Monetary Fund (IMF)

Professor Wahiduddin Mahmud
Department of Economics, University of Dhaka and
Former Advisor to the Caretaker Government

Mr Moogdha Mim Mahzab
Student of Department of Economics
Dhaka University

Dr Badiul Alam Majumder
Member Secretary, SUJAN and
Country Director, The Hunger Project

Dr Md Abdul Mannan
Director General, Bangladesh Rice Research Institute (BRRI)

Mr Mohammad Mejbahuddin
Secretary in Charge, Energy and Mineral Resources Division
Ministry of Power, Energy and Mineral Resources
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Chief Executive Officer, Dhaka Stock Exchange Ltd.

Mr Mohammad A Moyeen
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First Secretary, Customs and Policy, NBR

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Mr Masud Rahman
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Mr Rajib Ahmed
Reporter, The Daily Manab Jamin

Mr Shah Ali Joy
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Reporter, The Daily Ittefaq

Mr Mizan Chowdhury
Staff Reporter, The Daily Janakantha

Mr Falguni Dutta
Reporter, Ekushey Television (ETV)

Mr Sanaul Haq
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Mr Alamgir Hossain
Staff Reporter, Diganta Television

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Mr Golam Kadir Robu
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Mr Rezaul Karim
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Mr Nurul Hasan Khan
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ANNEX 1

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ANNEX 2

Report on

CPD-BEA Regional Dialogue on

An Analysis of the National Budget for FY2010-11

This dialogue report was prepared by Mr Ashiqun Nabi and Mr Md Zafar Sadique, Research Associates, Centre for Policy Dialogue (CPD).

THE DIALOGUE

The Centre for Policy Dialogue (CPD) and Bangladesh Economic Association (BEA), Chittagong Chapter, jointly organised a dialogue titled *An Analysis of the National Budget for FY2010-11* on 24 June 2010, at The Peninsula Hotel, Chittagong, to discuss the proposed national budget for FY2010-11 and elicit the perceptions of the civil society stakeholders in the port city of Chittagong.

Hon'ble Minister for Industries, Government of Bangladesh, *Mr Dilip Barua* was present as the Chief Guest along with the Special Guest *Mr Mainuddin Khan Badal, MP,* Member of Parliamentary Committee on Public Undertakings. *Dr Fahmida Khatun*, Additional Director, Research, CPD, presented the keynote paper where she highlighted the distinctive features of the budget for FY2010-11 and CPD's views on the various budgetary proposals. The keynote presentation was followed by comments from the Panel Discussants *Dr Muinul Islam*, Professor, Department of Economics, University of Chittagong; and *Mr Saifuzzaman Chowdhury*. The dialogue was chaired by *Professor M Sekandar Khan*, President, BEA Chittagong Chapter.

The dialogue was attended by a distinguished set of civil society representatives in Chittagong including members of parliament (MPs), local government officials, academicians from universities, bankers, business leaders, industrialists, development practitioners, private sector entrepreneurs and journalists. The complete participant list of the dialouge is attached at the end of this Annex.

OPENING REMARKS BY THE CHAIR

Professor M Sekandar Khan initiated the session with some introductory remarks. He recalled that BEA Chittagong Chapter, has collaborated with CPD in organising a post-budget dialogue last year as well, and that he was happy that this tradition has continued this year. He hoped the dialogue will be an opportunity to voice the reaction of the common citizens with regard to various budgetary proposals, and that policymakers will take their views into cognisance. He then invited *Professor Mustafizur Rahman*, Executive Director, CPD to deliver his welcome note.

WELCOME NOTE

Professor Mustafizur Rahman welcomed all the participants to the dialogue. He expressed his sincere gratitude to the Chief Guest, Special Guest, Panel Discussants and the participants for their presence. He also thanked BEA Chittagong Chapter for their support in organising the dialogue.

While explaining the CPD's tradition of analysing the budget proposals on a regular basis, every year, and organising national dialogues on such occasion, *Professor Rahman* noted that as a think-tank, CPD felt it important to reach out to regional level stakeholders to elicit their opinion with regard to the budget and get feedback at the grassroots level. Looking forward to a rich discussion, *Professor Rahman* hoped that the observations and recommendations emerging from the discussion would provide valuable insights which policymakers will take note of and the discussions in the national parliament will reflect so, before the budget is finalised. *Professor Rahman* expressed his sincere thanks to the ATN News for collaborating with the organisers and for their support in disseminating the dialogue proceedings to the wider national audience.

THE KEYNOTE PAPER*

Dr Fahmida Khatun also joined Professor Mustafizur Rahman in welcoming the audience and thanking BEA Chittagong Chapter for their support and collaboration. She recognised the dialogue as an opportunity for the civil society of Chittagong to express their views and demands regarding the proposed national budget. She stated that she would focus only on the salient features of the macro and sectoral analyses presented in the report to leave time for more detailed discussion.

Dr Khatun initiated her presentation by recalling the benchmarks attained during the outgoing fiscal year. She appreciated the commendable performance of the National Board of Revenue (NBR) in terms of revenue collection; containment of the budget deficit at 4.5 per cent (though on the lower side when compared with the projected 5 per cent); comfortable balance of payment (BoP) situation; and significant growth in the pace of annual development programme (ADP) implementation. However, she felt that an inflationary pressure was gathering momentum in the economy which could undermine macroeconomic governance and the growth prospects in the coming year. She noted that export sector performance was being adversely affected because of the lagged impact of the global financial crisis. However, *Dr Khatun* expected that considering the overall trends in the economy it may be possible to attain a gross domestic product (GDP) growth of 6.0 per cent in FY2010-11.

* The full keynote paper has been presented in Chapter 2 of the present volume.

FY2010-11 being the last year of Poverty Reduction Strategy Paper (PRSP) and first year of the Sixth Five-Year Plan and the Ten-Year Perspective Plan of Bangladesh 2010-2021 (*Making Vision 2021 a Reality*), *Dr Khatun* found the budget for FY2010-11 to be very important in setting the tone for future development of the Bangladesh economy. She felt that measures taken as part of the proposed budget will help to reduce the widening regional disparity if spatial considerations were kept in mind whilst implementing the budgetary allocations. From the perspective of medium term monetary outlook, containing inflationary pressure had emerged as a priority in order to attain GDP growth target of 8.0 per cent by FY2013-14. Keeping inflation at about 6.0 per cent by this year would pose a major challenge in this regard, she observed. She emphasised the need for market diversification and skill development to achieve the Medium Term Macroeconomic Framework (MTMF) targets with respect to export and remittance. For robust growth, investment ought to be given priority, she added. However, the existing gap between investment and savings did not augur good for the economy. *Dr Khatun* felt that significant effort will need to be given to reduce the incremental capital-output ratio (ICOR), and that this was crucial in enhancing competitiveness of the domestic industries and was key to achieving higher growth as envisaged in the MTMF.

Referring to a research conducted by the CPD, *Dr Khatun* reported that to attain the targeted GDP growth of 6.7 per cent, agriculture sector ought to play a key role. 3.8 per cent growth as envisaged in the budget was a challenging target, but not unreachable. In view of this, agriculture sector needed to be guided by carefully crafted policies. She also emphasised on the need for appropriate policies for the growing services sector. She said that GDP growth rate was critically dependent on the performance of the industrial sector. It was particularly the manufacturing sector which could boost the performance of both the industrial sector and the export sector performances. This was important from the perspective of overcoming the lagged adverse impacts of the global financial crisis, she strongly felt.

Drawing attention of the audience to the importance of proper and timely implementation of the ADP, *Dr Khatun* noted that it was important to follow the concept of critical path method (CPM) for monitoring the projects implementation; she called for preparing action plans for top 100 important projects selected by the Planning Commission. She reported that in the first 11 months of FY2009-10, ADP implementation was 38.6 per cent higher than that of FY2008-09, in monetary terms, and felt that this originated from better monitoring and greater attention to implementation. However, she thought that to attain the revised targets there ought to be improvements on both counts. Summing up her presentation, she emphasised on the need for a more efficient public administration and better quality of service delivery.

PANEL DISCUSSION

Dr Muinul Islam, Professor, Department of Economics, University of Chittagong

Dr Muinul Islam mentioned that the proposed budget was a feasible and achievable one from the perspective of implementation despite the fact that some could criticise the targets to be rather ambitious. Recognising the links of the currently proposed budget with its predecessor, he observed that the budget for FY2010-11 should build on past record, and strive to take the economy forward. *Dr Islam* welcomed the innovative nature of presenting the budget this year, which had involved a powerpoint presentation. He noted that in doing so the Finance Minister was able to present key aspects of the budget FY2010-11 in a brief and attractive way. He however thought, the presentation deliberately avoided some uncomfortable issues.

Dr Islam also emphasised on better and faster implementation of the budgetary proposals to attain the fiscal targets set out in the FY2010-11 budget. Highlighting the severe power crunch as a major obstacle in the economy which has adversely affected the GDP growth over the previous fiscal, *Dr Islam* drew attention of the audience to slow development of the fuel and energy sector. He felt this was unacceptable. In this connection, he recommended to prioritise fuel and energy sectors as thrust areas of FY2010-11 budget. He urged for strengthening of the Petrobangla to overcome the fuel crisis. He also asked for government's priority attention to be given to building the required energy and fuel networks. He appreciated the provision of tax holiday on solar energy panels and suggested to boost alternative power. In this respect he welcomed the reduction of bank interest rate down to 5 per cent for the solar panel production. Duty-free import facility for raw materials of the solar panels would be a good incentive to motivate domestic producers, he perceived. He also urged the Finance Minister to provide subsidy to liquefied petroleum gas (LPG) cylinders to make it more affordable to the consumers. These efforts would reflect the government's genuine feelings towards the sufferings of the common people, he stressed.

Regarding the agriculture sector, *Dr Islam* feared that reduced subsidy would weaken the overall economic stability. Rather it would be advisable to provide more subsidy to some sectors, such as livestock, fish breeding and poultry. He found reduced tariff on imported milk powder, brought down to 5 per cent in the FY2010-11 budget, to be unacceptable. He rather urged for giving subsidy to domestic livestock producers. He felt that rationale of government's tariff reduction was not clear at all. He urged for setting up *Land Reforms Commission* on an urgent basis, for agriculture, as he believed no nation can take advantage of prosperity bypassing economic development in the rural areas, particularly for agriculture, and land reform was key to attain this.

Expressing his frustration regarding the transportation and communication infrastructure, *Dr Islam* noted that the recently initiated *Jatrabari Flyover* construction was the single most notable initiative. Many more needed to be undertaken, he felt. *Aila*-devastated dams are still to be reconstructed, he lamented. Acknowledging the huge prospects of public-private partnership (PPP), *Dr Islam* urged the utilisation of this model to develop Bangladesh's infrastructure. Domestic investors will need to be persuaded to invest in infrastructural development through the PPP route; undisclosed money could stimulate investment in the PPP since that had been allowed. He anticipated that if Bangladesh can achieve success through such collaborations, dependency on foreign aid would be further reduced.

Dr Islam identified several positive achievements in the economy. He welcomed the *Education Policy* which he thought to be a timely step, and expected that modalities to implement the policy in the upcoming year will be considered with due priority. However, he expressed his discomfort regarding the privileges given to the private universities in the amended *Private University Act*, and requested the relevant policymakers to revaluate such decisions and assess whether these were against the interest of mass education.

Dr Islam suggested that appropriate steps be taken to make use of the Tk. 35,000 crore of idle money lying with the banks and financial institutions to energise investment. Taking into cognisance the fact that domestic savings and remittance ratio to GDP was going up against a relatively stagnant investment-GDP ratio over the last few years, he asked for sensible measures using these surplus savings, to the tune of 5-6 per cent equivalent of the GDP, to stimulate investment. He also hoped that the new *Competition Act* and a number of other commendable measures that were in the pipeline would prove to be good for the country's economy. Opposing the opportunity given by way of legalising the undisclosed money through investment opportunity in the Bangladesh Infrastructure Finance Fund (BIFF), he felt that this was "not workable." He perceived the entire process to be unethical, and believed that this would not be helpful to the economy, this would only encourage such misdeeds in future.

Dr Islam also expressed his disappointment regarding the tax collection scenario. He noted that only 7.5 lakh tax-payers submitted their tax returns in FY2009-10, whilst NBR had registered more than 23 lakh Tax Identification Number (TIN) holders. He asked to bring the remainder under the tax net and stressed the need to raise the revenue generated through direct taxes; he also underscored the need to increase tax mobilisation from the various indirect tax sources.

Mr Saifuzzaman Chowdhury, Former President, Chittagong Chamber of Commerce and Industry (CCCI)

Mr Saifuzzaman Chowdhury agreed with Dr Islam's views and noted that a 6.7 per cent GDP growth could be achievable only if the government was able to overcome the ongoing power shortage. Being a person from the industrial arena, he realised that to enhance the industrialisation process, there was no alternative to resolving the ongoing power crisis, on an urgent basis. He thus insisted on prioritising power generation by, in his words, "any means." He asked for further immediate and speedy exploration of coal and gas resources to get a grip on the situation. He expected the policymakers to consider the option of nuclear power, as a mid-term solution.

Mr Chowdhury then focused on effective implementation of ADP in FY2010-11. He hoped that the allocated money would be disbursed in a timely manner, and that "bureaucracy would not dictate democracy this time." He also opted for ministries to set targets for their respective development works.

Mr Chowdhury commented that growth achieved in the last fiscal year was due to the hard work of the private sector entrepreneurs. He stated that domestic entrepreneurs were the key to development. They needed an investment-friendly environment and supporting infrastructure to boost forward their business. As land price was becoming exceptionally high in the country, it was difficult for small entrepreneurs to start new business, he observed. He, therefore, urged the government to build *SME Parks* in different zones specifically targeted for small-scale entrepreneurs. He also proposed that pre-shipment inspection (PSI) should be limited only for commercial imports; this would reduce business cost, he felt.

Mr Chowdhury thought that Bangladesh economy had inner strengths and the country and the stakeholders should not be dependent on donor dictation. Taking note of the country's USD 10 billion foreign exchange reserve, he urged for proper utilisation of these reserves. He noted that one had to "spend better to earn better." He also felt that export of manpower to some of the developed countries who are facing shortage of labour force due to ageing of population ought to give Bangladesh an opportunity to engage more workers abroad and earn more foreign exchange. Remittance earned from those new sources could contribute to maintaining good foreign exchange reserves and underwrite our imports situation, he observed.

With regard to the issue of increased tax rate on private transports, particularly on cars, he hoped that the public transport system ought to be appropriately developed prior to taking such decision.

Drawing attention to CPD's power of mobilising public opinion and influencing policy making in the country, *Mr Chowdhury* hoped that CPD would organise further discussion sessions on progress of budget implementation, preferably on a quarterly basis. This would provide the policymakers an opportunity to review performance, share views with relevant stakeholders and undertake mid-course corrections, he opined.

OPEN FLOOR DISCUSSION

Growth Targets

Many speakers voiced that the growth target as proposed in the budget for FY2010-11, set at 6.7 per cent, would be a major challenge. This would critically hinge on both qualitative and quantitative aspects of budget implementation. In this context, *Professor Jamal Nazrul Islam*, Professor Emeritus, Research Centre for Mathematics and Physical Sciences, University of Chittagong put special emphasis on implementation of the ADP. He agreed with Mr Saifuzzaman Chowdhury that in Bangladesh production growth target was achieved, thanks mainly to the country's private sector. He, however, thought growth came at a cost of increasing disparity between the rich and the poor. He noted that in a society where infrastructure was weak, any injection of large amount of money may create disparity which needs to be addressed through proper policy and planning.

Mr Shah Alam, General Secretary, Communist Party of Bangladesh (CPB), Chittagong urged for a growth strategy that would reduce disparity. This was more important than growth target, he noted. *Ms Shahrin Ferdousi*, a student of the Department of Economics, University of Chittagong sought clarification with regard to sources of economic growth and whether these sources could be harnessed towards higher growth in the economy.

Fiscal Measures

Mr Zahangir Alam Chowdhury, an Income Tax Lawyer drew attention of the audience to tax propositions and the amendments proposed in the budget. He pointed out a number of the various contradictions between the proposals in the budget speech and the finance bill accompanying it. He also observed that the budget speech was not a law that was to be implemented; in contrast the finance bill was a legal document. In the budget speech, he explained, it was stated that no tax would be imposed on general investors of the share market; however, the act by which the investors get exemption has not been withdrawn in the finance bill. The budget also proposed a 10 per cent tax on income from capital market institutions; but no reflection of this is found in the finance bill. Therefore, it may remain as high as 37.5 per cent tax for the institutions (company). He pointed out that income tax has increased to 0.1 per cent from the existing 0.025 per cent for the members of Stock Exchange. The apprehension is that, this burden will be shifted to the general investors. The tax will be deducted at source in case of all trade in the share market, whether the investor makes profit or not. Similarly in real estate sector, the sellers of apartments and flats were asked to pay advance income tax (AIT) (the present practice is to be paid at the end by the buyers of flat) at the time of selling the flat that eventually may not impact on their profit level. He observed that this AIT was likely to act as an indirect tax. He observed that this issue needs to be addressed appropriately.

Mr Zahangir Alam Chowdhury echoed Professor Islam, and expressed his disappointment with regards to the limited tax net in the country. Close monitoring and appropriate motivations were needed to raise this number. Referring to the penalty option of Tk. 19,200 for not submitting return for one year, he underscored that there was an opportunity to the government to earn an additional sum of about Tk. 3,000 crore only from the penalty in this regard. He found imposing the penalty to be more effective compared to search for a new 5 lakh tax-payers to increase the tax revenue. He also suggested that the universal self-assessment system should be further reformed and can be made more effective through various measures. This will augment direct income tax, he proposed.

Mr Fazlul Haq, Former Principal, Hazi Mohammad Mohsin College felt that imposition of source tax on savings bonds and the proposed tax on Pensioners' Savings Scheme was rather unproductive. He also believed that increased indirect taxes on items such as car, milk, etc. would increase inflationary pressure. However, the direct tax network should be strictly monitored to improve tax return rates from the TIN-holders. *Professor Jamal Nazrul Islam* emphasised the need to motivate regular payment of tax by the citizens, so that the government was able to raise resources to invest on public welfare, specifically for the poorest sections of the society.

Mr Badrul Haque Chowdhury, Senior Vice President, Bangladesh Freight Forwarders Association (BAFFA) opposed the increased tax rate at source from 7.5 per cent to 15 per cent on freight forwarding, stating that it will become a burden on those who were operating in this service sector; this would undermine their competitive strength, he observed. He also pointed out that no sectoral allocation has been made in support of logistics in connection with freight forwarding, and that no incentive or special proposition was provided to boost the sector. He recalled that prior to the budget proposition, the Association had placed a number of suggestions towards improvement of the freight forwarding services; however, those suggestions were not reflected in the budget.

ADP Implementation

Mr Fazlul Haq supported the idea of the Critical Path Method and *Program Evaluation Review Technique* for better implementation and monitoring of the budgetary measures and programmes. *Engr Mohammad Delwar Hossain*, President, Institution of Engineers, Bangladesh (IEB), Chittagong Centre urged for stronger monitoring during the implementation of the Budget FY2010-11.

Energy Sector and Private Investment

Many discussants noted that investment was not picking up because of the power crunch. Both local and foreign investors were waiting for the resolution of the problem.

Professor Jamal Nazrul Islam mentioned that Bangladesh's Atomic Energy Commission, if given the opportunity to work independently, would be able to solve the problem of power crisis to a large extent.

Professor Islam also detected the problem of escalating land prices as a barrier to investment. He thought that this was an emerging obstacle from the perspective of investment in and development of new industries. *Mr Rezaul Kabir*, Executive Director of Swadesh, a local NGO proposed that the government should allocate subsidies for the sick industries to promote domestic industrialisation.

Communication and Transportation

Expressing her concern about the infrastructure sector, *Begum Rosy Kabir*, Former MP observed that the communication sector should be patronised with appropriate measures. *Mr Mazharul Haque Shah Chowdhury,* Former MP also urged for speedy implementation of the proposed four-lane Dhaka-Chittagong highway. He also proposed building of railway line connecting Dhaka and Chittagong via Lakhsham in order to reduce travel time. *Engr Mohammad Delwar Hossain* also emphasised the need for development of the Dhaka-Chittagong connectivity, both in the form of highways and railways. The link between the capital and the port city ought to be strengthened, he observed.

Mr Mahbubul Haq Chowdhury (Babur), Secretary General, Bangladesh Reconditioned Vehicles Importers and Dealers Association (BARVIDA) expected a clear direction regarding transport and communication sector in the FY2010-11 budget. He recommended for development of a comprehensive transportation policy. 15 per cent newly imposed value added tax (VAT) on buses with 40-plus seats was counter-productive in the context of the need for encouraging the public sector transport to improve the traffic situation, he noted. He also opposed reduction in supplementary duty (SD) on cars with cylinder capacity of 1501-1650 cc, from the existing 100 per cent to 45 per cent.

External Sector

As a representative of export sector, *Mr Nasir Uddin Chowdhury*, First Vice-President of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Managing Director, Eastern Apparels Ltd. observed that because of the adverse impact of the prevailing global financial crisis and domestic power crunch, the export sector is now passing through its toughest time. He added that the production cost was soaring due to use of alternative power. In this context, he opposed the proposed increase in the tax on export from 0.25 per cent to 1.0 per cent at source. He urged for reconsideration of the proposal to retain competitiveness in this sector. He also noted that it was unjust to bring rented houses of readymade garments (RMG) under the VAT net.

Mr Mahmudul Hasan, Director, Bangladesh Frozen Foods Exporters Association also asked the government to reconsider the proposed increase in income tax at source on export of frozen food in the budget. He also urged for a special provision in stimulus package, for the export-oriented shrimp sector. In this context, he proposed for provision of soft loans for the shrimp cultivators.

Mr Nasir Uddin Chowdhury suggested that the government should take initiatives to support the foreign wage earners who contributed in the country's high foreign exchange reserve of USD 10 billion last year. He also urged for appointment of a commissioner at the airport to help ease the processing of documents of migrant workers and to mitigate the hassle of the workers.

Food Security and Safety Net

Mr Mohammed Noor Nabi, Assistant Professor, Department of Economics, University of Chittagong reminded the audience that in the last budget the government had promised to provide at least one member from each family below the poverty line, with a job; however, the progress was dismal. The government has once again set its target to generate one crore job opportunities; but no clear indication as to how this would be realised, is found in the budget for FY2010-11.

Ms Shahrin Ferdousi apprehended that as the economy was making its way out of the global financial crisis, there was a possibility of food inflation in the country. At this point, any reduction in the subsidy for agriculture sector (reduced from Tk. 4,950 crore to Tk. 4,000 crore in the present budget) could hamper attainment of the country's food security. While *Mr Shuvo Brata Saha*, Lecturer, East Delta University, Chittagong, thought that allocation of Tk. 700 crore for climate change was inadequate in view of Bangladesh's growing concerns with the present environmental situation.

Mr Shah Alam expressed his disappointment with respect to the government's measures to curb the power of business syndicates and in dealing with such syndicates. He felt that the government should reintroduce the Ration Card system instead of introducing Agriculture Inputs Assistance Card. He also felt that introduction of the Health Card would help all households in the proximity of the community clinics. *Begum Rosy Kabir* remarked that women-related allocations should be made use of suitably to attain the budgetary targets.

Small and Medium Enterprise (SME) Development

Mr A T M Kamruddin Chowdhury, Assistant Secretary, BEA Chittagong Chapter, and AVPS & Manager, Shahjalal Islami Bank Ltd. echoed Bangladesh Bank Governor Dr Atiur Rahman's stance on gender equity. He welcomed the allocation of Tk. 24,000 crore for women entrepreneurship and SME. He called for reviews of the existing laws and urged for appropriate regulations to recover the SME loans. He also asked for simplified SME loan recovery policy from the government.

Allocation to Research and Development (R&D)

Mr Adnan Mannan, Lecturer, Deportment of Genetic Engineering, University of Chittagong noted that no clear direction was given in the FY2010-11 budget towards R&D. He noted that most researches conducted in Bangladesh were foreign aid funded; he called for additional allocation in the area of R&D through budgetary measures. Being a member of *Swapnajatra* team which invented genome sequencing of jute, *Mr Mannan* urged for funding to secure patents of these kinds of inventions. *Mr Rezaul Kabir* strongly recommended that "brain drain" be stopped for strengthening of the research capability in the country.

Democratisation and Decentralisation of the Budget

Professor Mahfuzul Haque Chowdhury, Department of Political Science, University of Chittagong advocated for democratisation of the budget process. He proposed that the initial budget should be prepared by the bureaucrats; while another will be designed by the Parliamentary Budgetary Committee after receiving feedbacks from stakeholders of different levels. These two budgets need to be scrutinised to compile a final one - through this collaborative process a more democratic budget can be developed. *Professor Chowdhury* also observed that the district level budget was a good idea and hoped that the government will be able to design such a budget.

Mr Shah Alam also felt that democracy was being dictated by the bureaucracy. He blamed the bureaucrats for creating barriers for rejuvenation of upazila system and activation of zila parishad. He asked for separate budgets for upazila parishad, railway, etc. as part of a process that was directed towards decentralisation and democratisation of the budgetary process. He believed that the empowerment of local government was essential for combating corruption, along with the work of the Anti Corruption Commission (ACC).

Professor Jamal Nazrul Islam noted that any critical measure should be adopted only after broad and issue-focused discussion among all related stakeholders including the poorest.

Mr Mazharul Haque Shah Chowdhury termed the budget as a "Dhaka-centred" one, similar to all other budgets prepared before. Explaining the necessity of decentralisation, he proposed for upazila-centred employment generation schemes as a measure to decentralise the development process.

Foreign Aid Dependence

Professor Jamal Nazrul Islam noted that recommendations for Bangladesh's economic development should not come from outside; neither should it be imposed. He strongly argued that for the past 20 years, polices recommended by the World Bank, International Monetary Fund (IMF) and Asian Development Bank (ADB) were cause for unmitigated disaster for the country. *Mr Fazlul Haq* also suggested that IMF and World Bank should be left out of decision making process in Bangladesh. *Mr Akash Mutsuddi*, Vice-President, Young Economist Society (YES), University of Chittagong noted that Tk. 16,000 crore of the total current budget of Tk. 39,000 crore would be financed by the IMF or the World Bank. He was apprehensive that such dependency may increase instead of alleviating poverty. In this connection, he raised the issue of hard policy conditionalities that accompanied the support of these multilateral financial institutions.

COMMENTS FROM THE SPECIAL GUEST

In his speech as the Special Guest, *Mr Mainuddin Khan Badal, MP*, Member of the Parliamentary Committee on Public Undertakings stated that the economy of Bangladesh was well poised and well placed at the moment for accelerated growth. He reaffirmed that the government was committed to achieve the ambitious development goals. He assured the audience that the government will by any means, try to overcome the current power crisis. To implement the 911 ADP projects included in the budget, he called upon his fellow parliamentarians to monitor the projects in their respective constitutions. The MPs will need to play a key role and set examples as responsible representatives committed to country's development, he noted.

Drawing attention of the audience to the obstacles confronting the advancement of the country, *Mr Khan* emphasised the need for an efficient bureaucracy and stated that the present government was working on building a depoliticised bureaucracy for the country's greater interest. He again sought active support of lawmakers in this endeavour of running the government.

He expressed his disappointment as no visible allocation for Chittagong was earmarked in the budget for FY2010-11. The development of Chittagong was not only a regional development issue, he noted, it was critical to the development of the entire country and the entire national economy. Dwelling on the importance of the four-lane Dhaka-Chittagong highway to connect the centre with the Chittagong Port, to energise investment, he suggested to build a "Coastal Belt Chittagong Highway." This highway can be built without disturbing agricultural lands in Mirershorai upazila. He also expressed his concern about lack of adequate infrastructure from Dohazari to Cox's Bazar, a link to Sonadia island, where government is planning to build a deep seaport. He also criticised the slow progress of the dredging work in the Karnaphuli River and urged the relevant authorities to give priority attention to the issue. He also called for raising the efficacy of functioning of the autonomous bodies of the government and recommended speedy decentralisation.

Mr Khan expressed his sincere appreciation to the organisers of the dialogue for taking the initiative to bring this event to Chittagong. He proposed that the CPD and the BEA should consider organising such local level budget dialogues within a week of placement of the budget before the parliament, and extend its duration to a three-day long programme to hold more elaborate discussions. He thought that such an event in Chittagong would be a more rewarding exercise compared to the ones organised in Dhaka.

RESPONSE FROM THE CHIEF GUEST

Greeting all the participants of the dialogue, the Chief Guest, Hon'ble Minister for Industries, *Mr Dilip Barua* congratulated the newly elected Mayor of Chittagong City Corporation and appreciated the government's firm stand to conduct a free and fair mayoral election in Chittagong.

In sharing the view of his government, and the priorities in the budget for FY2010-11, the Minister explained that the issue of food security received the highest priority in the budget. The government's effort in terms of achieving self-sufficiency in food was also reflected in the decision of last year to raise the subsidies for fertilisers, he noted. As for the issue of reduced subsidy in agriculture in the proposed budget, *Mr Barua* assured that subsidy to agriculture would be raised as and when required. He also assured the audience that the R&D Wing of the Agriculture Department would get adequate funds. Responding to issues raised with regard to the bureaucracy, *Mr Barua* stated that bureaucrats play an important supportive role, and that it was the duty of the bureaucracy to work with efficiency and sincerity, under the guidance of the parliament, to attain the policy targets set out in the budget.

In his opinion, Bangladesh economy was now poised for higher growth despite the lagged impact of the global financial crisis. The economy was also dependent on foreign aid only to the tune of 2 per cent of the GDP. Underscoring the initiatives of his government, he informed the audience that government has announced the ship-building sector as a thrust sector. Despite the fact that personally he was not in favour of the opportunity provided to invest undisclosed money, he thought that if the undisclosed money was invested in such sectors, that would benefit the country.

Acknowledging the ongoing power crisis as the major bottleneck in boosting industrial growth, he drew attention to the fact that in our neighbour country, India, two-thirds of the total power was generated from coal. He noted that there could be three outputs from coal – gas, electricity and fertiliser. He urged for political unity in order to take effective decision with regard to the Coal Policy.

The Minister referred to the economy as the foundation of a society that defines people's welfare. The present government has pledged to improve the economic condition of the country and budget for FY2010-11 was an important step towards this goal. He noted that the government is working towards accelerating investment in infrastructure. The plan to build the deep sea port which could also service the needs of the hinterlands in China and India, was a reflection of this commitment, he added. In his concluding remarks, the Hon'ble Minister thanked CPD for the role it played in the country's policy design, and thanked the Chair of the dialogue for giving him the opportunity to share his views with the audience.

VOTE OF THANKS

Mr Khorshedul Alam Quadery, General Secretary of BEA Chittagong Chapter, expressed his deep appreciation to the Chief Guest, Special Guest, Designated Discussants, and CPD's Executive Director and the keynote speaker, for their respective contributions at the dialogue. On behalf of the BEA Chittagong Chapter and CPD, he thanked the audience, representatives of the media, particularly ATN News, and officials of Hotel Peninsula, who worked hard towards the successful holding of the programme.

CLOSING REMARKS BY THE CHAIR

The Chair of the dialogue, *Professor M Sekandar Khan*, President, BEA Chittagong Chapter thanked the participants for sharing their insights, information and views on the budget for FY2010-11. He expressed his gratitude to the Hon'ble Chief Guest, the Special Guest, the Executive Director of CPD and the audience for their contribution. He thanked the keynote speaker for the informative presentation. He expressed his hope that the budget reactions voiced at the dialogue will be taken into consideration when the budget will be finalised in the parliament. The Chair underscored the importance of such exchanges of views, and felt that there was a need for more interactive discussions involving all important stakeholders. He hoped that in future there will be more participation of the MPs in the dialogue.

Professor Khan, while summarising the overall discussion, pointed out that the discussants had disagreed with regard to reduction of subsidy in agricultural sector. He urged for implementation of the budget through local government, which he felt would bring better results. He recalled that some eminent economists opined that if 30 per cent of the budget was implemented through local government, it would not be difficult to implement the entire budget. He called for activation of autonomous commissions to be set up by the government to address various pending issues; in this connection, he requested an end to the practice of influencing the activities of such commissions by vested quarters.

Finally, he thanked CPD and all the participants of the programme, specifically the media personnel and the ATN News.

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ANNEX 2

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