Bangladesh Economy in FY2014-15

Third Interim Review of Macroeconomic Performance

Prepared under CPD's programme on

Independent Review of Bangladesh's Development (IRBD)

Centre for Policy Dialogue (CPD)

June 2015

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House 6/2 (7th & 8th floors), Block - F
Kazi Nazrul Islam Road, Lalmatia Housing Estate
Dhaka - 1207, Bangladesh
Telephone: (+88 02) 9141734, 9141703, 9126402, 9143326 & 8124770
Fax: (+88 02) 8130951
E-mail: info@cpd.org.bd
Website: www.cpd.org.bd

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The views expressed in this volume are those of the CPD IRBD 2015 Team members and do not necessarily reflect the views of the CPD.

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CPD IRBD 2015 Team

Professor Mustafizur Rahman, Executive Director, CPD and *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD were in overall charge of preparing this report as the Team Leaders.

Lead contributions were provided by *Dr Khondaker Golam Moazzem*, Additional Research Director and *Mr Towfiqul Islam Khan*, Research Fellow, CPD.

Section 1.3 of this voluem was contributed by *Dr Quazi Shahabuddin*, former Director General, Bangladesh Institute of Development Studies (BIDS).

Chapter 3 of the volume is authored by *Mr Towfiqul Islam Khan*, Research Fellow and *Mr Mostafa Amir Sabbih*, Research Associate, CPD.

Valuable research support was received from *Mr Md. Zafar Sadique,* Senior Research Associate; *Ms Meherun Nesa*, Research Associate; *Ms Farzana Sehrin,* Research Associate; *Mr Md. Naimul Gani Saif,* Research Associate; *Mr Mohammad Afshar Ali,* Research Associate; *Ms Shahida Pervin*, Research Associate; *Mr Mostafa Amir Sabbih,* Research Associate; *Ms Nashia Zaman,* Research Associate; *Mr Ariful Islam,* Research Associate; *Ms Refaya Rashmin,* Research Associate; *Mr Estiaque Bari,* Research Associate, *Ms Kashfi Rayan,* former Research Associate; *Ms Rehnuma Jahan Islam,* former Research Associate, CPD and *Mr Abul Kalam Azad,* Lecturer, Department of Economics, University of Dhaka.

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2015 Team.

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As part of the CPD IRBD tradition, CPD organised an Expert Group Consultation on 10 May 2015. An annotated outline of Chapter 1 of this volume, prepared by the CPD IRBD 2015 Team, was shared at this meeting with a distinguished group of academics and professionals. The CPD team is grateful to all of those present at the consultation for sharing their views, insights and comments on the draft report. A list of the participants of the meeting is provided below *(in alphabetical order)*:

Dr Monzur Hossain	Senior Research Fellow Bangladesh Institute of Development Studies (BIDS)
Dr A B Mirza Azizul Islam	Former Advisor to the Caretaker Government Ministries of Finance and Planning
Dr Ahsan Habib Mansur	Executive Director Policy Research Institute of Bangladesh (PRI)
Mr Syed Nasim Manzur	President Metropolitan Chamber of Commerce and Industry (MCCI) and Managing Director, Apex Footwear Limited
Mr Md Aminur Rahman	Former Member, Income Tax Policy National Board of Revenue (NBR)
Dr Quazi Shahabuddin	Former Director General Bangladesh Institute of Development Studies (BIDS)
Dr Mohammed Helal Uddin	Director, Economic Research Group (ERG) and Associate Professor, Department of Economics University of Dhaka

Dr Fahmida Khatun, Research Director, CPD, currently on leave as a Fulbright Fellow at the Earth Institute, Columbia University, USA has provided useful comments and suggestions on several IRBD outputs.

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The CPD IRBD 2015 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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Acronyms

ADB	Asian Development Bank
ADP	Annual Development Programme
ADR	Alternative Dispute Resolution
AEC	American-Singapore Consortium of Astra and Excelerate
AIT	Advance Income Tax
ASEAN	Association of Southeast Asian Nations
ATV	Advance Trade VAT
BAEC	Bangladesh Atomic Energy Commission
BARI	Bangladesh Agricultural Research Institute
BBA	Bangladesh Bridge Authority
BBS	Bangladesh Bureau of Statistics
BCA	Bank Companies Act
BCIC	Bangladesh Chemical Industries Corporation
BDT	Bangladeshi Taka
BERC	Bangladesh Energy Regulatory Commission
BFFEA	Bangladesh Frozen Foods Exporters Association
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BIDS	Bangladesh Institute of Development Studies
BIFPC	Bangladesh India Friendship Power Company
BJMC	Bangladesh Jute Mills Corporation
BOOT	Build-Own-Operate-Transfer
BPC	Bangladesh Petroleum Corporation
BPDB	Bangladesh Power Development Board
BPGMEA	Bangladesh Plastic Goods Manufacturers and Exporters Association
BPICC	Bangladesh Poultry Industries Coordination Committee
BTRC	Bangladesh Telecommunication Regulatory Commission
BoE	Bill of Entry
CAGR	Compound Annual Growth Rate
CEGIS	Center for Environmental and Geographic Information Services
CNG	Compressed Natural Gas
CPD	Centre for Policy Dialogue
CPGCBL	Coal Power Generation Company Bangladesh Ltd.
DAE	Department of Agricultural Extension
DAM	Department of Agricultural Marketing
DCCI	Dhaka Chamber of Commerce & Industry
DDC	District Development Committee (Nepal)
DMRTCL	Dhaka Mass Rapid Transit Company Ltd.
DPP	Development Project Proposal
DRF	Development Results Framework
DSC	Development Support Credit

DSL	Debt Service Liability
DTCA	Dhaka Transport Coordination Authority
DoE	Department of Environment
ECB	European Central Bank
ECF	Extended Credit Facility
ECNEC	Executive Committee of National Economic Council
EIA	Environmental Impact Assessment
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
ERD	Economic Relations Division
EU	European Union
EVI	Economic Vulnerability Index
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
FCB	Foreign Commercial Bank
FDI	Foreign Direct Investment
FFW	Food for Work
FGD	Focus Group Discussion
FPMU	Food Planning and Monitoring Unit
FSRU	Floating Storage Re-Gasification Unit
FTPMC	Fast Track Project Monitoring Committee
f.o.b	Free-on-Board
GDP	Gross Domestic Product
GIS	Geographic Information System
GNI	Gross National Income
GSP	Generalized System of Preferences
GTCL	Gas Transmission Company Ltd.
GoB	Government of Bangladesh
G2G	Government-to-Government
HAI	Human Asset Index
HIES	Household Income and Expenditure Survey
HS	Harmonized Commodity Description and Coding System
IAEA	International Atomic Energy Agency
IALA	International Association of Light House Authorities
ICD	Inland Container Depot
ICOR	Incremental Capital-Output Ratio
ICT	Information and Communication Technology
IDA	International Development Association
IDB	Islamic Development Bank
IFC	International Finance Corporation
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
IRBD	Independent Review of Bangladesh's Development
iBAS	Integrated Budget and Accounting System
JICA	Japan International Cooperation Agency
kWh	Kilowatt per Hour
LDC	Least Developed Country
LFS	Labour Force Survey
LGED	Local Government Engineering Department
LNG	Liquefied Natural Gas
LOLR	Lender of Last Resort
LTR	Loan against Trust Receipt
L/C	Letter of Credit
MIS	Management Information System
MP	Member of Parliament
MPS	Monetary Policy Statement
MT	Metric Ton
MTBF	Medium Term Budgetary Framework

MTIR	Mid-Term Implementation Review
MTMF	Medium Term Macroeconomic Framework
MW	Mega Watt
MoF	Ministry of Finance
MoU	Memorandum of Understanding
mmscfd	Million Standard Cubic Feet Per Day
NATP	National Agriculture Technology Project
NBR	National Board of Revenue
NCB	Nationalised Commercial Bank
NPC	Nepal Planning Commission
NPL	Non-Performing Loan
NSD	National Savings Bond
NTPC	National Thermal Power Corporation (India)
OPEC	Organization of the Petroleum Exporting Countries
PCB	Private Commercial Bank
PFDS	Public Food Distribution System
PMO	Prime Minister's Office
POL	Petroleum, Oil and Lubricants
PPP	Public-Private Partnership
QIP	Quantum Index of Production
QRR	Quick Rental Power Plant
RADP	Revised ADP
RDPP	Revised Development Project Proposal
REER	Real Effective Exchange Rate
REHAB	Real Estate & Housing Association of Bangladesh
RMG	Readymade Garments
RTHD	Road Transport and Highways Division
SAM	Social Accounting Matrix
SB	Specialised Bank
SCB	State-Owned Commercial Bank
SD	Supplementary Duty
SDG	Sustainable Development Goal
SEC	Securities and Exchange Commission
SEZ	Special Economic Zone
SFYP	Sixth Five Year Plan
SME	Small and Medium Enterprise
SRO	Statutory Regulatory Order
SVRS	Sample Vital Registration System
SoE	State-Owned Enterprise
TCB	Trading Corporation of Bangladesh
TEU	Twenty-Feet Equivalent Unit
TPP	Trans-Pacific Partnership
TR	Test Relief
tcf	Trillion Cubic Feet
UAE	United Arab Emirates
UN	United Nations
UNDESA	United Nations Department of Economic and Social Affairs
US	United States
USD	United States Dollar
USITC	United States International Trade Commission
VAT	Value Added Tax
VDC	Village Development Committee (Nepal)
VGD	Vulnerable Group Development
VGF	Vulnerable Group Feeding
WDI	World Development Indicator
WTO	World Trade Organization
7FYP	Seventh Five Year Plan

Chapter 1

State of the Bangladesh Economy in FY2014-15 and the Closure of Sixth Five Year Plan

This report was released to the media by the Centre for Policy Dialogue (CPD) on 1 June 2015.

1.1 INTRODUCTION

Notwithstanding continued prevalence of an atmosphere of 'democratic discomfort', Bangladesh's fiscal year 2014-15 (FY2014-15) is closing with a number of macroeconomic advantages including lower inflation, declining interest rate, stable exchange rate, manageable fiscal deficit, positive balance of payments and augmented foreign exchange reserves. The low level of global commodity prices including that of oil has also provided some respite in terms of resources needed to meet subsidy demands. Developing countries of Asia managed to accelerate their growth rates, with India and the Association of Southeast Asian Nations (ASEAN) countries being in the lead (ADB, 2015). On the other hand, the major economies in the global economic frontier (i.e. the United States of America (USA), countries in the European Union (EU), and Japan) are growing at an uneven pace, limiting the global growth prospects to only 3 per cent in 2015, as projected by the World Bank (2015a).

Some of the fault lines of the elapsing fiscal year included unachieved revenue targets, low flow of foreign assistance, sluggish exports to the US market, and failure to ensure incentive price to the rice farmers. Acceleration in private investment remained an elusive target. Efforts to bridge the infrastructure gap did not experience much discernible success. Admittedly, all these opportunities and challenges are going to define the benchmarks for the next fiscal year, FY2015-16.

The upcoming fiscal year is also unique as it will coincide with the period when the member states of the United Nations (UN) will finalise the Sustainable Development Goals (SDGs) which are likely to inform the global development policies over the next one and a half decades. Interestingly, the launch of the global agenda will also overlap with the initial year of the next mid-term national development plan of Bangladesh, i.e. the Seventh Five Year Plan (7FYP). As it is now widely acknowledged, national governments, by demonstrating ownership, will need to be in the driver's seat of implementation of the post-2015 international agendas. In this backdrop, the national budget for FY2015-16 has to signal the linkages between post-2015 international agendas and the country's 7FYP, particularly through a focus on mobilising adequate domestic public finance to underwrite the implementation of the SDGs in the Bangladesh context.

The present chapter is the third interim report regarding the performance of the Bangladesh economy in FY2013-14 prepared under the Independent Review of the Bangladesh's Development (IRBD), the flagship programme of the Centre for Policy Dialogue (CPD). It may be recalled here that the two earlier reports were released on 3 January 2015 and 5 April 2015. The report provides, based on the latest available data and information, CPD's assessment of the key indicators of macroeconomic development in Bangladesh in FY2014-15. It also takes a close look at three thematic areas of contemporary relevance. These are recent dynamics of rice economy, the state of the fast-track public investment projects and an analysis of the Sixth Five Year Plan (SFYP) which is drawing to a close with the terminal year of FY2014-15.

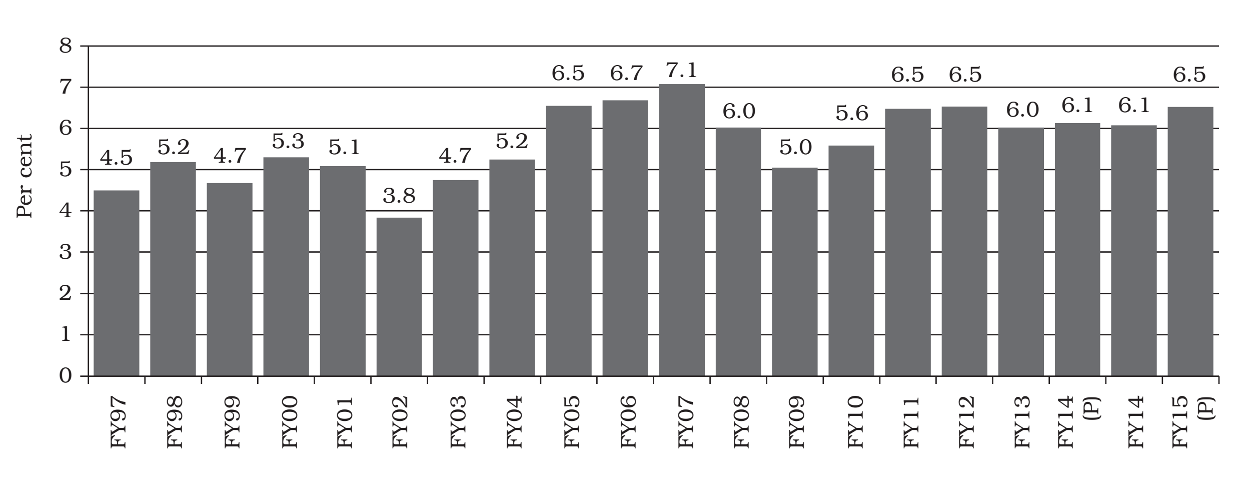
1.2 MACROECONOMIC MANAGEMENT IN FY2014-15 AND OUTLOOK FOR FY2015-16

1.2.1 Quest for Momentum in Private Investment to Continue

Bangladesh Bureau of Statistics (BBS) has recently established a provisional estimate of 6.5 per cent for gross domestic product (GDP) growth for FY2014-15 (Figure 1.1). This was 0.8 percentage point lower than the target of 7.3 per cent in the FY2014-15 budget.[1] It may be recalled that, according to SFYP, the GDP growth rate for FY2014-15 was set at 8 per cent. Many analysts, including those from the World Bank and Asian Development Bank (ADB), expected economic growth in FY2014-15 to be between 5.6 and 6.1 per

[1]The estimates of national accounts are prepared based on the new year of 2005-06. It is, however, unclear as to whether the targeting of GDP growth considered the new base year.

Figure 1.1
GDP Growth Rate



Source: Bangladesh Bureau of Statistics (BBS).

cent due to political turmoil in the third quarter of the fiscal year and trends of associated macroeconomic correlates (see World Bank (2015b) and ADB (2015)). CPD (2015a) estimated that total losses suffered by selected sectors from January to mid-March of 2015 due to political unrest would be approximately Tk. 4,900 crore, which would be approximately 0.55 per cent of GDP for FY2014-15 if the 6.5 per cent GDP growth projection for FY2014-15 by the Bangladesh Bank is taken as a reference point. Indeed, the provisional GDP growth estimate was found to be higher than expectations.[2]

Of the 6.5 per cent overall provisional growth estimate for FY2014-15, agriculture contributed 0.5 per cent (compared to 0.7 per cent in FY2013-14 and 0.4 per cent in FY2012-13), industry's contribution is estimated to be 2.7 per cent (compared to 2.3 per cent in FY2013-14 and 2.6 per cent in FY2012-13), and the contribution of the services sector is estimated to be 3 per cent (compared to 2.9 per cent in FY2013-14 and 3.4 per cent in FY2011-12) (Table 1.1). Over the past five years, the average increase in the GDP growth rate was 0.01 percentage point per year.

Table 1.1
Contribution to GDP Growth during FY2010-11 to FY2014-15

(in Per cent)

Sector	**FY11**	**FY12**	**FY13**	**FY14**	**FY15 (P)**
Agriculture	0.78	0.52	0.41	0.70	0.48
Crop	*0.40*	*0.18*	*0.06*	*0.34*	*0.12*
Others agriculture	*0.39*	*0.34*	*0.35*	*0.36*	*0.37*
Industry	2.31	2.47	2.59	2.27	2.72
Manufacturing	*1.64*	*1.69*	*1.80*	*1.60*	*1.93*
Others industry	*0.66*	*0.78*	*0.79*	*0.67*	*0.80*
Services	3.25	3.43	2.88	2.92	3.02
Taxless subsidy	0.12	0.10	0.13	0.16	0.28
GDP	**6.46**	**6.52**	**6.01**	**6.06**	**6.51**

Source: Calculated from the Bangladesh Bureau of Statistics (BBS).

[2]World Bank (2015b) also opined that the limitation within the national accounting system might fail to capture the actual economic growth performance in FY2014-15.

For FY2014-15, the per capita gross national income (GNI) of Bangladesh is estimated to be approximately USD 1,314, which is USD 131 more than that of the preceding year (representing growth of 11 per cent). Per capita GDP is estimated to have risen to USD 1,235 in FY2014-15 from USD 1,110 in FY2013-14, an increase of USD 125 (11.3 per cent growth). These new per capita GNI and GDP estimates indicate an increased likelihood that Bangladesh is graduating to lower-middle income status (details in Box 1.1). However, Bangladesh will have to wait more for being eligible to be graduate from the least developed country (LDC) status.

Box 1.1

Bangladesh – The Next Country in the Lower-Middle Income Country List!

Steady economic growth, strong inflow of remittances, controlled population growth and stable exchange rate helped improve per capita income of Bangladesh. The recent rebase of national accounting estimates also provided a lift (by about 15 per cent). As a result, the country is likely to be included in the lower-middle income country list prepared by the World Bank. It may be recalled that the World Bank reviews the income criteria list on 1 July of every year. For the current 2015 fiscal year, lower-middle income economies are those with a GNI per capita of more than USD 1,045 but less than USD 4,126 (calculated in Atlas method). It is expected that for FY2015-16, the threshold may be raised to some extent, as it has been the case in past years. The new review will consider the per capita income (in Atlas method[3]) for FY2013-14. In nominal terms, according to the new national accounts estimates per capita income of Bangladesh was USD 1,084, which could give Bangladesh a good chance to be enlisted as a lower-middle income country.

In contrast, as has been expected, the recent review of LDC status, undertaken in 2015, did not include Bangladesh as a prospective candidate for being graduated from the list of LDCs. It may be mentioned here that the current review used three criteria for considering a country being graduated – (a) GNI per capita of USD 1,242 or more (based on Atlas method and average of three years, i.e. 2011-2013 for 2015 review); (b) Human Asset Index (HAI) of 66 or more; and (c) Economic Vulnerability Index (EVI) of 32 or less. At least two of these three criteria must be met in order to be considered for graduation from the LDC status.[4] As can be seen from Box Table 1.1, Bangladesh did meet EVI, but could not be meet the other two.

Box Table 1.1: Bangladesh's Performance in LDC Status Review

Year of Review	EVI	HAI	GNI Per Capita (USD)
2006	25.8	50.1	403.3
2009	23.2	53.3	453.3
2012	32.4	54.7	636.7
2015	25.1	63.8	926.3

Source: United Nations Department of Economic and Social Affairs (UNDESA).

As it appears, Bangladesh will need to wait until the next review in 2018 for being included in the graduation list. It may be recalled that Bhattacharya and Borgatti (2012) argued for a graduation path for Bangladesh through the development of its human capital assets. The progress of Bangladesh as regards HAI reviews between 2012 and 2015 is found to be impressive. If Bangladesh can make the final push, it is still possible for Bangladesh to meet the graduation thresholds by 2018, graduate out of the LDC group in 2024.[5]

In view of above, Bangladesh must prepare itself accordingly. The inclusion of Bangladesh in the lower-middle income country may push the country into from Category I to Category II of the International Development Association (IDA) which is the soft loan window of the World Bank. It is also important to recognise that over the decades many countries are being trapped in the middle-income group. Hence, Bangladesh will also need preparation for facing a new set of development challenges in the coming years.

[3]For details see https://datahelpdesk.worldbank.org/knowledgebase/articles/378832-what-is-the-world-bank-atlas-method.

[4]A country also qualifies if its GNI per capita is sustainably above USD 2,484, independent of its HAI and EVI scores.

[5]It needs to be mentioned here that if Bangladesh can graduate out of the LDC group in 2024, it will be able to keep all the benefits linked to the LDC status until 2027.

Table 1.2
Sector-wise GDP Growth

(in Per cent)

Sector	FY12	FY13	FY14	FY15 (P)
Agriculture	3.01	2.46	4.37	3.04
Industry	9.44	9.64	8.16	9.60
Manufacturing	*9.96*	*10.31*	*8.77*	*10.32*
Services	6.58	5.51	5.62	5.83
GDP	**6.52**	**6.01**	**6.06**	**6.51**

Source: Bangladesh Bureau of Statistics (BBS).

Manufacturing is estimated to have achieved a significantly high growth of 10.3 per cent in FY2014-15 in real terms despite the severe disruption of the supply chain during the aforementioned political turmoil (Table 1.2). The services sector's estimated growth rate of 5.8 per cent in FY2014-15 is a surprise. The industry sector, mainly driven by manufacturing growth, is estimated to have largely contributed to the additional growth of 0.45 percentage point in FY2014-15. A more disaggregated analysis is necessary to determine how the manufacturing sector could achieve such growth, which represents a moderate share of between 19 and 20 per cent in GDP. The manufacturing sector is composed of two Quantum Indices of Production (QIPs): large and medium-scale, and small-scale. Both QIPs are estimated to have achieved 10-11 per cent growth despite the fact that the small-scale QIP has a comparatively smaller share of about 3.5 per cent in total GDP.

During the first six months of FY2014-15, production estimates based on the QIP of large and medium-scale manufacturing industries recorded an impressive growth of 10.3 per cent. Within the general index, food products, pharmaceuticals and medical chemicals, and non-metallic mineral products – which have a combined weight of 26.1 per cent – mainly contributed to improved growth in July-December of FY2014-15 compared to growth in FY2013-14 (for details, see Annex Table 1.1). Notably, two major export-oriented products, textiles and wearing apparel, which have a combined weight of 48.9 per cent, have achieved negative growth ((-)12.8 per cent) and growth of less than 1 per cent (growth was 10.5 per cent in FY2013-14) respectively in the first six months of FY2014-15. The production performance of this particular group is reflected by the low export growth achieved during the initial months of FY2014-15.

Small-scale industries, on the other hand, registered lower growth rates during the same period, although jute, cotton, wearing apparel, leather and fabricated metal products performed relatively better. Fabricated metal products and basic metal products had higher growth rates of 22.1 per cent (compared to 10.8 per cent in FY2013-14) and 14.8 per cent (compared to 6.4 per cent in FY2013-14) respectively in the first half of FY2014-15. However, food, beverage and tobacco products, which are export-oriented products, saw a moderate growth of 9.9 per cent in July-December of FY2014-15.

From the expenditure side, both public and private consumption declined in the FY2010-11 to FY2014-15 period (Table 1.3). However, both domestic and national saving increased during this period.

Since FY2011-12, private sector investment growth has stagnated (Figure 1.2). The provisional GDP figure for FY2014-15 projects a marginal improved private investment performance (with a change of 0.04 of a percentage point as a share of GDP). The proxy indicators indicated a mixed picture as regards investment in FY2014-15. The growth of credit to private sector could only grow by 13.6 per cent as of March 2015. In contrast, growth of term loan for industries increased by 45.2 per cent during the first nine months of FY2014-15. However, there is a growing concern over the quality of term loan data as loans against trust receipts (LTRs) were also often accounted under the term loan. The utlisation of bank loans also needs to be monitored closely. Total investment in export processing zones (EPZs) achieved a growth rate of 13.1 per

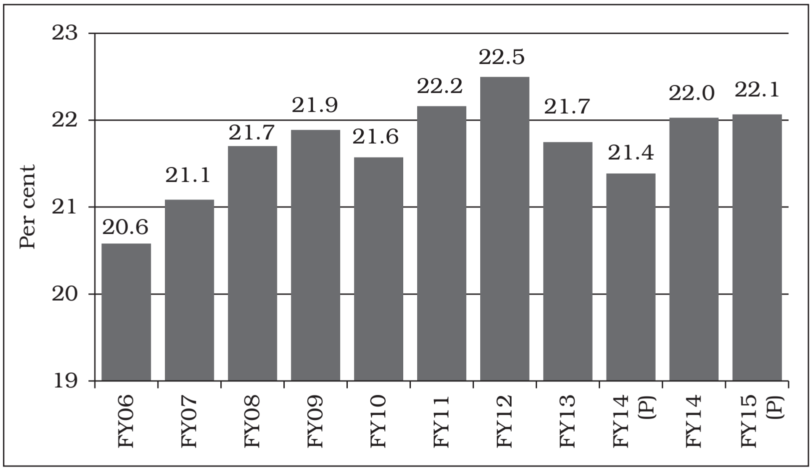
Table 1.3
Share of GDP Components by Expenditure Method

(in Per cent)

Industrial Origin Sector	FY96-FY00	FY01-FY05	FY06-FY10	FY11-FY15
Consumption	81.81	79.22	79.50	78.34
Private	76.86	74.15	74.27	73.14
General government	4.95	5.07	5.23	5.21
Investment	22.24	24.80	26.20	28.32
Private	16.37	19.15	21.37	22.10
Public	5.86	5.65	4.83	6.22
Export of goods & services	11.22	12.55	16.79	19.16
Import of goods & services	16.38	17.44	22.92	26.70
Gross domestic saving	18.19	20.78	20.50	21.66
Gross national saving	22.62	25.41	28.31	29.50

Source: Calculated from the Bangladesh Bureau of Statistics (BBS).

Figure 1.2
Private Investment (% of GDP) in Last 10 Years



Source: Calculated from the Bangladesh Bureau of Statistics (BBS).

cent (worth USD 3.4 billion) in July-April of FY2014-15 over the corresponding period of FY2013-14. The corresponding growth figures were 14.5 per cent in FY2013-14 and 31.5 per cent in FY2012-13.[6]

Growth of payments against capital machinery import was also impressive – 23 per cent during the first nine months of FY2014-15. To investigate, at a more disaggregated level, the sources of the recent rise in imports of capital machinery, while private investment is still perceived to be stagnating, CPD examined detailed import shipment data for July-March of FY2014-15. It was identified that 30 import items (at HS 8-digit level), whose assessable value is more than Tk. 100 crore, achieved over 100 per cent growth during the period. More precisely, four of the items (in the categories aeroplanes and other aircraft, compression-ignition internal combustion piston engines, machines for treating metal including electric wire, and transformers [power handling capacity 16-500]) show very high growth in their value. More importantly, very high growth can be observed in the price of these four items during July-March of FY2014-15, which is abnormal within the period of a single year. With regard to price growth in July-March of FY2014-15 over the corresponding months of FY2012-13, apart from the effluent treatment plan that saw 557 per cent growth, all other items show either lower or negative growth. Imports of such a large amount of capital

[6]Mainly investment in garment (investment growth of 18.9 per cent) and garment accessories (10.7 per cent), textiles (130.2 per cent), footwear and leather (17.6 per cent), electronics (84.6 per cent) and power (188 per cent) contributed to this growth in the first nine months of FY2014-15. Among EPZs, the highest investment during this period was in the Chittagong EPZ (worth USD 1.3 billion), followed by the Dhaka EPZ (worth USD 1.1 billion).

machinery at this price level during this period warrant a double check. Such an exceptional pattern of import figures necessitates appropriate scrutiny on the part of the National Board of Revenue (NBR). It may be recalled that CPD (2014) also indicated the possibility of illicit financial flow through import of capital machinery. On a welcome note, following the CPD's repeated assessment, the central bank has recently started scrutinising Bills of Entry (BoE) received from commercial banks to unearth possible capital flight in the form of capital machinery import. A recent rapid business environment assessment survey, conducted by the CPD, found that a significant portion of large entrepreneurs in Bangladesh (62.5 per cent), who were surveyed, agreed (somewhat, largely and strongly) that money laundering was taking place through formal banking system in Bangladesh extensively.

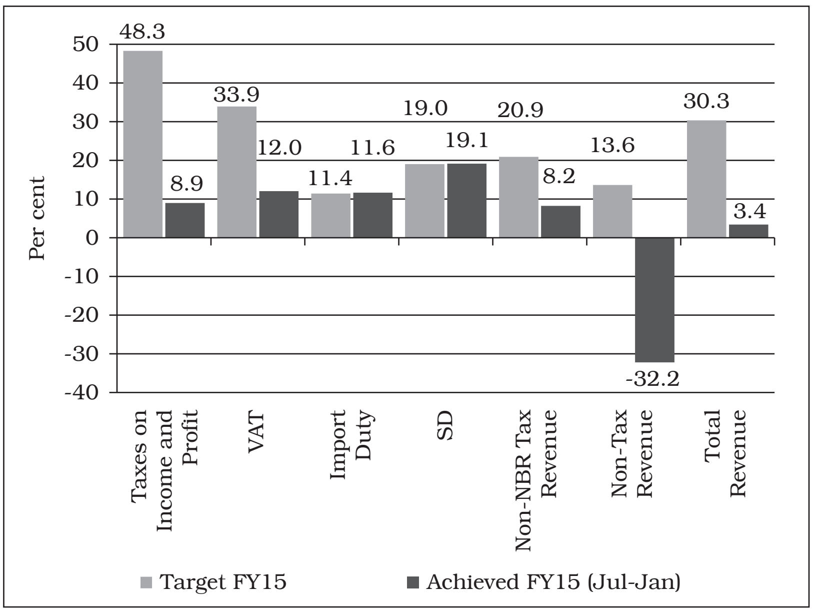
The aforementioned survey also indicated a rather unimpressive private investment outlook. About 60.7 per cent survey respondents apprehended that investment environment could deteriorate further in coming days. During the survey, the respondents also mentioned the major impediments towards private investment; these included corruption, inadequate infrastructure, inefficient government bureaucracy, government instability and limited access to financing. Given the high interest on lending charged by the domestic banking sector, most of the survey respondents (53.5 per cent) supported allowing foreign loans for private investment to a great extent. The survey results revealed that most of the respondents possessed a rather pessimistic view as regards the ongoing initiatives to improve infrastructure in Bangladesh (67.8 per cent) and their prospects of timely implementation (76.7 per cent).

1.2.2 Anticipated Revenue Shortfall is a Reality in FY2014-15, but will the Lesson be Learnt for FY2015-16?

While collection of both tax and non-tax revenue has continued to fall below expectations throughout the fiscal year, attempts have been made to attain ambitious targets for FY2014-15. According to integrated budget and accounting system (iBAS) data, during the first eight months of FY2014-15 (July-February), tax revenue collection by the NBR registered a growth of 12.4 per cent compared to the same months of the previous fiscal year, although this did not meet the target of 34.4 per cent over the tax revenue collected in FY2013-14 (MoF, 2015). Only import duty and supplementary duty (SD) collections are on track to achieve their respective targets (Figure 1.3).[7] In contrast, collection from non-tax revenue sources was 32.2 per

Figure 1.3

Target and Achieved Revenue Growth in FY2014-15



Source: Calculated from the Bangladesh Bureau of Statistics (BBS).

[7] It should be noted that target growth rates for import and supplementary duties were set at relatively lower levels among the components of tax revenue collection.

Box 1.2

Data Paradox: NBR vs. MoF

In recent years, discrepancy regarding figures for overall revenue collection between NBR-sourced data and iBAS-reported Ministry of Finance (MoF) data was not uncommon, but it has widened significantly. At the end of FY2014, the discrepancy stood at Tk. 9,091 crore (Box Table 1.2). During the first eight months of FY2015, the discrepancy was Tk. 4,303 crore. If this year's trend follows those of the past, the discrepancy may widen further when the two entities report their year-closing figures. Such discrepancy has a detrimental impact on fiscal and budgetary policymaking. Consolidation is needed and expected to ensure efficacy in public finance management.

Box Table 1.2: Growing Discrepancy between MoF and NBR Data as regards Revenue Collection

(Crore Tk.)

Year	MRFP, Finance Division, MoF	NBR, MoF	Difference	% Departure from MRFP
FY09	49,933	52,527	2,594	5.2
FY10	59,396	62,042	2,646	4.5
FY11	76,248	79,403	3,155	4.1
FY12	91,595	95,059	3,464	3.8
FY13	103,332	109,152	5,820	5.6
FY14	111,422	120,513	9,091	8.2

Source: Estimated from the National Board of Revenue (NBR) and Ministry of Finance (MoF) data.
Note: MRFP refers to the Monthly Report on the Fiscal Position, which is published on the MoF website.

cent less (worth Tk. 5,619 crore) in July-February of FY2014-15 compared to the corresponding months of FY2013-14. At the end of FY2014-15, it appears that overall revenue collection may fall short by Tk. 30,000 crore, well below the target set in the budget for FY2014-15.[8] In its previous two reviews of Bangladesh's economy in FY2014-15 (released to the media on 3 January and 5 April 2015 respectively), CPD predicted a shortfall of Tk. 25,000 crore. Hence, while setting targets for FY2015-16, a realistic revision of the revenue targets for the ongoing fiscal year is warranted.

1.2.3 Several Policy Decisions will Determine the Public Expenditure Outlay in FY2015-16

The plan for public expenditure for FY2015-16 and associated outcomes will be determined by a number of factors: an implementation plan for the public service pay scale, international commodity prices, a decision on upward revision of administered prices for oil, gas and electricity, recapitalisation of state-owned commercial banks (SCBs) and required interest payments. In most cases, the government will have to make key decisions that will have important macroeconomic impacts.

As of February of FY2014-15, non-development expenditure comprised only 46.9 per cent of total expenditure planned for the FY2014-15 budget, which is only 1.1 per cent higher than that for the corresponding period of FY2013-14. All of the sub-components registered below-target growth except for 'Pay and Allowances,' which recorded a 13.4 per cent growth in July-February of FY2014-15 against the annual target of 9 per cent. Two major sources of non-development expenditure, 'Interest Payments' and 'Subsidies and Current Transfers', remained well below their respective targets during the same period. The growth of overall capital expenditure[9] was negative, although Tk. 1,716 crore was disbursed for the recapitalisation of state-owned enterprises (SoEs).

[8]The target set for total revenue collection in the budget for FY2014-15 was Tk. 182,954 crore. iBAS data show that total collection during July-February of FY2014-15 was Tk. 90,457 crore, or 49.4 per cent of the target amount. The shortfall estimation was undertaken based on iBAS data.
[9]Includes 'Acquisition of Assets and Works' and 'Investments in Shares and Equities' sub-components.

Additional expenditure will be required during FY2015-16 for the 'Pay and Allowances' sub-component to implement the new pay scale for government officials, which will be effective from 1 July 2015. It has been reported that an additional Tk. 13,000 crore will be set aside for this initiative. There may potentially be pressure for domestic interest payments in FY2015-16 in view of the buoyant sale of national savings instruments during FY2014-15. Subsidy requirements are expected to remain as a downside in FY2015-16 amidst low oil prices in the global market. CPD provided a detailed analysis of subsidy requirements in its first review of Bangladesh's economy in FY2014-15 (CPD, 2015b). During FY2014-15, the Bangladesh Petroleum Corporation (BPC) is expected to secure a profit of around Tk. 2,000 crore and no longer require subsidies. The surplus may be partially passed through to source the Bangladesh Power Development Board's (BPDB) planned demand of Tk. 7,500 crore in FY2014-15. CPD suggested that, rather than a price rationalisation, adjustments of administered prices should be considered as part of a single package. For FY2015-16, the government should consider a marginal adjustment of electricity and gas prices and keep the petroleum prices as they are. It is rather important that the BPC uses its profit to repay its long-standing loans to the SCBs.

1.2.4 Raising Efficacy of Subsidy Management Calls for Designing a Comprehensive National Subsidy Policy

Since independence, successive governments in Bangladesh have taken recourse to subsidy as a key policy tools of macroeconomic management. Subsidies were provided in the name of achieving a diverse range of objectives: promoting equity and redistributive justice, addressing market failure, ensuring food security, raising export competitiveness, safeguarding consumers' interests, protecting infant industries, providing affordable services, and supporting SoEs. They were given in the form of lower prices of goods, services and utilities, duty-free import, producer incentives and consumer support, conditional and unconditional cash transfers, tax credit, tax benefits and foregone revenue earnings, loans and grants, equity infusion and guarantees by the state, recapitalisation and underwriting the losses of SoEs. Subsidies were targeted to agriculture, industries and services sectors; groups such as farmers, consumers, exporters and entrepreneurs; enterprises both public and private. Subsidies were given both directly and in a host of indirect ways.

Indeed, the amount of subsidy allocations in Bangladesh's budgets has been significant, reaching Tk. 33,500 crore or 2.8 per cent of GDP in FY2012-13, albeit coming down somewhat in recent years in the backdrop of falling global prices, particularly for fuel, fertiliser and food. In the budget for FY2014-15, total allocation for loans, subsidies and fiscal incentives was to the tune of 26,000 crore taka, which was equivalent to 1.7 per cent of the GDP.

It is to be noted here that the efficacy of subsidy as a macroeconomic policy tool has been put under close scrutiny in recent times. Drawing on cross-country experience, researchers, analysts, policymakers and practitioners have called for an in-depth and comprehensive review of subsidy's role and efficacy both in terms of objectives they are set to achieve, and the efficacy of subsidies to achieve those objectives. Questions have been raised as to (a) whether subsidies are being able to achieve the targets they were set to achieve, be it in terms of promoting equity, addressing market failure or safeguarding interests of domestic sectors and economy; (b) whether subsidies were the best tools to attain those same objectives; (c) whether the manner in which subsidies were distributed and delivered among sectors and across consumers' and producers' groups and state and private sectors, was the most optimum from the perspective of both allocative efficacy and delivery efficacy; (d) whether opportunity costs of subsidies are justified, at the least, some types of subsidies; and (e) whether, and to what extent, subsidies were fiscally sustainable, particularly in view of the limited resources at the disposal of the developing countries' governments.

Indeed, these issues alongwith some others were raised at a recently held CPD dialogue (on 2 May 2015) where a paper titled "Understanding Efficiency and Distributional Equality of Subsidy in Bangladesh," authored by Dr Kaniz Siddique, Visiting Fellow, CPD was presented, commented upon and discussed. The paper and subsequent discussions underpinned the urgency of revisiting the issue of subsidy in the current context of Bangladesh, and emphasised the need to inculcate discipline and transparency in the manner in which subsidy as a policy tool is pursued in the country in terms of its distribution, rationale, sectoral distribution, allocation, targeting and management. Whilst there was a broad agreement as to the need for subsidy as a policy instrument that entailed certain fiscal-budgetary allocation and expenditure, participants strongly urged for monitorable policy guidelines to ensure allocative efficiency, distributive justice, better targeting, efficacy of delivery, and fiscal sustainability. They felt that subsidies should not be decided and allocated depending on pressure exerted by vested interest groups, neither should subsidies be used to underwrite inefficiency and unjustified losses. There was a need to ensure transparency in allocation, efficiency in delivery and accountability in the management of subsidies. In fine, the message that emerged from the CPD dialogue was that there was an urgent need for Bangladesh to have a 'National Subsidy Policy'.

It may be recalled in this connection that, indeed, in 2013, the Ministry of Finance did come up with a document titled "Vortuki: Akti Jothajotho NItimalar Onneshone (Subsidy: In search of an appropriate policy framework)." Such a national Subsidy Policy will need to be well-crafted, informed by appropriate guiding principles with built-in flexibilities for mid-course corrections depending on global price situation, domestic market conditions and needs of the hour. Such a policy should be designed following a thorough analyses of the involved dimensions of subsidy and thorough wide-ranging public consultations. Based on the aforementioned CPD paper on subsidy, discussions at the dialogue and a review of relevant literature, it is reckoned that the proposed National Subsidy Policy could consider the following elements:

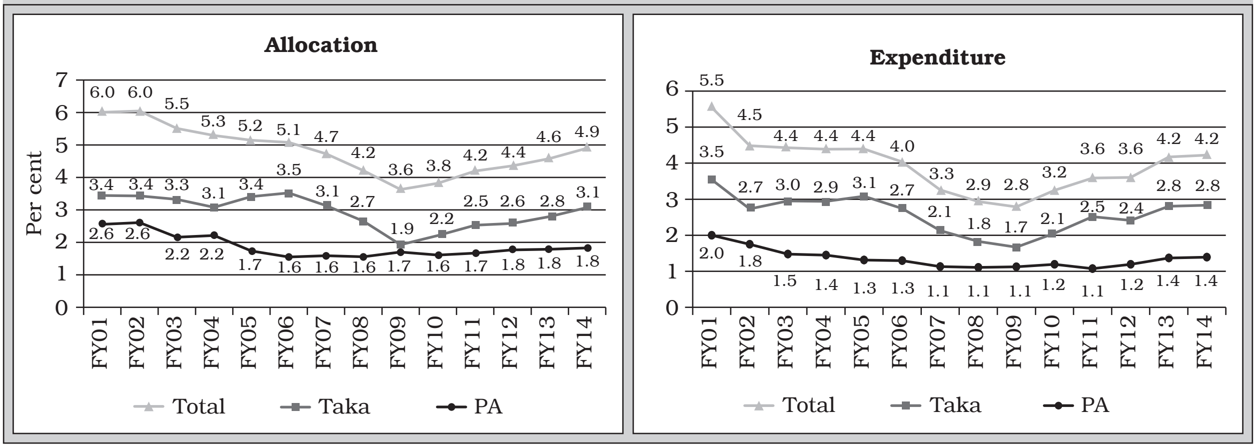
(a) a clearly articulated definition of 'subsidies' where sectors, forms and modalities will be articulated in a transparent manner;
(b) a comprehensive guideline which will articulate principles for inter-sectoral and inter-agency distribution, allocation and targeting of subsidies;
(c) built-in provisions for mid-course correction in view of changing domestic and global contexts, particularly with respect to global market volatilities and shocks, and natural disasters and exigencies;
(d) tuned to reactive needs in view of subsidy and other support policies pursued by import-source and export-competing countries (with provisions of imposing counterveiling duties);
(e) take cognisance of World Trade Organization (WTO) subsidy discipline and rules to ensure compatibility;
(f) take into account positive and negative externalities of subsidies and take cognisance of environmental consequences and second round effects;
(g) where feasible, propose subsidy-specific timeline and phase-out periods;
(h) informed by advantage of information and communication technology (ICT) in selection, targeting and monitoring in the context of subsidy management;
(i) maintain a reliable and comprehensive database on subsidy which would help with transparency and accountability and strengthen monitoring of subsidy management.

1.2.5 Implementation of the ADP Remained Business as Usual in FY2014-15, hence there is a Need for a Breakthrough in FY2015-16

Expenditure for the Annual Development Programme (ADP) in FY2014-15 did not result in any significant development achievements in Bangladesh. According to data for the first 10 months of the fiscal year, actual spending under the ADP was 51.8 per cent of the originally planned allocation of Tk. 80,315 crore. Besides traditional impediments, it has been claimed that the recent political turmoil affected implementation. Later, the planned allocation for the ADP was revised downward by 6 per cent to Tk. 75,500 crore. It is often claimed that the size of the allocation for the ADP is kept high every year. However, if the relative

Figure 1.4

Component-wise ADP Allocation and Expenditure (as % of GDP)



Source: Compiled by the authors from Poverty Maps of Bangladesh.

Note: PA denotes Project Aid.

size of the ADP is considered as a share of GDP, both allocation and actual spending increased gradually since FY2008-09, reaching the levels of the early 2000s (Figure 1.4). One disappointing trend is the lack of foreign aid attracted for public investment. Project aid spending has remained consistently below 1.5 per cent of GDP since FY2002-03.

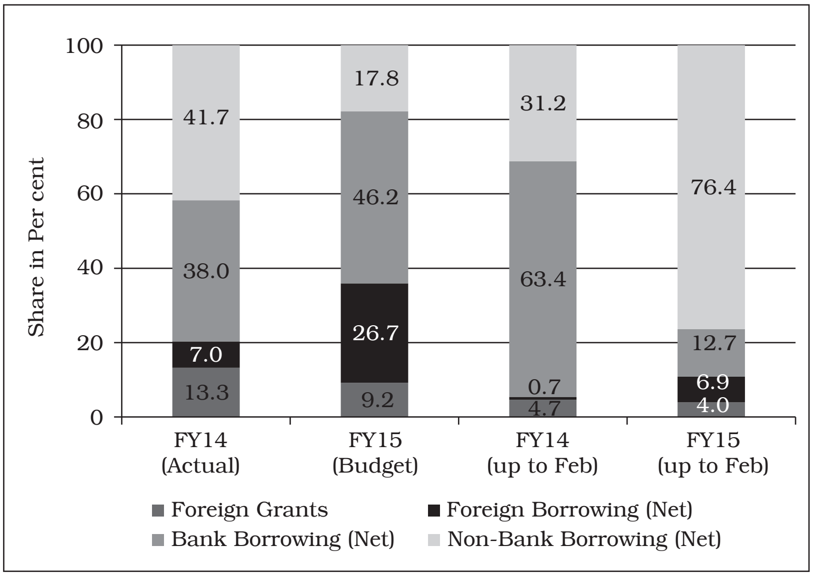
In view of the low level of private investment and significant infrastructure deficit, better (in terms of quality), and timely implementation of the ADP will remain a policy priority. Regrettably, the lack of capacity to implement ADP projects in a timely manner and within initial cost parameters remained pervasive. CPD (2015b) revealed that in FY2012-13, only 22.8 per cent of completed projects were completed within stipulated timelines and with initially planned allocations.

CPD (2015a) selected a set of 26 projects under the ADP for FY2014-15 that were supposed to help boost growth and employment. The projects were listed in CPD's second review of Bangladesh's economy in FY2014-15, which called for tracking their progress (see Annex 2.1). Fourteen of the 26 projects were supposed to be completed in FY2014-15. At the time of writing, project-wise ADP spending data are available up to November of FY2014-15. On a positive note, actual spending on these 26 projects reached 17 per cent of their respective allocations during that period, while actual spending on all ADP projects for FY2014-15 was averaged to be 13 per cent of the total allocation during the same period (Annex Table 1.2). In the case of the 14 projects that were supposed to be completed in FY2014-15, a total allocation of Tk. 21,392 crore was needed for timely completion. However, only Tk. 5,362 crore was earmarked for these projects in the Revised ADP (RADP) for FY2014-15. Combined financial progress on these projects until November of FY2014-15 was 41.8 per cent. It appears to be widely acknowledged by now that most of these projects will not be completed according to their timelines and will be carried forward to the ADP for FY2015-16.

1.2.6 The Financing Mix for the Budget Deficit will be a Challenge in FY2015-16

As has been the case for the last three years, the budget deficit was well within the planned limit, according to data for the first eight months of FY2014-15. A significant revenue shortfall can be envisaged, but it will be offset by lower public expenditure. The structure of public financing is characterised by a heavy reliance on domestic financing sources and low net intake from foreign financing sources. Within the domestic financing structure, the buoyant sale of high-yield national savings certificates has been a key feature in FY2014-15 (Figure 1.5). One of the major challenges for the FY2015-16 budget is to balance the

Figure 1.5
Share of Budget Deficit Financing Sources



Source: Estimated from the Ministry of Finance (MoF) data.

overall structure of public financing. Since a large proportion of financing has already been secured from sales of National Savings Bond (NSD) certificates, bank borrowing may be very limited. Notably, the lack of utilisation capacity for foreign resources remained a weak area.

1.2.7 Fiscal Planning for FY2015-16 may Require Significant Mid-Term Corrections

Under the current resource mobilisation scenario, it is evident that the revenue-GDP ratio will decline in FY2014-15 for the third consecutive fiscal year. If the current trend of revenue collection continues for the rest of this fiscal year, the revenue-GDP ratio in FY2014-15 may fall below the 10 per cent threshold. Since the FY2012-13 budget, the fiscal framework of the national budget has been weak. Budgetary targets have been set at overambitious levels while mid-term corrections have not been conducted. Revised budgets prepared at the end of each fiscal year have not considered certain realities. For example, as can be seen in Table 1.4, since the final estimates for the preceding fiscal year were available, growth targets for revenue were adjusted in a significant way. Such adjustments were generally conducted for other components of the fiscal framework. It appears that a continuation of this trend will be seen in FY2015-16. According to CPD estimates, the national budget for FY2015-16 may seek an additional Tk. 59,000 crore over the actual in-take of revenue in FY2014-15, which would require revenue growth of about 38.5 per cent.

Table 1.4
Changes in Revenue Growth Targets and Collection

(in Per cent)

Year	Budget Target over Revised Budget of Previous Fiscal Year	Budget Target over Revenue Collected during Previous Fiscal Year	Revenue Collection over Revenue Collection of Previous Fiscal Year
FY2009	14.7	16.7	8.6
FY2010	14.9	23.1	17.6
FY2011	16.8	22.3	22.5
FY2012	24.4	27.3	23.3
FY2013	21.6	21.8	11.7
FY2014	19.9	30.7	9.6
FY2015	16.8	30.3	3.2 (up to Feb)

Source: Calculated from the budget documents and Ministry of Finance (MoF) data.

Box 1.3

Property Tax: To Impose or Not to Impose!

In order to mobilise more domestic resources in the form of direct tax, the government was considering the reintroduction of property tax in the pre-budget discussions for FY2015-16. Property tax was discontinued in 1999 because the return from the tax was unsatisfactory. Property tax actually still exists largely in the form of land property tax. Holding tax is collected by local governments, while land development tax, immovable property transfer tax and capital gains tax are land-related property taxes collected by the central government. The central government imposed a wealth surcharge to promote progressivity and reduce inequality in Bangladesh's tax system. However, there has always been a dispute as regards imposing property tax as a package, since its net benefit has always been uncertain.

The major drawback of the land property tax is that the calculation of tax is based on the selling value of land property. The existing provision promotes inequality because when people acquire new property they need to pay higher tax while people who have been holding on to assets for a long time pay tax on the low (buy) value of property. The NBR faces a number of challenges in considering property tax for the upcoming fiscal year. First, the NBR does not have adequate information on properties owned by individual taxpayers. Second, proper valuation of taxable property on a regular basis would require considerable amount of time and use of human resources. Third, some existing taxes would need to be reformulated/reintroduced and incorporated into a single property tax system, which would require a prior impact assessment and securing funding for administrative and associated operational and legal costs to implement the system. Considering the complexity of introducing property tax, the government could consider other types of tax. An alternative is inheritance tax (also referred to as gift tax, death tax or estate tax from place to place), which is not uncommon in many developed countries. In the United Kingdom, inheritance tax is forecasted to contribute about 0.6 per cent of total government revenue in FY2014-15 (Pope and Roantree, 2014).

Under the circumstances, revamping revenue mobilisation by widening the existing tax net and finding new sources of revenue should be a priority in fiscal planning for FY2015-16. Formal discussions on a number of possible options have already been initiated. The government is currently considering the implementation of tax measures such as minimum income tax amount, upward adjustment of SD on tobacco and luxury products, and raised Advanced Income Tax (AIT) on readymade garments (RMG) exports, among others. The revision of land tax and valuation of lands as well as rationalisation of government fees are among the suggested initiatives outside the NBR. It is expected that, in line with steps taken last year, another significant restructuring of the SD will be proposed. The government may also introduce a number of incentives including cuts to corporate income tax rates and a higher tax exemption threshold for income tax. The Finance Minister has shown interest in reintroducing property tax as well. Given that the country is approaching lower-middle income status, Bangladesh needs to enforce such equalising measures. Taking into account lessons from the past, property tax requires further study and necessary preparation, after which it could be introduced in an appropriate form in the near future (Box 1.3).

In view of the above, to achieve a realistic revenue target, the following measures need to be undertaken:

i. All fiscal measures should be placed before the Parliament only after proper evaluation of their impacts on net revenue generation and sectoral outcomes.
ii. All fiscal incentives should be tied to returns from key incentive-receiving sectors.
iii. The NBR should enhance its monitoring activities to ensure better collection of tax revenue at source.
iv. Further adjustments of the duty structure at the import stage need to be commensurate with protection of local industries.
v. The service delivery mechanism for existing taxpayers needs to be strengthened.

vi. Before introducing new provisions and regulations (i.e. property tax, the VAT and SD Act of 2012, etc.), economywide implications and the reality on the ground should be assessed.

vii. The government should consider expanding the scope of presumptive taxes.

viii. The performance of SoEs needs to be strengthened to increase dividends and profit.

ix. Land development tax should be rationalised on a regular basis.

x. The rationalisation of public tolls and fees should be done on a regular basis.

xi. Auction on spectrum bands should be held without delay.

xii. Offloading of SoEs' shares to the capital market can be considered.

xiii. Privatisation of SoEs needs to be reconsidered.

xiv. Operationalisation of an Alternative Dispute Resolution (ADR) mechanism for settling revenue-related disputes should be a priority for NBR.

Like the revenue side, the expenditure side of the national budget suffers due to lopsided planning. Dependence on domestic financing has increased, while foreign aid utilisation remains weak. Planning of the development expenditure also requires drastic improvement. In its review of the national budget for FY2014-15, CPD identified that 36 projects were allocated Tk. 1 crore or less to keep them alive. Such practice of symbolic allocations should be abandoned and instead focus should be on completing priority projects in a timely manner. Timely implementation and avoidance of cost overruns should be strictly maintained. Besides the quality of fiscal planning, the quality of public expenditure also requires further improvement. It is important to provide adequate attention to investment in infrastructure. However, allocations to health and education are also important for medium term growth and attainment of the demographic dividend and SDGs. In the past, it has been observed that weak economic governance and low delivery capacity can create fiscal pressures (e.g. in the banking sector). Finally, without improving subsidy management, a sound fiscal framework cannot be established.

The quality of fiscal planning is deteriorating over the last four years. The targets of fiscal framework in terms of all indicators, e.g. revenue mobilisation, public expenditure and deficit financing, remained largely unattained by large margins (Table 1.5). The weakest link among all the indicators is net foreign borrowing. The early figures as regards the fiscal framework of FY2015-16, which have published in several media reports, indicate another weak fiscal framework. The forthcoming budget will be expansionary. The revision of GDP will allow the government to opt for a high fiscal deficit without moving outside the threshold of 5 per cent of GDP. Such statistical fiscal space is estimated to be about Tk. 10,000 crore.

Table 1.5

Fiscal Gap as Percentage of Budget

Indicator	FY11	FY12	FY13	FY14
Total Expenditure	3.0	6.8	9.2	15.4
ADP	14.7	17.3	9.0	13.9
Total Revenue	-0.2	3.1	8.3	16.2
NBR Revenue	-5.0	0.3	8.0	18.1
Deficit	10.3	16.4	11.9	13.1
Net Foreign Borrowing	75.7	72.2	50.4	76.7
Net Domestic Borrowing	-29.2	-12.3	4.4	-12.3

Source: Estimated from the Ministry of Finance (MoF) data.

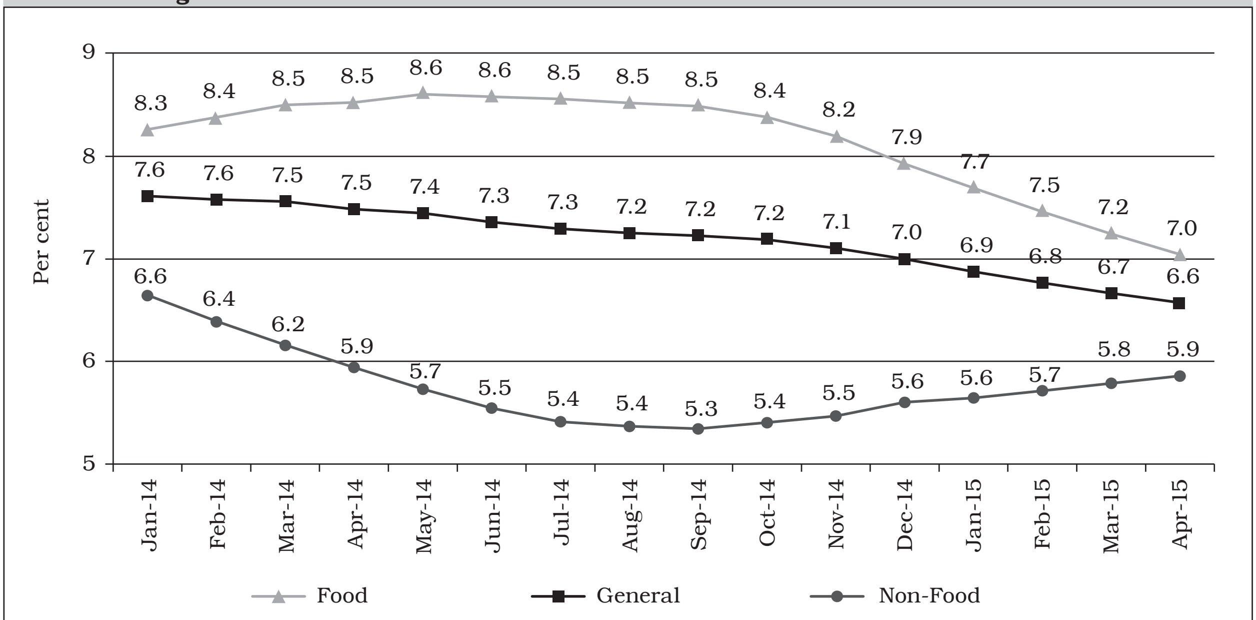
Note: Fiscal gap is calculated as budget figures minus actual figures. Hence a positive gap indicates a shortfall.

1.2.8 Risk from Inflation is Unlikely, but will the Additional Policy Space be Used?

Annual average inflation gradually declined through FY2014-15, from 7.3 per cent in June 2014 to reach 6.6 per cent in April 2015 (Figure 1.6). Lower global commodity prices, the stable exchange rate of the taka and restrained growth of broad money supply contributed to falling inflation. However, while food inflation followed a declining trend, non-food inflation increased. Annual average food inflation decreased from 8.6 per cent in June 2014 to 7 per cent in April 2015. In contrast, non-food inflation increased from 5.5 per cent to 5.9 per cent during the same period. Nonetheless, inflation appears to be stable at about 6.6 per cent.

Figure 1.6

Annual Average Inflation Rate



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

A decomposition of non-food inflation figures from July 2014 to April 2015 reveals that average inflation has been consistently increasing for medical care and health expenses as well as for transport and communication, which led to an overall increase in non-food inflation (Figure 1.7).

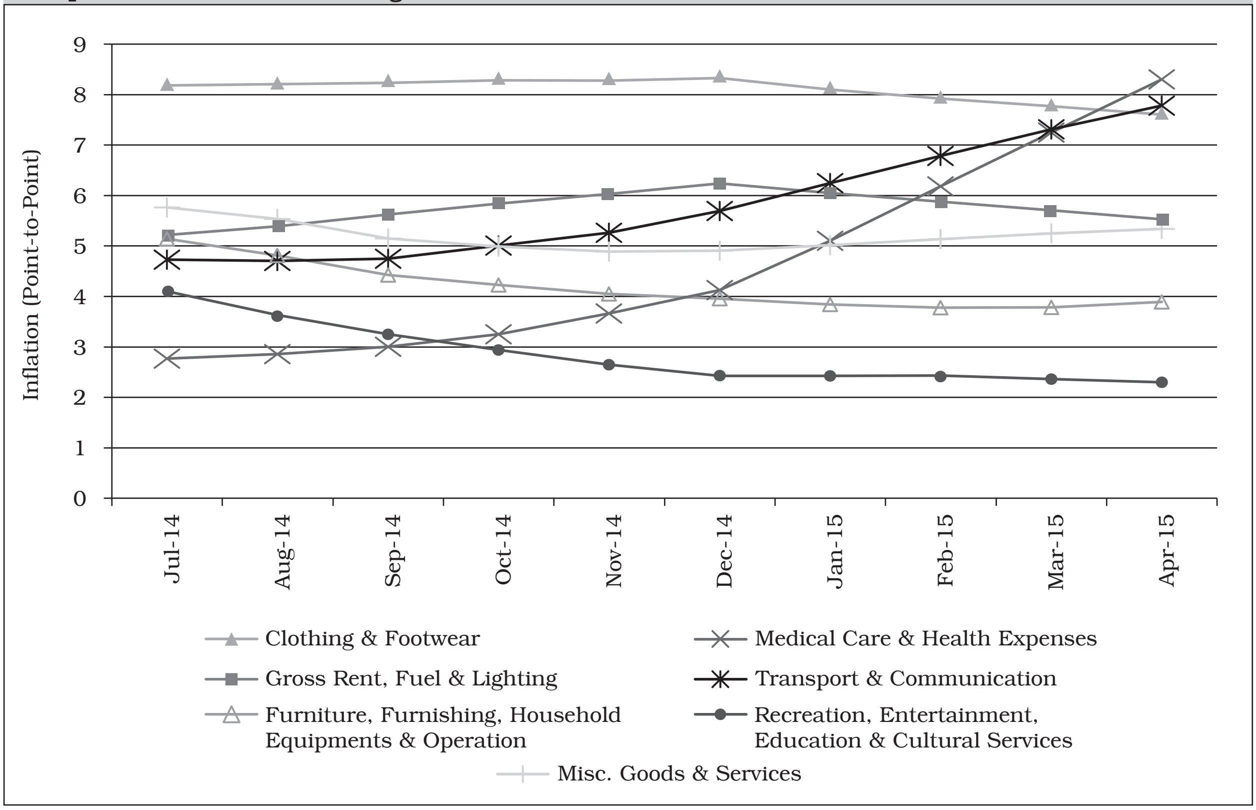
The declining trend in food inflation in recent months can be largely explained by lower prices of rice at the retail level. According to the Trading Corporation of Bangladesh (TCB), retail prices of rice on 24 May 2015 were about 1-9 per cent lower compared to the same date the previous year. Regrettably, the lower price of rice failed to provide an incentive price to the farmers (more on this is discussed in Section 1.3). On a positive note, in April 2015, annual average growth rate of wage index was steady at 10 per cent while among the sectors wages for agriculture and manufacturing increased by 11.9 per cent and 10 per cent respectively.

The global prices of almost all commodities, including food and fuel, declined sharply throughout FY2014-15. In April 2015, the International Monetary Fund's (IMF) global commodity price index was 35 per cent lower than it was in April 2014 (Figure 1.8).[10] The world commodity price outlook is currently stable. Agricultural prices continued their broad-based declines in the first quarter (January-March) of

[10]The recent increase of point-to-point inflation in the domestic market matched with a marginal increase in the international commodity index in the month of April from the preceding month of 2015.

Figure 1.7

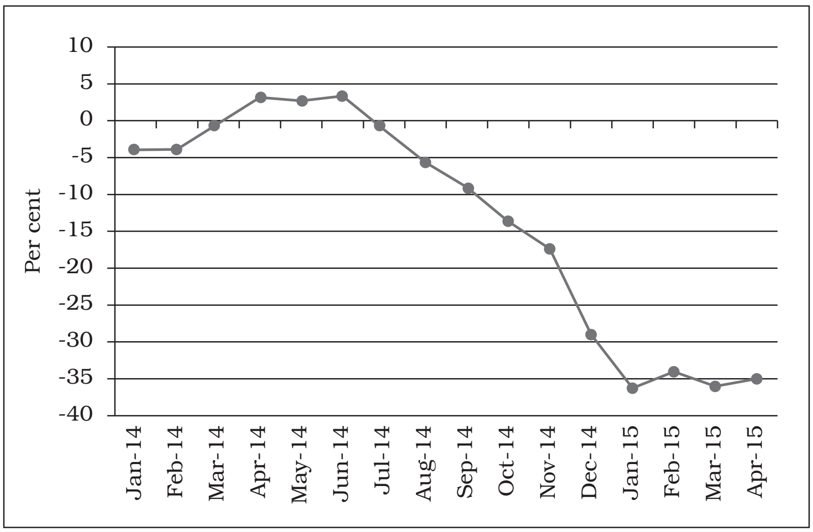
Composition of Non-Food Average Inflation



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

Figure 1.8

Changes in the Monthly Commodity Price Index



Source: Calculated from the International Monetary Fund (IMF) index Mundi 2015 data.

2015, with the agricultural price index down almost 5 per cent for the quarter and almost 12 per cent over the previous year (World Bank, 2015c). The three key food sub-indices – grains, edible oils and meals, and other food items – declined by 1.5, 6.2 and 6.9 per cent respectively in the quarter. Among major grains, wheat prices declined more than 7 per cent during the period amid favourable weather conditions. The average rice price on the international market was USD 417 per ton during the quarter, which was just 1 per cent lower compared to the previous quarter, but over 6 per cent lower than the previous year. Food commodity prices on the international market are expected to decline by 7.1 per cent over the entirety of 2015 (World Bank, 2015). Edible oils and meals are expected to decline the most ((-) 15.3 per cent), followed by grains ((-) 7.3 per cent) and other food items ((-) 4.5 per cent). Among grains, the largest expected decline is in wheat ((-) 15.8 per cent), followed by maize ((-) 6.7 per cent) and rice ((-) 1.9 per cent). Among edible oils and meals, palm oil, soybean oil and soybeans are expected to decline by about 14 per cent each. Oil prices are expected to average USD 53 per barrel in 2015 before increasing to USD 57 per barrel in 2016. Given the high energy intensity of agriculture, low oil prices will hold back the input price pressure that most food commodities experienced during the post-2005 price boom (World Bank, 2015c).

Having large foreign exchange reserves will allow the Bangladesh Bank – the country's central bank – to avoid volatility in exchange rates during the next fiscal year. As mentioned, the growth of broad money supply was lower than the programmed target throughout FY2014-15. The growth of broad money supply was only 12.5 per cent as of March against the target of 16.5 per cent for the end of June 2015 (Table 1.6). Among the components of broad money supply, net foreign assets were well above the year-end growth target (20.7 per cent as of March 2015 against the June-end target of 3.6 per cent). However, very low demand from both the public and private sectors kept broad money supply growth well within target.

Table 1.6

Growth of Monetary Indicators (Outstanding as of March 2014)

(in Per cent)

Indicator	**June 2014 (Actual)**	**June 2015 (Target)**	**March 2015 (Actual)**
Net foreign assets	41.2	3.6	20.7
Net domestic assets	10.3	20.2	10.2
Domestic credit	11.6	17.4	10.2
Credit to public sector	6.7	25.3	-7.4
Credit to private sector	12.3	15.5	13.6
Broad money supply	**16.1**	**16.5**	**12.5**

Source: Bangladesh Bank data.

Overall, the outlook for inflation for FY2015-16 appears to be stable. A major challenge in FY2015-16 will be to take advantage of the declining trend in commodity prices, particularly food prices, and opt for more growth-friendly expansionary economic policy.

1.2.9 Headline Indicators have Improved after Flexible Rescheduling Policy for Large Loans was Allowed, but No Major Reform of Banking Sector Management was Initiated

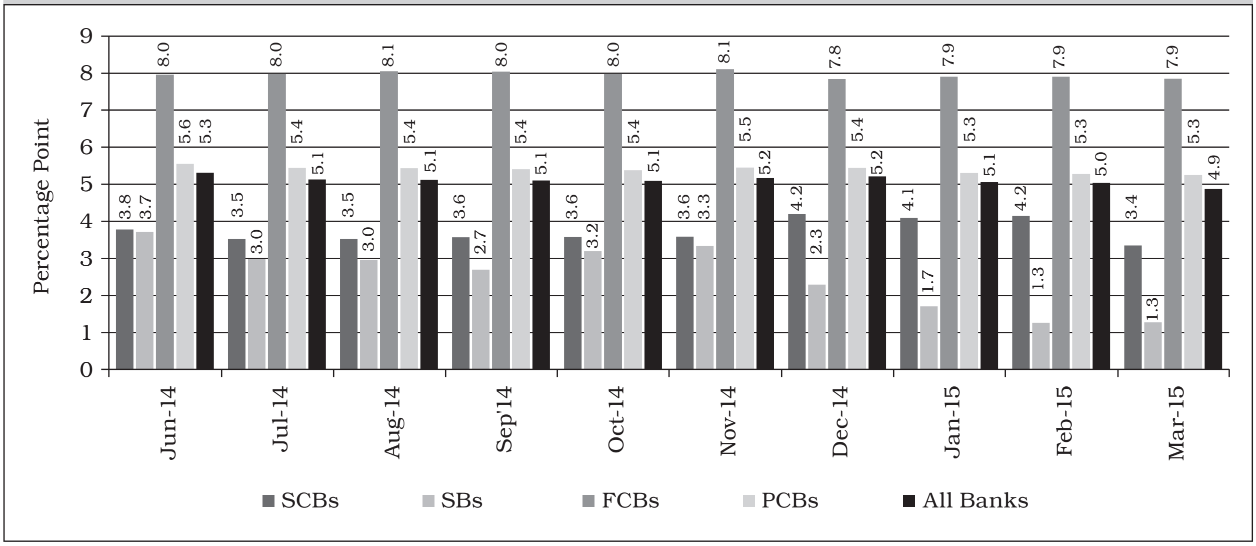
Bangladesh's banking sector is entrenched with large and uneven interest rate spreads, high non-performing loans (NPLs) and uneven competition. In recent years, performance and governance in the banking sector has been under scrutiny. Much attention has been drawn to the challenges confronting SCBs and specialised banks (SBs), including scams, high NPLs and inadequate capital adequacy followed by repeated recapitalisation. It is important to note that Bangladesh's banking sector is led by private commercial banks (PCBs) and foreign commercial banks (FCBs) in terms of both deposits and advances.[11] Hence, the performance of the banking sector is largely tied to the performances of PCBs and FCBs.

A great hue and cry has been raised by the business community over the high cost of borrowing and hence investment in Bangladesh. One of the major impediments to ensuring low cost of investment in the form

[11]The share of PCBs and FCBs in total bank deposits increased to 69 per cent at the end of March 2013 from 32 per cent in 1990, whereas their share in advances increased to 72.1 per cent from 35.4 per cent over the same period (Islam and Rahman, 2014).

Figure 1.9

Interest Rate Spread by Type of Bank



Source: Bangladesh Bank.

of lower interest rates is the spread between deposit and lending rates. The average interest rate spread decreased from 5.3 percentage points in June 2014 to 4.9 percentage points in March 2015 (Figure 1.9). Nevertheless, the interest rate spread in Bangladesh remained high compared to those in many of the country's export competitors.[12] Declines in interest rate spreads were most significant for Bangladesh's SBs (2.5 percentage points), followed by SCBs (0.4 percentage point), PCBs (0.3 percentage point) and FCBs (0.1 percentage point). It is not the case, however, that interest rate spreads declined across all 56 commercial banks. During the aforementioned period, interest rate spreads decreased for 36 banks (on average by about 1 percentage point), while they increased for the remaining 20 banks (on average by about 0.6 percentage point). There are also large differences among the spreads according to the type of bank. Traditionally, FCBs maintain the highest interest rate spread, followed by PCBs, SCBs and SBs.[13] Among commercial banks, there was a large variation in terms of spreads – the variation increased between June 2014 and March 2015, but the average interest rate spread decreased.[14]

Policy debates in Bangladesh often relate the high incidence of NPLs to high interest rates. A number of previous studies indicate an inconclusive relationship (Ahmed and Islam, 2006; Mujeri and Younus, 2009; Hossain, 2012). Juxtaposition of bank-level data on interest rate spreads and NPLs for December 2014 does not provide any evidence of a positive relationship between the two variables (Figure 1.10).[15] Figure 1.10 indicates a somewhat negative relationship. It is possible that these two variables are not interlinked in the context of Bangladesh. Besides, policymakers need to focus on fostering competition in the banking sector so that interest rates (or spreads) are set in a competitive way. Apart from NPLs, the aforementioned previous studies identified a number of other factors including institutional inefficiencies, high administrative costs, market power, small share of deposits, liquidity reserve requirements, non-interest income as a ratio of total assets, deposit rate, NSD certificate rate, inflation rate, and taxes, among others.

[12] For example, according to World Bank data, the interest rate spreads in both China and Vietnam were 2.9 percentage points in 2014, while the spread in Bangladesh was 3.9 percentage points.

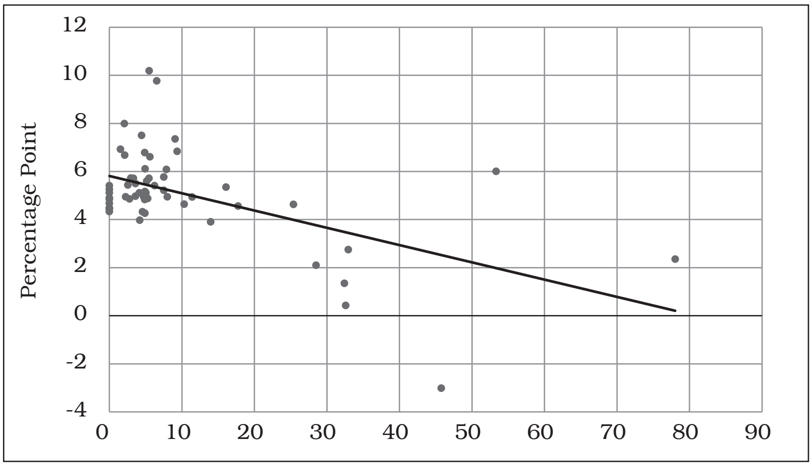
[13] FCBs maintain high interest rate spreads primarily by keeping deposit rates low and maintaining relatively higher lending rates (see Annex Table 1.3).

[14] The standard deviation of the interest rate spreads of all commercial banks increased from 2 in June 2014 to 2.3 in March 2015.

[15] Sensitivity analyses have also been undertaken using time and type of bank variants. Given their results, the present conclusion does not vary significantly.

Figure 1.10

NPLs and Interest Rate Spreads across All Banks (December 2014)

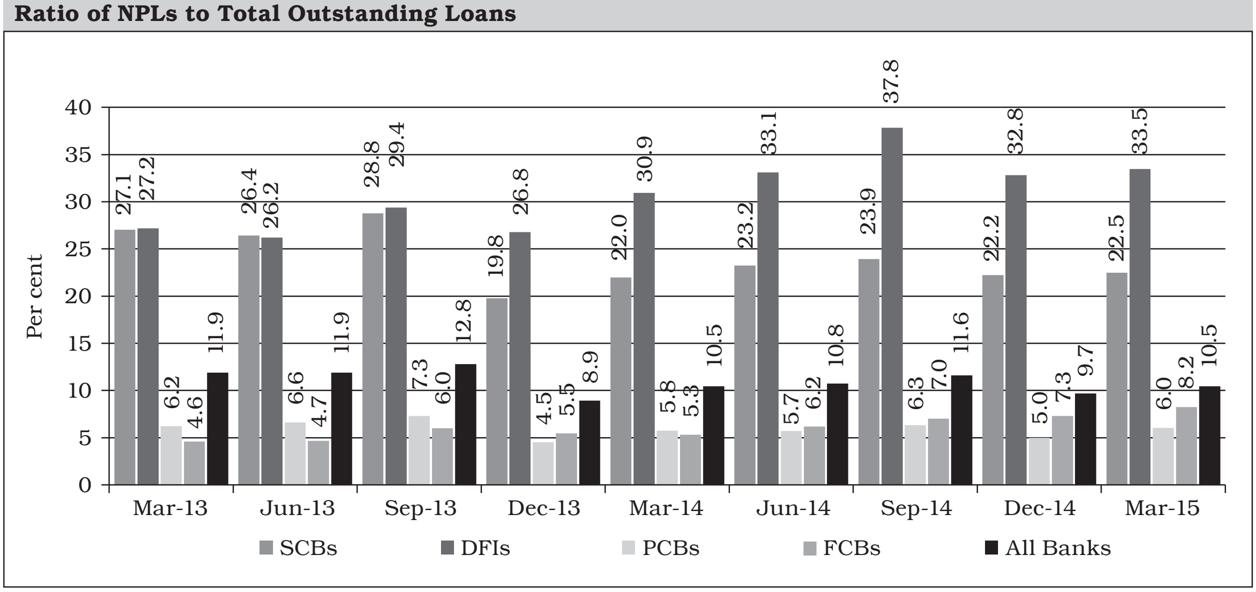


Source: Estimated from the Bangladesh Bank data.

NPLs as a share of total outstanding loans increased to 10.5 per cent in March 2015 from 9.7 per cent in December 2014 (both figures are lower than the 10.8 per cent share as of June 2014) (Figure 1.11). The fallout of a number of scams by SCBs followed by several fraudulent activities by PCBs caused NPLs as a share of total outstanding loans to rise as high as 12.8 per cent as of September 2013. Moreover, within the NPLs figure, the share of bad loans increased to 77.1 per cent as of March 2015 from 69.5 per cent in September 2013. The relatively low figure of NPLs as a share of total outstanding loans in December 2014 reflects the recently allowed flexible large loan (more than Tk. 500 crore) rescheduling policy, which offered a repayment period of up to 12 years, discounted interest rates, down payments in cash and repayments in quarterly installments. This provision helped make banks' financial conditions look better (see Annex Table 1.4 for details). This was followed by an incentive for good borrowers in the form of a minimum 10 per cent interest payment rebate at the end of each year. The recent rise of NPLs should ring the alarm at the central bank. Notably, the share of NPLs in the total outstanding loans of FCBs has increased systematically over time and remains above that of PCBs. Regrettably, no serious policy efforts were put in place to counter these issues in the medium term. However, the central bank has been in the process of implementing Basel III since January 2015. In this context, SCBs systematically failed to

Figure 1.11

Ratio of NPLs to Total Outstanding Loans



Source: Bangladesh Bank.

maintain the required capital adequacy ratio (10 per cent) in recent years despite being recapitalised at the expense of taxpayers. It is high time the central bank institutionalises good governance in the banking sector, without which promoting private investment is difficult. In connection to this, the performance of newly established PCBs needs to be monitored with special attention. Ensuring fair competition in the sector is equally critical. In view of the above, the central bank needs to establish an independent banking commission to conduct necessary analytical exercises and undertake an appropriate reform agenda.

1.2.10 Export Earnings, against Formidable Odds, had held their Ground but Competition is Rising in Major Markets

In the first 10 months of FY2014-15, the growth of export earnings was only 2.6 per cent compared to the same period of the previous fiscal year. The growth of RMG exports was 3 per cent during this period, while non-RMG exports increased by merely 1.1 per cent. Such performance was realised amid a number of challenges facing the export sector including a violent and uncertain political environment, uneven developments in major export destinations, falling global commodity prices and the volatile exchange rate of the Euro (CPD, 2015a). An annual target of 10 per cent growth in total export earnings (USD 33.2 billion[16]) was set by the government for the current fiscal year, which currently seems impossible to attain. Export earnings are unlikely to cross the USD 31 billion mark by the end of FY2014-15. Within this broader trend, several important trends in the export sector's performance can be observed.

First, between the two major markets, the USA and the EU, during the July-April period of FY2014-15, the growth rate of exports in the EU market was higher (3.7 per cent) than that in the US market (0.9 per cent). This is true for both RMG and non-RMG exports (Table 1.7).

Table 1.7

Growth of Bangladesh's RMG and Non-RMG Exports in Major Markets: FY2014-15 (July-April)

(in Per cent)

Type of Exports	US	EU	Non-Traditional Markets	Total
RMG	0.1	3.6	4.1	3.0
Non-RMG	9.5	4.3	-1.3	1.1
Total	**0.9**	**3.7**	**1.1**	**2.6**

Source: Estimated from the Export Promotion Bureau (EPB) data.

Second, little progress was made in the areas of product and market diversification since export performance in non-traditional markets[17] and export of non-RMG products during July-April of FY2014-15 was average. Among the major non-RMG products, exports of frozen food and leather dropped by 8 per cent and 20.6 per cent respectively.

Third, as has been observed in recent years, Bangladeshi RMG exports, particularly woven items, appear to be shifting from the US to the EU market. During the first 10 months of FY2014-15, exports of woven products to USA declined by 1.6 per cent, while a relatively strong growth rate of 7 per cent was attained in the EU market. This is perhaps a sign that woven exporters in Bangladesh are gradually diverting products from the US market to the EU market due to changes in preferences.[18]

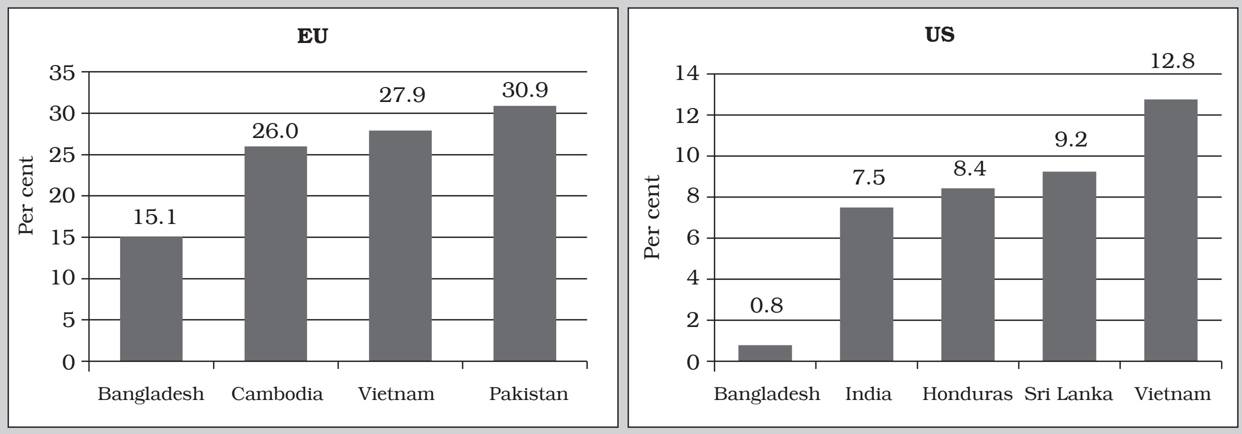
[16]According to the SFYP (2011-2015), the corresponding target for FY2014-15 was USD 38.8 billion.

[17]The major countries include those of the EU, USA, Canada, Australia and Japan.

[18]Since the relaxation of the rules of origin requirement in the Generalized System of Preferences (GSP) of the EU, exports of woven products have been on the rise to the EU market. It should be noted that USA imposes high customs duty on imports of woven products. In 2014, the US government charged customs duty of USD 392 million on imports of woven products from Bangladesh.

Figure 1.12

Growth of RMG Exports to the EU and US Markets by Bangladesh and Major Competitors: FY2014-15 (July-March)



Source: Estimated from EUROSTAT and United States International Trade Commission (USITC) data.

Fourth, in both the US and EU markets, several of Bangladesh's export competitors of RMG products performed considerably better than Bangladesh. RMG exports from Pakistan, Vietnam and Cambodia to the EU market and from Vietnam, India, Honduras and Sri Lanka to the US market increased at much faster rates (Figure 1.12). Even when Bangladesh's major RMG exports to these markets are considered, the trend was found to be true.[19]

Regarding the forthcoming 7FYP, the proposed target for export earnings in FY2015-16 is USD 36.1 billion. This would require about 16.5 per cent growth in export earnings. To attain such a demanding target, the export sector needs to address several challenges. The movements of export competitors' exchange rates need to be observed carefully while making policy decisions as regards the exchange rate. Notably, Bangladeshi RMG exports are facing fierce competition in both the US and EU markets with competitors who have received or may receive preferential treatment. Pakistan has emerged as a strong competitor in the EU market since it gained the EU's 'GSP Plus' facility. If the Trans-Pacific Partnership (TPP) is realised, the regulatory and investment treaty will cause further preference erosion for Bangladeshi RMG products in the US market vis-à-vis those from developing countries, such as Vietnam, in the medium term (see Box 1.4). Bangladesh may need to focus more on the EU market, which does not impose duty

Box 1.4

What would the TPP Mean for Bangladesh?

After five years of negotiations, the proposed Trans-Pacific Partnership (TPP) has recently gained momentum when the US Senate granted Trade Promotion Authority (TPA) (commonly known as fast-track authority) to US President Barack Obama in May 2015. When TPA is granted, the US Congress cannot amend a bill, but can either accept or reject it. USA may push for signing the much-debated TPP deal, which would create more competition for Bangladeshi exports to the country. The deal would bring USA into free trade arrangements with a number of countries including Vietnam, which exports knit and woven products much like Bangladesh. While Bangladesh exported USD 2,628 million worth of its top 10 RMG products to USA during July-March of FY2014-15, Vietnam exported USD 2,753 million worth of the same products to that country.[20] Currently, Bangladesh and Vietnam face

(Box 1.4 contd)

[19]Bangladesh's export competitors attained higher export growth rates for Bangladesh's top five knit and woven products in FY2014-15 (see Annex Tables 1.5 and 1.6 for details).

[20]The top 10 RMG products (6 Digit HS code level) exported by Bangladesh to the US market include six woven items and four knit items: 620342, 620520, 620462, 611020, 610910, 620920, 620343, 611030, 610821 and 620630. These are mainly shirts, trousers and shorts, made of cotton for both males and females, t-shirts, pullovers, babies' clothes, and the like.

(Box 1.4 contd)

the same rate of US customs duty for these products (between 7.6 and 16.5 per cent). The realisation of TPP may offer Vietnam duty-free or reduced-duty access to the US market. Kak (2015) estimates that the proposed TPP, with its flexible rules of origin requirements, will increase Vietnam's share of the world apparel export market from 4 per cent to 11 per cent by 2024, while Bangladesh's market share may only increase from 5 per cent to 7 per cent. If the TPP is not realised, Bangladesh and Vietnam essentially stand neck and neck, with each country predicted to have an 8 per cent market share in 2024. The challenge before Bangladesh is whether the country will be able to position itself strongly as a potential apparel exporting source in view of China plus one strategy adopted by the major buyers.

on Bangladeshi exports and has a more flexible rules of origin requirement. Nevertheless, Bangladeshi policymakers should continue negotiations with their US counterparts on favourable market access for RMG products. Such access will necessitate faster implementation of labour standard-related commitments on Bangladesh's part. Bangladeshi exporters of RMG products need to attain fully compliant status as soon as possible through the ongoing Accord and Alliance initiatives. This status can provide an edge in terms of competitiveness since buyers are more comfortable sourcing products from countries that have formal full compliance status.

1.2.11 Will the Balance of Payments Surplus be Sustained in FY2015-16?

In July-March of FY2014-15, Bangladesh's overall balance of payments was at a sound surplus of USD 2,887 million. However, the surplus declined by almost one-quarter when compared to the same period of the previous fiscal year, partially due to the widening trade deficit. During the first three quarters of FY2014-15, the trade deficit increased to USD 7,148 million from last year's USD 4,559 million (by 56.8 per cent) amid sluggish export growth (3 per cent) against vibrant growth in import payments (12.2 per cent).[21]

After registering high growth during the first half of the current fiscal year (18.3 per cent), import payments slowed down to some extent (1.5 per cent) in the third quarter.[22] High import growth during the first nine months of FY2014-15 was largely driven by extraordinary growth in payments made against the import of five product groups: rice (483 per cent), crude petroleum (8,903.3 per cent),[23] petroleum, oil and lubricants (POL) (40.7 per cent), fertiliser (53.8 per cent) and capital machinery (23.1 per cent). These five product groups together accounted for about two-thirds of total incremental import payments during the aforementioned period.

The widening gap in trade balance was partially offset by the 7.3 per cent increase in remittance inflow during July-March of FY2014-15 (USD 10.4 billion to USD 11.1 billion).[24] Foreign employment also increased in FY2014-15 – during the first 10 months, an average of 37,137 workers left Bangladesh for jobs every month. The corresponding figure for the same period in FY2013-14 was lower (33,359) and in FY2012-13 was marginally higher (37,287). Fewer opportunities in foreign markets due to legal issues may have led to illegal migration, which has been exposed recently (Box 1.5). The reopening of the Saudi market in 2015 may serve as a lifeline for Bangladeshi workers. The number of workers going to Saudi Arabia more than doubled in July-April of FY2014-15 compared to the same period in FY2013-14. But foreign employment in one of the biggest traditional markets for Bangladesh, the United Arab Emirates (UAE), has ground to a near halt since the last quarter of 2012. The government-to-government (G2G) arrangement for sending

[21] Both exports and imports are in free-on-board (f.o.b) value.
[22] Growth rates of import payments during the reported periods were attained against the backdrop of last year's growth rates. The low benchmark in the first half (5.5 per cent) was followed by a high benchmark in the previous year's third quarter (17.4 per cent).
[23] The high growth rate is due to the very low benchmark (from USD 3 million to USD 270 million).
[24] However, this growth rate was attained against last year's performance when remittance inflow fell by 5.6 per cent. Hence, if the period is compared with the corresponding period of FY2012-13, remittance inflow increased by only 1.2 per cent in the first three quarters of FY2014-15. Remittance inflow increased by 7 per cent during the first 10 months of FY2014-15.

Box 1.5

Illegal Migration Must be Stopped Immediately at Any Cost

In 2013, foreign employment for Bangladeshi workers decreased from 6.1 lakh to 4.1 lakh (32.7 per cent) as the then biggest market for these workers, the UAE, halted recruitment from Bangladesh. In 2009, Malaysia – another major market – also banned the recruitment of Bangladeshi workers. In 2013, the governments of Bangladesh and Malaysia agreed on a G2G arrangement. Under this scheme, Bangladeshi workers were to be sent under government management to Malaysia for jobs. However, only 9,703 workers had gone to Malaysia by April 2015. A seven-year-long embargo had been in place in the Saudi market, where annually more than a lakh of people used to migrate, a number which decreased to a few thousands in recent years. Kuwait, another major destination for Bangladeshi workers, has also sharply reduced recruitment since 2007. While all major markets were closing their doors to Bangladeshi workers, the Bangladesh government failed to explore opportunities in other markets that could absorb the excess supply of migrant workers.

As has been exposed, thousands of migrant workers from Bangladesh, along with Rohingya refugees, embark on perilous sea journeys in search of jobs abroad. About 25,000 people have departed from the Bay of Bengal in the first quarter of 2015 and 40-60 per cent of them might be Rohingyas (UNHCR, 2015). And this figure is almost double of that in the corresponding periods of 2013 and 2014. According to sector insiders, the main destination for the majority of these illegal migrants is Malaysia, where the G2G arrangement failed to legally send the job-seekers. A strong network of human traffickers has emerged and taken advantage of the situation. They are sending thousands of fortune seekers on life-threating sea journeys by giving them false hope. There are several reasons behind the sudden rise in illegal migration in addition of the most important one mentioned above. The cost of getting foreign jobs through proper channels is still very high for poor people. Moreover, most potential migrant workers do not know about the procedure of job applications. Extreme poverty and unemployment are two other factors that compel people to embark on journeys.

Whatever the reason, the Bangladesh government needs to take effective action to stop illegal migration immediately. The issue is highly likely to severely damage Bangladesh's image. It may also initiate a strong drive in destination countries like Malaysia against illegal migrants, which will affect legal migrants as well. The Human Trafficking Deterrence and Suppression Act of 2012 needs to be implemented without delay. The government should also convince neighbouring countries to take part in a collaborative action plan on prohibiting illegal migration. It should also engage in political negotiations with non-traditional countries that have potential opportunities for Bangladeshi migrant workers. The government must put effort into creating better employment opportunities for its citizens in both domestic and foreign markets so that they do not have to take those perilous sea journeys anymore.

Bangladeshi workers to Malaysia has not been successful either. It is perhaps time for the Bangladeshi government to rethink its strategy.

Despite growth in remittance inflow, the current account was negative (by USD 1,149 million) during July-March of FY2013-14. However, a hefty surplus in the capital account (USD 3,820 million), particularly with the help of the positive position of net trade credit (USD 974 million), ensured a surplus balance of payments position. The positive balance of payments position in FY2014-15, which has caused foreign exchange reserves to rise, evidently heavily relies on the capital account surplus. Without attracting significant amounts of foreign direct investment (FDI) and foreign aid, it will be difficult to maintain a surplus in this account in the future. As repayments on foreign debt by the private sector are expected to increase significantly, pressure will mount.

An effective way to avoid volatility is shrinking the trade gap by promoting exports. The Real Effective Exchange Rate (REER) index of the Taka shows that the currency has been depreciating for the last three years, while the nominal exchange rate has mostly remained stable against major currencies, except for the euro. Recently, the Taka has significantly appreciated against the Euro (by 21.5 per cent from April

2014 to March 2015). The central bank can use this opportunity to depreciate the Taka by mopping up the US Dollar further. Given the fact that broad money supply is well below target and global prices of major commodities are low, the central bank's open market operations are expected to have an insignificant impact on inflation. Open market operations will result in an increase in foreign exchange reserves. Bangladesh's current reserves – as of the end of April 2015, reserves stood at USD 24.1 billion – are enough for import payments for more than seven months. Holding large reserves has its benefits and costs. While large reserves protect the domestic economy from external shocks, they can also be invested in rewarding instruments. Traditionally, the central bank opts for safe, low-return instruments when investing foreign exchange reserves. Given that Bangladesh has large reserves, irrespective of political turmoil and sluggish export growth, the central bank could give a thought to investing a fair proportion in instruments with which higher returns can be gained.

1.2.12 Reform Initiatives Need to be Prioritised

The macroeconomic management in FY2015-16 including the national budget needs to be informed by the developments in FY2014-15. The performance of macroeconomic correlates in FY2014-15 involved both strengths and weaknesses, as has been mentioned in the introduction section. The proposed budget for FY2015-16 is expected to be an expansionary one. The prevailing macroeconomic stability along with lower price levels will support such a plan. However, at the same time, budget implementation capacity of the government will be tested in FY2015-16. Regrettably, the necessary reforms which could help the government in this context were not implemented satisfactorily. For example, the new pay scale will come into effect without the much awaited Public Services Act which was forwarded to the Prime Minister's Office (PMO) for approval about six months ago by the parliamentary committee. The public-private partnership (PPP) act is also yet to be finalised although 42 projects have been listed in the ADP for FY2015-16. Privatization Commission has been inactive for long. Nineteen SoEs are currently listed, which were supposed to be privatised. These SoEs also hold significant amount of land which can be used for new investment for manufacturing. In view of improving efficacy of budgetary planning and implementation, finalisation of Financial Reporting Act needs to be expedited. The implementation of the forthcoming VAT (value added tax) and SD Act will be implemented in FY2016-17 for which the disputed issues need to be settled without further delay. It is important that the government considers the options as regards having lower and multiple VAT rates and allowing stakeholders adequate time to prepare for the new VAT regime.

The failure to implement the necessary reforms agenda was one of major obstacles towards attainment of SFYP targets. Among other reform agenda it is important that the government should set up five independent commissions, particularly in view of the forthcoming 7FYP – (i) an independent statistical commission to validate the macroeconomic correlates; (ii) a permanent agriculture price commission; (iii) a permanent local government financing commission; (iv) an independent public expenditure review commission; and (v) a financial sector reform commission. It is time to put in place these initiatives towards better macroeconomic management.

1.3 RECENT DYNAMICS OF RICE ECONOMY IN BANGLADESH

1.3.1 Context of the Study

Rice is the single most important staple food for Bangladesh, accounting for about 97 per cent of the total foodgrains produced and about 73 per cent of the calories consumed in the country. Besides, a significant number of people in rural areas is engaged in rice farming. Historically, successive governments have given subsidies on a regular basis to incentivise and support the rice farmers. The current set of official statistics indicates that Bangladesh has become self-sufficient in rice production. However, in recent years, it is also observed that Bangladesh has been importing significant amount of rice, particularly from India, despite bumper productions in certain years. Some observers see a contradiction here, suspecting demand-supply miscalculation. The issue of ensuring incentive price has also emerged as a major concern in the backdrop of dynamics of rice price both at the farmgate and the wholesale as well as retail market. It may be recalled that the government has recently imposed an import duty of 10 per cent on rice import.

In this context, this section will examine the following research questions:

1. Is there a mismatch in the data for demand for and supply of rice which is misleading the policymakers?
2. Are the farmers getting the incentive price for rice production?
3. Is there any inefficiency from lack of competitiveness in the marketing of rice in Bangladesh?
4. Which policy measures/initiatives can be taken to address the above concerns?

Before addressing these questions, it may be useful to have a brief look at the composition and growth performance of Bangladesh agriculture.

One of the dominant features of Bangladesh economy is its structural change with a declining share of agriculture in GDP over the last four decades. The share of agriculture has declined from about half of total GDP during the 1970s to about one-third during the 1980s. Agriculture's share declined further – from about 30 per cent in FY1989-90 to about 25 per cent in FY1999-00, and further to about 19 per cent in FY2012-13. Despite such decline, the economy is still predominantly agrarian. The sector still provides employment to more than 45 per cent of the country's labour force. Moreover, agricultural production provides critical linkages for development of rest of the economy. The performance of agriculture thus has an important bearing on employment generation, food security and poverty alleviation in the country.

Within agriculture, crop and horticulture is the dominant activity. Its share was around 65 per cent throughout the 1980s, but has declined to about 55 per cent in FY2012-13. The share of non-crop agriculture including animal farming, forestry and fishing has increased over time. While the share of animal farming remained almost stagnant, the shares of forestry and of fishing marginally increased over the last three decades or so.

Agriculture grew at a rate of 3.3 per cent over the last two decades. This rate, though exceeded the population growth of 1.4 per cent, was lower than the growth of GDP (5.3 per cent) during the period. Agricultural growth was slightly higher in the first decade of the century (between FY2000-01 and FY2009-10) as compared to that attained during the 1990s. This should be largely attributed to the much higher growth in crop sub-sector during the latter period as compared to the former. In fact, all sub-sectors except fishing contributed to the higher growth in the latter period. The growth of fishing significantly declined in the decade as compared to the 1990s. Had it not been so, the growth of agriculture would have been much higher. The growth of fishing, however, picked up in the second half of the decade, though not to the high rate attained during the 1990s. The growth rate of agricultural sector remained almost the same (3.4 per cent) in recent years (between FY2009-10 and FY2012-13). As before, the rate exceeded the population growth of 1.1 per cent but was lower than the growth of GDP (6.1 per cent) during the same period. As compared to the second half of the last decade (between FY2005-06 and FY2009-10), the growth of crop and forestry sub-sectors declined (2.4 per cent and 4.2 per cent respectively), whereas the growth of animal farming remained more or less the same and that of fishing marginally increased (5.2 per cent).

1.3.2 Mismatch in the Data for Demand and Supply of Rice

The accurate measurement of demand-supply gap of foodgrains has remained elusive for the policymakers in Bangladesh since available estimates based on BBS data do not conform to the reality on the ground. There has been sustained increase in rice production over the last two decades and Bangladesh achieved near self-sufficiency in rice production. However, the country was never in a position to export regular variety of rice.[25] On the other hand, the country imports rice occasionally, and wheat regularly, to meet domestic demand. Several factors contributed to the inaccuracy in the estimates of 'food gap' (defined as total requirements not met by domestic production). These include, among others, ad hoc and inaccurate estimate of per capita consumption, persistent biases in the acreage (and hence, production) estimates of foodgrains by seasons, lack of accurate population estimates by poor and non-poor categories and by place of residence (rural and urban areas), etc.

Thus an unresolved paradox exists in the food economy of Bangladesh. The country has a surplus in terms of the availability of foodgrains if the current estimates of domestic production along with provisions of seed, feed and wastage are considered and estimated consumption based on the country's population is taken into account. Yet Bangladesh imports a significant quantity of foodgrains each year, indicating that the current estimate of food gap is probably erroneous. A recent study conducted by Yunus *et al.* (2012) estimated the parameters needed for integrated and effective Public Food Distribution System (PFDS) planning in Bangladesh to resolve the paradox. In this section, historical simulations of the country's food gap were used to provide a more realistic picture of the food economy which are reproduced below.

The food gap assessment for the period between FY2007-08 and FY2015-16 is reported in Annex Table 1.7. The first panel of the Table shows the gross production of rice by seasons and wheat as reported by the BBS. It is observed that gross production of rice increased from 28.2 million metric tonnes (MT) in FY2007-08 to 34.4 million MT in FY2011-12 and was projected to increase to 38.2 million MT in FY2015-16 if the historical trend in growth is maintained. The gross production of wheat stagnated around one million MT during the same period. Thus the gross production of foodgrains increased from 29.8 million MT in FY2007-08 to 35.4 million MT in FY2011-12 and was expected to reach 39.3 million MT in FY2015-16.

Under the existing practice, acreage and yield of foodgrain crops (rice and wheat) estimated by BBS are taken as the best approximation to derive gross production, and hence no adjustment is made. The only adjustment made to the BBS estimates to derive net foodgrain production is deduction of 10 per cent for seed, feed and wastage. In contrast, the review by BIDS (Bangladesh Institute of Development Studies) study reveals that acreage, yield and hence production was overestimated by as much as 9 per cent even on a conservative basis. Moreover, relying on farmers' reporting of acreage creates another 2 per cent discrepancy in acreage estimates. The survey findings of the study also imply that the existing practice of deduction of 10 per cent as seed, feed and wastage is considerably lower than what it should be. These three sources of adjustment result in substantial difference between the existing practice and BIDS estimates, as reported in the second and third panel of the Annex Table 1.7. The estimates of net foodgrain production range from 23 million MT in FY2007-08 to 27.3 million MT in FY2011-12, and is projected to increase to 30.3 million MT in FY2015-16. Once corrected/adjusted, the estimated net production of foodgrains would provide a better approximation to the actual magnitude.

The other issue relates to the estimate of per capita consumption of foodgrains. As per the prevailing norm and/or under the existing practice, the total requirement is estimated on the basis of the normative daily requirement of 465 gm per capita per day. However, such ad hoc procedure ignores the price and income effects of consumption of rice and wheat, which varies not only across poor and non-poor categories of consumers (in fact, it varies by different income groups) but also across the place of residence (rural and urban area). The total consumption requirement, as recommended in the same study (incorporating price and income effect), is shown in the fifth panel of Annex Table 1.7. It is readily observed that the estimates of total consumption requirement of foodgrains under the existing practice are substantially lower than

[25]This is not surprising since several studies have shown that Bangladesh has comparative advantage in domestic production of rice for import substitution (at import parity price), but not for exports (at export parity price). Also, generations of exportable surplus of rice may be a necessary condition for export but not sufficient. The country needs to develop international grading facilities and market contacts for exports to take place on a sustained basis.

that estimated by the study. The consumption requirement increases from 27.1 million MT in FY2007-08 to 28.8 million MT in FY2011-12, and is projected to increase to 29.9 million MT in FY2015-16.

Thus the series of adjustments, as recommended in the study in both the demand and supply sides (production and consumption of foodgrains, to be more precise), indicates that the country was deficit in rice, ranging from 2.1 million MT in FY2007-08 to 0.13 million MT in FY2009-10. It may be noted that the total imports of rice were 2.1, 0.6 and 0.08 million MT in FY2007-08, FY2008-09 and FY2009-10 respectively. Thus the estimates of food gap in rice, estimated by the BIDS study, closely correspond to the actual imports during these years. However, the domestic production of rice appears to be sufficient in meeting the consumption requirements and the marginal surplus is likely to increase to 2.5 million MT in FY2015-16 if the current trend in rice production prevails.[26] In contrast, the country is in deficit in wheat by about 2 million MT every year. The country imported 2.4, 3.4 and 3.8 million MT of wheat during the FY2008-09 to FY2010-11 period. This is roughly consistent with the deficit of wheat derived in the food gap analysis of the study. Since rice is predominant in the production of foodgrains, the country was deficit in wheat in the past and will remain so in the future.

To conclude, inaccurate assessment of critical parameters leads to erroneous conclusions with regard to the estimate of food gaps in Bangladesh. The study by Yunus *et al.* (2012) recalculates the food gap for recent years using the estimated parameters in order to resolve the apparent puzzle in the food economy. It has been observed that since the existing practice is based on some ad hoc values of the critical parameters, the estimated food gaps invariably give rise to a paradox resulting from mismatch of demand and supply (production and consumption to be more precise; overestimation of production and underestimation of consumption). In contrast, the alternative estimates of food gaps based on more realistic value of these parameters have contributed towards resolving the so-called paradox. This demonstrates that the food gap analysis using the suggested parameter values can lead to the formulation of more realistic policy in the food sector of Bangladesh.

1.3.3 Incentive Price for Rice Production: Role of Domestic Procurement Programme

Bangladesh has problems in exporting rice when there are surpluses. On a number of occasions in the past decades, rice prices in Bangladesh fell below those in the neighbouring countries after good harvests, but this did not trigger exports because market links were not established, and there is no internationally recognised system in place for grading rice in the country. An alternative way to exporting rice following bumper harvests is, for the government, to procure surpluses as a way of supporting domestic prices. Domestic procurement programme, therefore, has an important role to play in providing price support as well as incentives to the farmers for rice production. However, setting a procurement price that sends adequate and proper production signal to the farmers while minimising cost to the public exchequer is a real challenge.

Unsatisfactory performance of the domestic procurement programme in the past has been due to (a) excessive public sector imports, particularly in years when there were good harvests (even in some flood years) which occupied warehouse space, thereby severely restricting the ability to procure in the next harvest; and (b) the limited access of farmers to procurement centres so that they were obliged to sell to private traders at a lower prices.[27] Moreover, a sizeable share of procurement is from large farmers

[26] A pertinent question that arises in this context is whether Bangladesh would be able to export rice in the future. Although the country is likely to generate its surplus of 1-2 million MT annually, since the private sector holds about 2.3 million MT during the lean months of the year, the surplus may remain with the private sector as 'idle stock' and the country is unlikely to be in a position to export rice in the near future (Yunus *et al.* 2012).

[27] Other limitations include: too few procurement centres to allow for comprehensive coverage of producing areas; limited government financial resources; institutional impediments to speedy purchases from and payments to small sellers; and collusion between traders and officials, enabling traders to capture the margins between market and procurement prices.

and traders, not from small and medium farmers (Shahabuddin and Islam 1999).[28] To increase the participation of farmers (especially small and medium farmers) in the public procurement programme remains a major challenge for the government.

To improve effectiveness of domestic procurement and price support to the farmers would involve (a) proper fixing and appropriate timing of announcement of procurement price so that these send correct signals to producers while minimising budgetary costs to the government; and (b) identifying suitable institutional mechanism for enhancing reliability of procurement, especially during the Aman season when procurement often failed to meet the target.

The status of rice procurement in the last five years is shown in Table 1.8. It is observed that an overwhelming proportion of rice procurement (with an average share of about 80 per cent) was made in the Boro season.[29] Another important feature is the uneven nature of procurement over the years, ranging from as high as 12.9 lakh tonnes in FY2013-14 to as low as 5.6 lakh tonnes in FY2010-11.

During each procurement season, there is pressure on the government to buy paddy directly from the farmers but the result has so far been less than satisfactory, as evident from Table 1.9. The percentage of paddy procured is less than 5 per cent of total procurement in two out of the 5-year period. This can be attributed to the government purchasing, mostly rice, from millers during the Boro season in recent years.

Table 1.8

Domestic Procurement of Rice: FY2010-11 to FY2014-15

('000 tonnes)

Year	Rice		Paddy Converted into Rice		Total Rice
	Boro	Aman	Boro	Aman	
FY2011	557.18	0.00	5.57	0.00	562.75
FY2012	818.00	349.66	65.03	0.00	1,232.69
FY2013	949.81	275.56	3.58	0.00	1,228.95
FY2014	838.15	320.00	85.05	0.00	1,289.00
FY2015 (Target)	935.00	300.00	65.00	0.00	1,300.00

Source: Directorate General of Food.

Table 1.9

Amount of Paddy Procured: FY2010-11 to FY2014-15

('000 tonnes)

Year	Total Rice	Total Paddy	Paddy in terms of Rice	Total Procurement in terms of Rice	Percentage of Paddy in Total Procurement
FY2011	557.18	8.57	5.57	562.75	0.99
FY2012	1167.66	100.05	65.03	1232.69	5.28
FY2013	1225.37	5.51	3.58	1228.95	0.29
FY2014	1158.15	130.85	85.05	1243.20	6.84
FY2015	1235.00	100.00	65.00	1300.00	5.00

Source: Directorate General of Food.

[28]The survey showed that only 10 per cent of the sample farmers participated in the 1998 Boro procurement programme, of which 5 per cent were small, 13 per cent were medium and 22 per cent were large farmers. The alleged collusion between traders and government officials at the procurement centres and lack of effective functioning of the local committee are among the major factors contributing to such sorry state of affairs.

[29]This should be attributed to larger production, and more importantly, marketable surplus of Boro rice and greater predictability of market price of rice in Boro season.

Several observations can be made from the procurement targets and their achievement for paddy and rice in both Aman and Boro seasons, as shown in Annex Table 1.8. First, the procurement targets and achievements for both paddy and rice are higher in Boro season as compared to those in Aman season. Second, both targets and achievements are greater for rice than for paddy in both Aman and Boro seasons. Combining both seasons, procurement targets for paddy were only 33 per cent of the procurement targets for rice for the period under consideration.

Domestic procurement programme has dual objectives: (a) to augment public stocks, and (b) to provide support price to the farmers for maintaining production incentives. While the first objective is largely fulfilled, the second objective has remained elusive so far. This is mainly because of lack of participation of farmers in the domestic procurement programme. As we observed earlier, the share of paddy directly procured from the farmers is less than 10 per cent of total rice procurement. Another reason why farmers are deprived of fair price of their produce is the fact that the millers (from whom bulk of rice is procured by the government) do not pay the farmers the procurement price of paddy fixed by the government. The much anticipated 'Trickle Down Effect' does not usually take place due to superior bargaining position of millers who have emerged as a major player in the rice market. To develop a suitable institutional mechanism so that farmers can contribute to and benefit from the procurement programme remains a major challenge to the government.

The impact of domestic procurement programme as providing price support to farmers may be assessed in terms of providing direct and indirect support. It is difficult to claim that the procurement programme is effective in providing direct support to farmers because of lack of incentives and other factors preventing most farmers from actually participating in the procurement programme.[30] However, empirical evidence suggests that procurement programme provides indirect price support to farmers. This indirect effect may work through procurement programme raising the overall market price of paddy, and thus benefiting the farmers who sell most of their paddy in the market. Thus the procurement programme may not provide farmers with procurement price announced by the government but it can be argued that had there been no procurement programme, the farmgate price could have been lower and/or dropped further.

Unplanned and excessive rice import has emerged as a threat to the local paddy market, forcing the farmers into selling their paddy at lower prices – lower than their cost of paddy production – and thereby incurring huge losses.[31] The government allowed the private traders to import excessive amount of rice, which caused the fall in paddy price during the Boro season. The government should not have allowed such huge amount of rice import at a time when adequate foodgrains were available in the domestic market. According to Bangladesh Bank data, rice worth about USD 416 million was imported by the private sector during the July 2014-March 2015 period, as compared to only USD 71 million in FY2013-14. Rice imports, which until now were not subject to any duty, have increased three-fold year-on-year to 13.6 lakh tonnes between July and May of the current fiscal year, according to Food Ministry data.[32]

However, NBR has recently (effective from 11 May 2015) imposed a 10 per cent regulatory duty to give cushion to paddy farmers in the wake of soaring rice imports and the fall in prices of the staple in the

[30]There are many factors/reasons preventing farmers from participating in the procurement programme. For an elaborate discussion on this, see Shahabuddin and Islam (1999) and Sattar and Mandal (2012). It may be specifically pointed out here that farmers will sell to the procurement centres if they believe that the procurement price is higher than not the market price but the market price plus the risk premium for rejection at the procurement centres plus the informal payments required at the procurement centres (Sattar and Mandal, 2012).

[31]Price of Boro paddy stood at Tk. 450-500 per maund in the market as against the production cost of between Tk. 650 and Tk. 700 per maund resulting in a loss of about Tk. 200 per maund, which adversely affected the production incentives of the farmers. If the current trend continues, the farmers may turn their back on Boro production and switch to more profitable crops in the future.

[32]In fact, taking opportunity of duty-free facility, private traders in the five northern districts imported thousands of tonnes of Indian rice daily through land ports, causing drastic fall in rice production (even closure) of about 100 automatic rice mills and 2,500 husking mills in the region (*The Daily Star*, 15 May 2015).

domestic market. The traders had to pay 6 per cent duty to import rice in FY2005-06 and the duty was completely withdrawn since then.[33] The general perception is that the government should have imposed this duty much earlier. The prices of all types of paddy have increased by Tk. 50-60 per maund in the producing regions after the government announcement, said Mr Layek Ali, General Secretary of Bangladesh Auto, Major and Husking Mill Owners Association. In fact, following the imposition of 10 per cent duty by the government on imported Indian rice in the second week of May, price of newly harvested Boro paddy saw gradual rise in the markets of Rangpur, Nilphamari, Gaibandha, Kurigarm and Lalmonirhat. Thus it appears that, belated as it is, the imposition of import duty on rice is having some favourable impact on production incentive by way of providing some protection to the farmers.

1.3.4 Competitiveness of Rice Markets in Bangladesh

There are a number of studies (Baulch *et al.* (1998); Dorosh (2004); Chowdhury (1992); Ravallion (1986), (1987); Dorosh (1999); Chowdhury and Haggblade (2000); Murshid *et al.* (2009); Dorosh and Murshid (2002); Minten *et al.* (2010)) which have analysed the competitiveness (or the lack of it) of rice markets in Bangladesh. These studies have shown that rice markets in Bangladesh are moderately integrated and highly competitive. Major findings of the two most recent studies are reproduced below.

Mahmud and Wadood (2012) specifically focused on the issue of fundamental strengths and weaknesses of rice markets in Bangladesh. The rice market has become heavily interconnected except for the case of the farmers who may have limited number of contacts and limited options other than selling produce at the price offered by a miller. It has been observed that large and medium-sized enterprises enjoy greater economies of scale in their operations compared to smaller ones. Within the rice market value chain, there are two points where major bargaining takes place: one is between the farmer and the *bepari or faria* (often as agents of the miller) over the price and quantity of paddy, and the other is between the rice market wholesaler or commission agent (as agent of the miller) and the end-point wholesale or retail wholesaler over the price, quantity and quality combination of rice. The presence of rice millers in both of these bargaining processes is observed, who by taking advantage of storage capacity are able to postpone sale at least for some period. This implies that millers or miller-cum-wholesalers have potentials to enjoy large leverage over the entire rice market value chain, and thus potentially engage in opportunistic behaviour within the market. Large and medium enterprises enjoy the advantage of setting prices in the market, and the small ones follow them. As a result, prices of a variety of rice offered by all the enterprises move together.

The study concludes that agents in the market interacting with each other pursue different objectives as well as face different constraints in their operations. Hence, it is appropriate to examine different segments of the rice market separately to reach any conclusion regarding market competitiveness. The first segment of the rice market, one that involves primary growers, can be considered to a large extent competitive, although the benefits of competition do not reach small and marginal farmers. As one proceeds to the second segment of the market, which is of the rice millers and the wholesalers, one finds that the issue of competition is rather interesting. Given that an entrepreneur has to have large financial resources as well as business connections to be able to survive in the rice wholesaler market, entry into this market (segment) is rather difficult. Overall, in the second segment of the rice market, one may argue that competition is to a large extent restricted. Even though a large number of wholesaler firms operate in the market, the ones with more economic resources and business connections dominate. The third segment (of the retailer firms), mainly acts as a channel for prices set in the second segment (of the rice wholesalers). One cannot, however, conclude as to how the competition (or lack of it) affects the end consumers since this study concentrated mostly on the price bargaining and negotiations within the primary grower's segments, wholesaler's segments and retailer's segments.

[33]In fact, to facilitate import of rice, tariff rates in Bangladesh on rice were brought down quite radically over the last two decades, from 31.25 per cent in FY1991-92 to 13.5 per cent in FY2001-02. The import duty on rice import was zero during FY2007-08, and thereafter till FY2014-15, when 10 per cent duty was imposed on rice import (Raihan and Khan, 2013).

The study by Mujeri *et al.* (2013) links the concepts of value chain management and food security, a linkage that has received little research attention particularly in the context of the rice sector in Bangladesh. The broad objective of the research is to analyse whether applying the concept of value chain management could improve the competitive advantage of Bangladesh's rice sector, and if so, how this could be achieved in practice.

This study brings out two important concerns related to food security in Bangladesh: (i) the role of rice in the country's food security in the midst of fundamental changes in marketing and distribution of rice in a transitional economy; and (ii) potential of utilising value chain management in improving competitive advantage of the rice sector, which can create significant positive impact on food security. In Bangladesh, a major food security goal is to achieve self-sufficiency in rice so that the country can meet its entire requirements from domestic production. In order to achieve the goal, the government's policy is to provide adequate support to the rice farmers to ensure competitive advantage of the rice sector through the provision of subsidised inputs in conjunction with procurement and trade policies and other measures. More effective rice value chain management would supplement the existing government policies to improve the performance of rice supply chains, and thus the competitive advantage of firms within the chain (including farmers), through higher levels of coordination and value creation among chain members. Thus the country's food security policy and value chain management have a common focus on improving the competitive advantage of individual firms within the rice sector. It is expected that this would lead to improved value creation and more equitable value sharing among chain participants, with positive benefits for food security.

The three rice value chains in operation in Bangladesh show that the farmers get similar prices under alternative chains and the end product quality variation does not bring much benefit to the farmers. The major beneficiaries of such differentiation are the millers and other participants in the downstream chain, e.g. wholesalers, retailers and the supermarkets. The marketing margin analysis shows the disadvantaged situation of the farmers who receive the least returns along with bearing a higher share of risks. The study suggests that the largest amount of the value in the chain is created and retained by the millers and the highest net margin is also received by the rice millers. The large rice millers, by virtue of their big volume of business, can exert significant influence on the value chain, especially at the downstream level, and create pressure on the chain participants to act in favour of the interest of the large millers. The production of quality-differentiated rice under the supermarket value chain is found to be more profitable, especially for the rice millers.

The nature and the process of the present rice procurement system normally exclude the small and traditional rice millers as well as the farmers to participate in the procurement process. It thus appears that the rice sector will increasingly be dominated by the large rice millers (e.g. automatic and/or semi-automatic rice mills) who will exert significant control over rice processing and marketing in Bangladesh. The expansion of the supermarket value chain is more likely therefore to lead to the creation of conditions in which more collaborative and dependent relationships may flourish in the rice market.

The exchange relationships among the participants, in almost all cases, are based on buyer-seller interactions at each stage of the chain rather than across the entire chain. While many of the relationships have been built over the years, their domain is mostly transactional exchange rather than value creation. Such relationships do not create value jointly by the participants and hence are unlikely to enhance the competitive advantage of the chain.

1.3.5 Policy Measures/Initiatives

The following policy measures and/or initiatives could be undertaken to address the concerns highlighted in Sections 1.3.1 to 1.3.3.

- The alternative set of estimates of per capita consumption needs updating in view of changing income, price and food habit. The task can be accomplished by appropriate adjustments of the food consumption module of the Household Income and Expenditure Survey (HIES) in a regular manner. This will obviate the need of conducting a nationally representative survey for food gap analysis.
- Unless there is any perceptible improvement through use of improved technology and skilled personnel, the suggested approach of downward adjustment to available production estimate due to the upward discrepancy in acreage data needs to be pursued. The adjustment factor may, however, be periodically adjusted on the basis of improvements in estimating techniques in relevant data adopted by the BBS.
- Since the recommended allowance for seed, feed, wastages, and other uses is likely to vary with level of adoption of improved technology in crop production, processing, storage, transit and other operations, these parameters need to be updated periodically by undertaking carefully designed survey instruments. These survey instruments may be administered through the field level outfits of the BBS and/or Department of Agricultural Extension (DAE) which will save not only scarce resources, but will also contribute to capacity building of these organisations.
- The projection of population may be updated periodically as new and more reliable data on key vital statistics become available such that the relevant parameters remain valid for food gap analysis.
- Even though reliable estimate of private stock of foodgrains is an important pre-requisite in its own right, a rigorous study needs to be undertaken to assess the strategic stock holding behaviour of the private sector agents and their reaction and adjustment behaviour to public intervention in the foodgrain market.
- The food gap analysis should be conducted regularly based on the updated parameters of the underlying building blocks so that the policymakers can take informed decision with regard to timely intervention in the markets for foodgrains.
- There is a need to improve the modalities of domestic procurement programme to make it farmer-friendly so that production incentives are maintained in a cost-effective manner.
- Regular and continuous monitoring of world food market scenario is a prerequisite for early planning of procurement of foodgrains from the global market, especially for coping in times of natural disasters.
- The domestic procurement programme should have provisions for educating the farmers about the quality, especially level of moisture content (14 per cent) required for selling paddy to the procurement centres. If the farmers are aware of the rules and collectively attempt to participate, they will have better bargaining power and greater chances of participating in and benefitting from the programme.
- If the procurement operations can be further decentralised at the local level, the transaction costs that are involved can be minimised, and thus provide incentive for farmers to participate in the public procurement programme.
- There are numerous allegations of irregularities in the system. The presence of any irregularity in such a large and costly government intervention programme is bound to cause misuse of scarce public resources on the one hand, and prevent the programme to fulfill its objectives on the other. The government should investigate and take necessary measures to remove the irregularities in the system, if there are any.
- The current system of procurement does not affect market prices as much as it could. The mode of procurement should be transparent and competitive enough to create expectations among traders that a fall in prices would be prevented. Procurement through open tenders involving competitive bidding may be explored in this context.
- For improving the rice value chain, the key is to ensure the equitable value sharing among the chain members, which will improve the competitive advantage of the rice sector. This will contribute to improving the overall food security in the country as all chain members including the farmers will be better off and the rice sector will become more productive and efficient.
- The government needs to adopt effective policies for enhancing the staying power of the farmers by creating storage (e.g. community level through cooperatives, PPP and other mechanisms) facilities for

paddy by the farmers, and encouraging farmers to enter into more collaborative vertical and horizontal partnerships to enhance capability and bargaining power.

- For enhancing and sustaining the benefits of supply chain management, rice productivity needs to be continuously increased through adoption of improved technology and other measures.

1.4 ASSESSMENT OF PROGRESS OF FAST TRACK PROJECTS

1.4.1 Introduction and Objectives

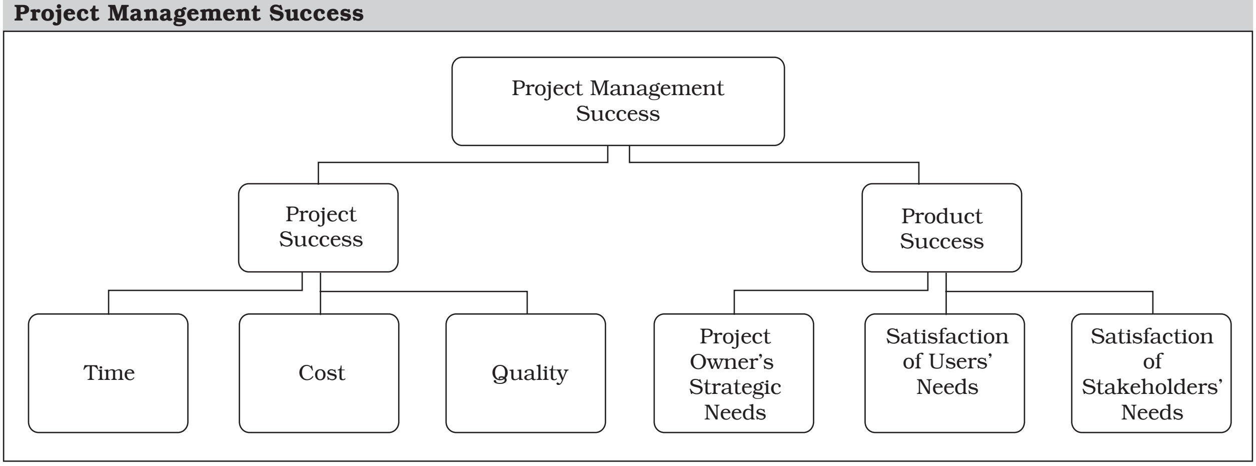
In view of the slow pace of implementation of the much-needed physical infrastructure projects and a clear necessity for infusing dynamism, the concept of a 'fast track project' was first introduced by the government in 2013. After taking office in January 2014, the incumbent government identified six large-scale infrastructure projects as 'fast track projects' with concrete directives to promote faster implementation of these. In January 2015, another two projects were added to the list. The identified projects included:

a) Padma Multipurpose Bridge Project
b) Dhaka Mass Rapid Transit Development Project (Metro Rail)
c) Deep Sea Port at Sonadia
d) Deep Sea Port at Paira
e) 2x660 MW Moitree Super Thermal Power Project (Rampal)
f) Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project
g) LNG (liquefied natural gas) Terminal
h) Rooppur Nuclear Power Plant

Given the growing demand for improved infrastructure, fast track projects are expected to have a broad impact towards minimising the current infrastructure deficit in Bangladesh. As such, these projects were to be implemented on a priority basis so that these will be completed on time, and will ensure the expected benefits to the economy over time.

From the project management perspective, the success of fast track projects depends both on implementation as well as operation following project completion (Baccarini, 1999) (Diagram 1.1). This section will assess the progress of implementation of the fast track projects from these dual perspectives. Project management

Diagram 1.1
Project Management Success



Source: Baccarini (1999).

success is categorised into two components: *project* success and *product* success. Project success indicates successful completion of a project within specific objectives. The three key components of project success relate to implementation on time (in terms of meeting the schedule), within cost (in terms of meeting budget), and with quality assurance (in terms of conformity with functional and technical specifications). Project success also considers the manner in which the project management process is being conducted. Product success, on the other hand, focuses on the effects of the project's final product on the final users. Its three key components include meeting the project owner's strategic organisational objectives (in terms of achieving the project's goals), satisfaction of users' needs (in terms of satisfying real needs) and satisfaction of stakeholders' needs (Baccarini, 1999).

1.4.2 Methodology

This section examines the aforesaid fast track projects from the project management success perspective. As part of this exercise, using the Logical Framework Method, different aspects of the fast track projects have been critically reviewed (Diagram 1.2). Since most of the projects are at various stages of implementation, analysis of the projects focuses primarily on *project* success. An analysis of project success involves an assessment of performance of major critical factors in the process of implementation, including design, coordination, training, monitoring, and institutional environment, as well as efficiency (time, cost, objectives), relevance to the country context, importance to beneficiaries, and impact on the economy and sustainability (Ika *et al.* 2012). In the process of implementation of a large project, a diverse range of challenges need to be handled. These include engineering challenges, human development challenges, managerial and political challenges, and sustainability challenges. The present analysis, as appropriate, addresses all of these areas.

1.4.3 Institutional Structure and Monitoring Mechanism of Fast Track Projects

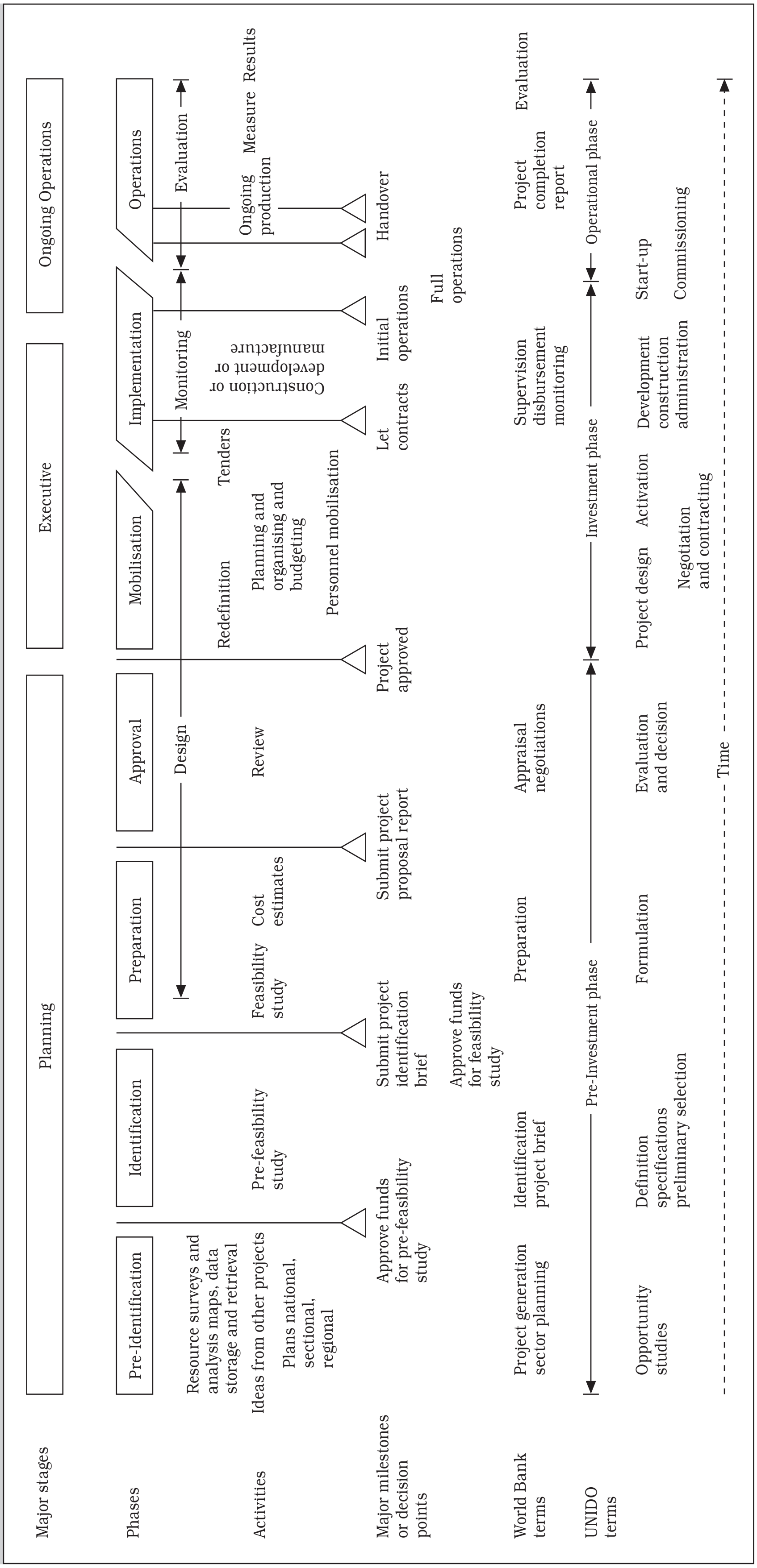
Institutional Structure

The concept of fast track projects is relatively new in the formal institutional structure of Bangladesh. Developments in the fast track projects institutional structure are mainly driven by executive decision of the Prime Minister's Office. The objective of this initiative is to ensure faster implementation of the selected projects by ensuring necessary allocation as well as by facilitating the process of implementation. Unlike other projects, where implementing agencies are in charge of implementation with monitoring work undertaken by the Implementation Monitoring and Evaluation Division (IMED), the fast track projects create a direct link between the implementing agencies and the PMO. Given the weak state of allocative and operational efficiency in the implementation process of infrastructure-related projects, institutional structure for fast track projects intends to improve efficiency in both areas (i.e. allocation and operation). More specifically, linkage with the PMO is established with a view to ensuring faster project completion by allocating necessary resources as required and without delay.

Monitoring Mechanism

The fast track projects are monitored by the newly formed Fast Track Project Monitoring Committee (FTPMC), which is headed by the Prime Minister. Committee members include ministers and secretaries of the relevant ministries, including finance, planning, land, environment and forests, transport, energy, shipping, and secretaries of Economic Relations Division (ERD) and IMED (Diagram 1.3). A Taskforce has also been formed under the FTPMC. Membership of the Taskforce includes the secretaries of the relevant ministries. The mandate of this Taskforce is to facilitate the activities of the FTPMC by reviewing progress of each of the projects on a regular basis, and prepare discussion notes for the FTPMC on key issues and concerns.

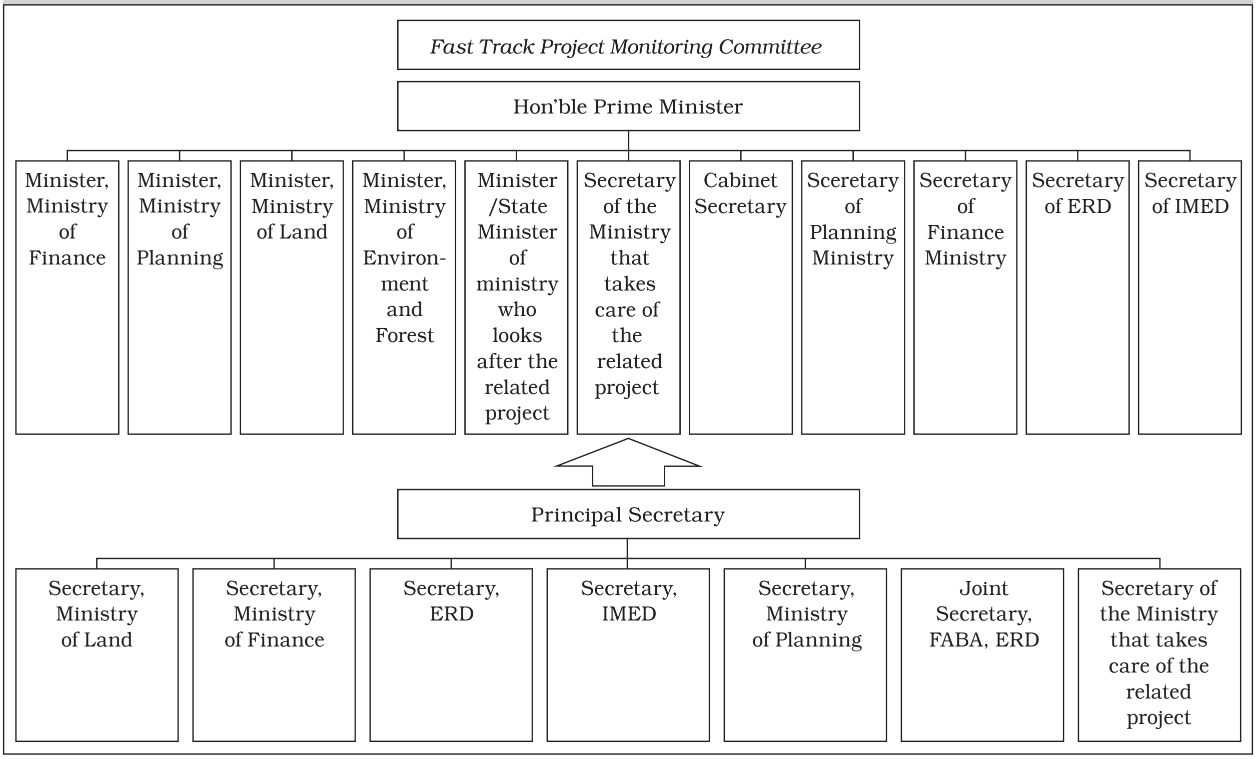
Diagram 1.2
Project Management – Logical Framework Method



Source: Youker (1989).

Diagram 1.3

Institutional Structure for Monitoring Fast Track Projects



Source: Prepared by the author.

The Monitoring Committee is expected to sit every month to discuss progress made on the projects. However, since January 2014, the Committee was able to meet only on three occasions. The Taskforce, on the other hand, met five times during this period. Based on their discussions, the Taskforce sent reports to the Monitoring Committee. The Committee has recently decided to meet only when important decisions are needed to be taken and/or emergency issues are raised regarding any of the projects.

The aforementioned direct link between implementing agencies and the PMO is also supposed to ensure accountability in the process of implementation. The secretaries of the respective implementing agencies are expected to report to the Taskforce about all positive and negative developments of project implementation. IMED, as part of its regular role, monitors all of the fast track projects every four months, and is expected to publish monitoring reports on a regular basis.

1.4.4 Description and Analysis of Fast Track Projects

a) Padma Multipurpose Bridge Project

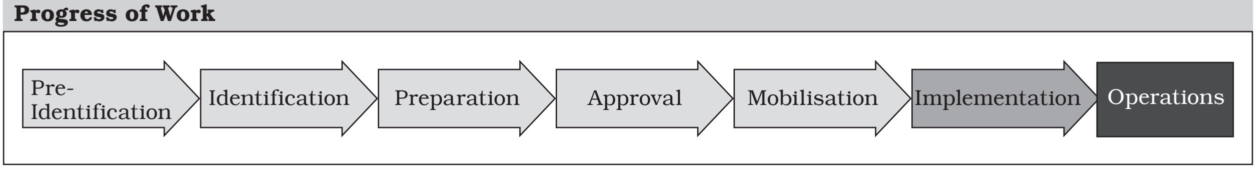
Project Highlights

The Padma Bridge is a multipurpose road-rail bridge, crossing the Padma River and having a total length of 6.15 km. The bridge will be located between Munshiganj and Shariatpur, establishing a road and rail link between the south-west and the rest of the country, particularly the north, central and east regions. The project was initially planned to be implemented during 2008-2015. After commissioning, the bridge is expected to contribute an equivalent of 1.2 per cent of the GDP (ADB, 2007). According to the DPP (2007), the project cost was initially estimated at Tk. 10,161.8 crore, of which Tk. 3,281.1 crore was to be provided by the Government of Bangladesh from local resources (32.3 per cent) and Tk. 6,880.6 crore (67.7 per cent) was to be provided from project aid. Allocation of the project aid was provided by the World Bank (41 per cent), the ADB (21 per cent), Japan International Cooperation Agency (JICA) (10.3 per cent), and Islamic Development Bank (IDB) (4.8 per cent). As is well known, following allegations of corruption made by the World Bank and subsequent incidences, in January 2013 the government withdrew its request to seek support from the World Bank. Later, other development partners also withdrew their commitments. With aspirations of implementing the project using local resources, the project was revised with a new timeline and cost. According to the RDPP (Revised Development Project Proposal), the new timeline set for implementation was 2013-2018, and revised costs were estimated at Tk. 20,000 crore. Of this, 92 per cent was to be borne by the government, and the remaining 8 per cent by the grant received from India. However, the project cost has since been further revised upward to Tk. 28,793 crore.

Project Cycle Analysis

Diagram 1.4 shows the project cycle of this project. Padma Bridge is now at the executive phase, after completion of all activities related to the planning phase. During the planning phase, necessary components have been completed including pre-identification, identification, preparation and approval-related activities. All these activities have been carried out as per the World Bank guidelines. The project comprises five main activities, which include construction of the main bridge, river training, construction of approach roads on both sides of the proposed bridge and development of the service area. Selection of contractors for the main components of the bridge has been conducted in accordance with the World Bank procurement guidelines. After the World Bank and other development partners withdrew their commitment, the project implementing agency continued operations following the activities completed based on the World Bank guidelines. All five components are currently at different stages of implementation. As of April 2015, about 18 per cent work of the project has been completed.

Diagram 1.4
Progress of Work



Source: Prepared by the author.
Note: Completed Ongoing Yet to be initiated.

Procurement Issues

Selection of consultants for the various involved jobs was one of the main activities in the planning phase. Initially, five companies were preselected for construction work related to the main bridge.[34] SNC Lavalin was pre-qualified for monitoring and supervision of the project. However, as may be recalled, following World Bank allegations against SNC Lavalin and some high government officials on the grounds of intention to commit corruption, the government withdrew its request to seek support from the World Bank. Other development partners also withdrew their support.[35] Understandably, the decision to implement the project with local funds has had advance implications in terms of overall project viability, particularly because the expenditures will now have to be underwritten with high cost domestic funds in place of the very low interest funds from the World Bank. The pre-selected companies have been invited to participate in the tendering process for construction of the main bridge, with three companies having

[34]Earlier in July 2011, five pre-qualified bidders were selected. These included Samsung C&T Corporation of South Korea, China Major Bridge Engineering Company Ltd, Daelim-Bam-VCI (a joint venture entity of South Korea), Vinci-HCC (a joint venture of France and India), and China Communication Construction Company Ltd.
[35]ADB withdrew its proposal on 1 February 2013, and the JICA on 2 February 2013.

expressed their interest, but only one (China Major Bridge Engineering Corporation) having submitted its technical and financial proposals. This company has now been selected for the job.[36] Of four companies that submitted proposals, the river training work has been granted to Sinhydro Company, China. The construction supervision work of the main bridge has been granted to Korean Expressway. Finally, the consultancy services for the Padma Bridge has been given to the Bangladesh Army, while Abdul Monem Limited was appointed to develop the service area and the connecting roads on both sides of the bridge.

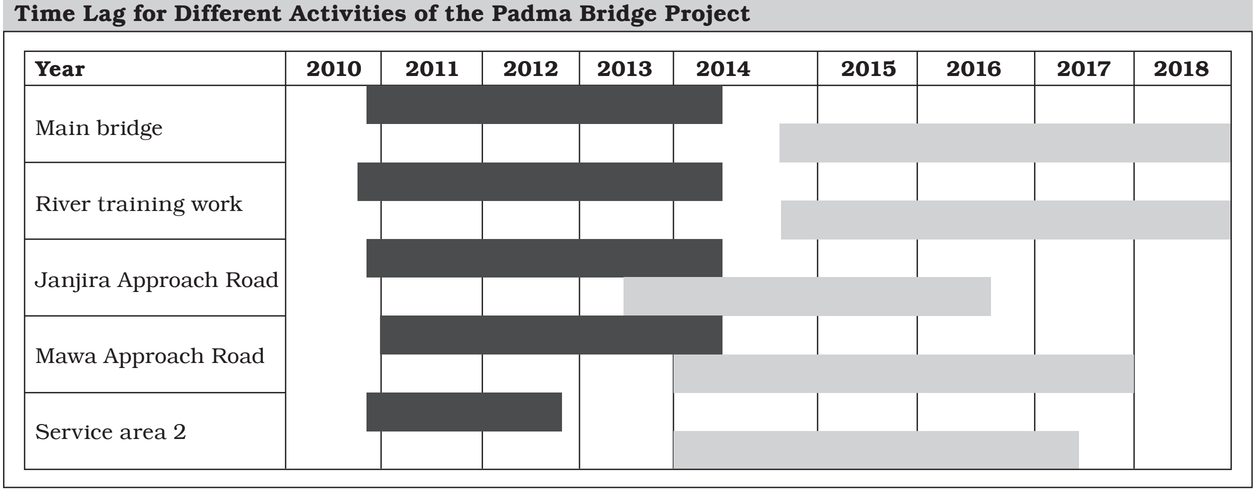
Major Issues and Concerns in the Implementation Process

Revision of the Timeline

The timeline for implementation of the project has been thoroughly revised after the decision of the government to implement the project using local resources. The timeline for completion of the project has shifted from 2014 to 2018 and that for completion of some of the components has been further extended (Diagram 1.5). For example, construction of the main bridge has been extended from 36 months to 48 months, river training works extended from 36 months to 48 months, construction of Mawa approach road extended from 33 months to 42 months and that of Janjira extended from 34 months to 36 months. Other than facing unwarranted situations (such as prolonged political unrest and natural shocks/disasters), such time extensions for most of the components are difficult to explain.

Diagram 1.5

Time Lag for Different Activities of the Padma Bridge Project



Source: Prepared by the author.

River training work is at the initial stage, while 42 per cent of work on the connecting roads and 33 per cent of work on construction of the service area have been completed. The progress of construction of the main bridge was at just 7 per cent by the end of year one.

Revision of Project Costs

Over the last nine years, the project budget has been revised upward three times. As a result, the project cost has increased significantly, by 107.4 per cent in Dollar terms and by 197 per cent in Taka terms (Table 1.10). Resettlement works have seen significant cost increases (by 516 per cent), as have construction of approach roads (by 448 per cent) and land acquisition (by 195 per cent). All of these components have been handled by local authorities and commissioned to the local contractors. In the second revision, costs have further escalated for components which are currently at different phases of implementation. Such overrun

[36] Samsung and Daelim requested an extension but this was not granted.

Table 1.10
Project Budget Revisions

(Million USD)

Component	DPP (2006)	RDPP (2010)	Second RDPP (2015)	% Change between DPP and Second RDPP	% Change between RDPP and Second RDPP
Main bridge	530.6	1,339.8	1,824.3	152.5	36.2
Approach roads and toll plaza (12 km)	52.2	286.4	304.1	448.7	6.2
River training works	385.6	799.9	1,354.7	107.4	69.4
Resettlement	44.3	273.2	273.2	516.7	0.0
Land acquisition	46.4	136.9	136.9	195.0	0.0
Environment	6.7	18.7	18.7	179.1	0.0
Consultancy	43.6	72.0	94.6	65.1	31.4
Others (salary, transport, CD vat, and tax, physical and price contingency, interest, etc.)	362.3	125.0	125.0	-65.5	0.0
Total	**1,471.7**	**3,051.9**	**4,131.5**	**107.4**	**35.4**

Source: Prepared by authors based on Revised Development Project Proposal (RDPP) and Bangladesh Bridge Authority (BBA) (www.bba.gov.bd).

of costs of different components needs to be revisited. However, a number of recent revisions in the budget are justified. For example, the rising cost of river training is mainly due to construction of additional structures that required acquiring 405 hectares of land in order to protect river banks.

Procurement Issues

The selection of contractors has been an ongoing concern. Allegations of corruption against SNC Lavalin and high-ranking government officials delayed the process. Later, selection of the construction company for the main bridge was done on the basis of submission of final documents by a single company when another company requested for an extension. The selection of the company for the river training works has been questioned. However, the selection of the local company for monitoring and supervision is in question because of their lack of experience on similar kinds of activities. The company selected for development of the approach roads and service areas has been done without following the usual tendering process. The government should have followed the formal tendering process in order to select the most competitive contractors, and thereby ensure better service at a manageable cost.

Most of the products and services for the project will be imported from foreign sources, with about 75 per cent payment of the total cost for this project being made in US Dollar. Given the fluctuating exchange rate, particularly against the US Dollar, the government needs to be prepared for changes in overall expenditure. Local currency will be used only for procurement of some materials from local sources, such as bricks, stones, cement and sand. Of the total employment of 35,000 workers and professionals, about 15,000 workers have so far been employed, out of which a large number are foreign engineers and advisers. It is important to examine whether recruitment of personnel has been conducted according to the procurement guideline of the RDPP.

There is a panel of experts for monitoring the whole project. It is expected that the panel will ensure transparency in the whole process.

Toll Charges

The toll charge has not yet been decided. Given the changing circumstances, how the toll will be charged is not yet clear. From an economic point of view, the toll will be significantly high compared to that decided in the DPP, given the use of costly local resources from the government. However, the government may take a part or full burden of expenses and may set a toll which would be lower than the economic rate. Hence, a significant amount of implicit subsidy may be involved.

Project Management Success/Failure

The project management success of the Padma Multipurpose Bridge will depend on both project and product success. In the process of implementation, project success appears difficult. However, product success may exceed project success, making the overall project a success, although this is difficult to predict at present.

b) Dhaka Mass Rapid Transit Development Project (Metro Rail)

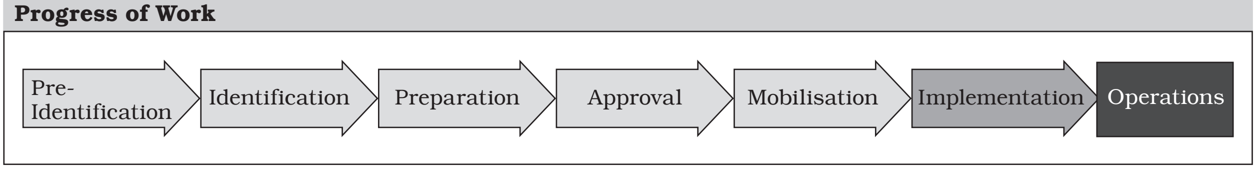
Project Highlights

Dhaka Mass Rapid Transit Development project is being constructed in Dhaka city with a view to meet future traffic demand and to reduce traffic congestion in Dhaka city. The total length of the metro rail will be 20.1 km, beginning in Uttara and ending in Motijheel. The project was initiated in 2012 and will be completed in 2024. However, the project implementing agency has alluded to the possibility of early completion, by 2019. The estimated cost of the project is Tk. 21,985 crore, of which JICA will provide Tk. 16,595 crore (75 per cent of the total cost) and the government will provide the remaining Tk. 5,390 crore (25 per cent of the total cost). A credit agreement with JICA was signed in February 2013. The Metro Rail Bill 2015 has been passed by the National Parliament, under which the Dhaka Mass Rapid Transit Company Limited (DMRTCL) has been formed.

Project Cycle Analysis

Diagram 1.6 shows the project cycle for the Metro Rail project. The project is now at the execution phase, following completion of all planning-related activities. As part of the planning phase, the project has completed pre-identification, identification, preparation and approval activities. All activities have been carried out according to JICA guidance. The project involves the construction of seven components, including a rail road, bridges, a flyover, a railway overpass, a steel footbridge, a box culvert and a viaduct. However, construction is yet to begin for any of these. To date, the necessary land has been acquired, which includes 22 hectares of land for construction of a depot. Of the total land procurement fund, only 16 per cent has so far been spent. A number of surveys are being planned as part of the construction, including a topographic survey, a traffic survey, a geotechnical survey, a right of way (ROW) survey and a utility survey. Of these, the topographic survey and traffic survey have already been completed, and the geotechnical survey, the ROW survey and the utility survey are underway. It is expected that the work of detailed designing for MRT line-6 will be completed by July 2015.

Diagram 1.6
Progress of Work



Source: Prepared by the author.
Note: ■ Completed ■ Ongoing ■ Yet to be initiated.

Procurement Issues

The implementing agency for this project is the Dhaka Transport Coordination Authority (DTCA). An agreement was signed with NKDM, in association with General Consultant (GC) Nippon Koei, Japan in November 2013, for the consultancy services of designing, construction supervision, procurement support and management of works. The total allocation for these works amounted to Tk. 1,000 crore. GC started working in February 2014 and has finalised the basic design by December 2014.

Till date, a number of agreements have been signed between DMRTCL and consultant companies. In July 2014, DMRTCL signed a contract with the Oriental Consultant, Japan, for the work of institutional development consultancy, and another contract with CCDB for resettlement assistance consultant services. Both the consultant firms have recently begun work. There are a total of eight contract packages for the project. Preliminary quotations were called in January 2015, mainly for the purchase of rolling stock and equipment for the new depot.

Major Issues and Concerns in the Implementation Process

A number of structural bottlenecks have been identified while conducting the surveys. The geotechnical survey revealed an underground electricity line that goes from Agargoan to Mirpur 10 that needs to be relocated for this project. In addition, acquisition of land in the area of the National Parliament may cause damage to the 55 metres of date garden located there.

The area selected for construction of the depot, the viaduct and the rail line may not be suitable. Given that a layer of soft clay goes from 5-20 metres, the area appears vulnerable to earthquakes. Large quantities of sand will need to be added to this area in order to make it viable for the depot; such works will undoubtedly extend the project timeline.

Construction of the metro rail will be difficult without moving underground utility lines. As such, coordination between DTCA and utility providing agencies will be important.

The DMRTCL is running the bureaucrats to date, although operationally it is a company. As such, there may arise a conflict of interest in the future.

Although the project has made notable progress to date, no contractor has been appointed. It will take about a year to appoint the consultants, which will increase the cost and time of the total project.

Project Management Success/Failure

The implementation of the metro rail project is still at an early stage. However, the project is well positioned in terms of project success as no major objections or concerns have been raised as regards the procurement process. Given the huge demand for mass traffic transit, timely completion will also ensure product success.

c) Deep Sea Port at Sonadia

Project Highlights

Construction of the Deep Sea Port is acutely needed to reduce pressure on Chittagong Port, as well as to meet the growing demand for port facilities within the country and the neighbouring regions of India and China. The project will cost Tk. 55,000 crore, and is expected to be completed in 2055. The Government has constituted the ‘Deep Sea Port Cell’ in August 2010. To date, a techno-feasibility study has been completed, with the site at Sonadia being selected out of nine possible areas. A consultant has been hired for completion of the first phase of work by the end of 2015. A total of Tk. 223 crore will be needed for this stage. After the completion of the project, the port will have the capacity to annually handle 30 lakh twenty-feet equivalent units (TEUs) containers and acquittal of 10 crore tonnes of bulk cargo.

Project Cycle Analysis

Diagram 1.7 shows the project cycle from implementation to start up. The project is at the early phase of planning, with only pre-identification and identification related works having been completed. In fact, necessary preparation for follow-up activities is yet to be initiated. Although allocation has been made to complete the first phase of the project, the progress has been minimal so far. The consulting company was supposed to complete a series of works, including two harbour protection dams (at a length of 1.95 km and 2.25 km) and construction of a deep sea channel (at a width of 400 meters and a depth of 14 metres.) The entire development will be within the range of 25 km of where there will be nine berths, along with other facilities which can manage a ship of 300 metres in length and draft of 14 metres.

Diagram 1.7
Progress of Work

Source: Prepared by the author.
Note: ■ Completed ■ Ongoing ■ Yet to be initiated.

Procurement Issues

The techno-economic feasibility study has been carried out by the Pacific Consultant in two stages, beginning in 2006 and ending in 2009. The first phase resulted in the selection of Sonadia as the most appropriate site. The second phase was related to preparing detailed project plans.

The total initial cost was estimated to be Tk. 2.8 billion, with Tk. 2.2 billion required for port infrastructure and dredging, and the rest for connectivity (e.g. road construction and railway development). Of the total cost of the project, the government will provide 65 per cent, with the remaining 35 per cent being provided by the private sector. Given funding difficulties, the government initially decided to implement the project under a consortium fund, although it later shifted its position and decided to implement it under a G-G scheme. In 2014, the government decided to implement the project under a PPP.

Major Issues and Concerns in the Implementation Process

At the present time, the government is undecided as to which country to sign the G-G contract with. A number of countries have expressed their interest in financing construction of the project, including China, India, USA, the UAE, the Netherlands, Denmark and Germany.

Recently, the government decided to establish a port in Paira, which is relatively close to Sonadia. In this backdrop, the government needs to decide which of the two ports to prioritise as Bangladesh may not need two deep sea ports at the moment. Under the circumstances, the future of the Deep Sea Port at Sonadia has become rather uncertain.

Project Management Success/Failure

From a project management point of view, the Deep Sea Port at Sonadia is in a poor state, being stuck at the planning phase. Given the competition of other similar projects in nearby areas, the project has little possibility of achieving product success. As it takes a significant amount of time to prepare this type of project, this project can soon be regarded as non-tracked.

d) Deep Sea Port at Paira

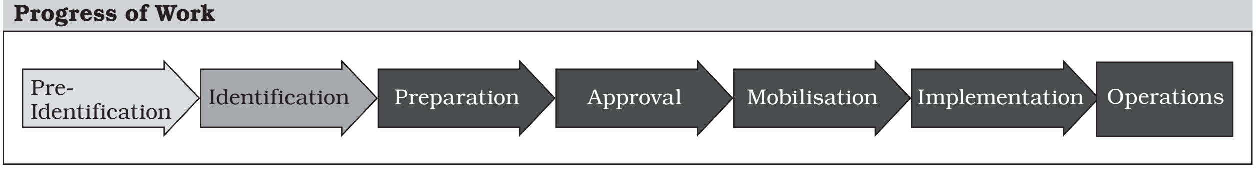
Project Highlights

Recently, the government has decided to establish a deep sea port at Paira, Patuakhali, with a view to reducing pressure at the Chittagong Sea Port. Initial activity began in 2013, with the port expected to be in full operation by 2023. This project will be implemented at Lalua, Rabnabad Channel in Kalapara, in three phases. The project has 11 specific components, which include construction of 10 jetties with extension facilities for berthing and unberthing of vessels of a size up to 300,000 ton DWT; construction of a separate terminal for LNG, bulk, oil, cement, fertiliser and coal cargo; construction of deep sea mooring for vessel harbour inside the Rabnabad channel; construction of a container yard for 500,000 TEUs with related infrastructure; construction of cargo and container handling equipment; construction of marine logistics (such as tugs, pilot vessels, buoy laying vessels, water supply vessels, and a pollution control unit); construction of a port administrative building; establishing internal link roads and bridge utilities; and construction of accommodation buildings for officers and staff, with associated welfare, cultural and recreational facilities. The total cost of the project is yet to be determined. The project may be implemented under a G-G arrangement. Limited scale port operation is expected to commence by the end of 2015. The government has constituted the Paira Port Authority in August 2013.

Project Cycle Analysis

The project is at an early planning stage, with only pre-qualification related activities having been carried out. A feasibility study has been initiated. Preliminary works are ongoing in order to make the port authority functional from 2015. Project proposals have been prepared for building facilities at the Paira Port; however, the work is yet to be completed. Diagram 1.8 shows the current state of progress of the Paira project.

Diagram 1.8
Progress of Work



Source: Prepared by the author.
Note: ■ Completed ■ Ongoing ■ Yet to be initiated.

Procurement Issues

The government has hired a consulting firm, HR Wallingford Ltd., to provide support to the necessary preparatory works. These works include support of technical consultancy and preparation of the conceptual project master plan. As of now, other related progress includes procurement of 16 acres of land on the west bank of the Andharmanik River of Kalapara upazila (Patuakhali district), establishment of a jetty and construction of a building. Moreover, 6,000 acres of land for main port facilities are marked with pillars, with the acquisition process ongoing at an estimated cost of Tk. 350 crore.

In order to make the port operational, a number of preparatory works have been carried out. These include the channel being buoyed with the IALA (International Association of Light House Authorities) navigation system, a published admiralty chart of Paira navigable water and channel marked with appropriate designated lanes, establishment of a VHF station for ship-shore communication, appointing the required workforce, manning and logistics for pilotage, arranging berthing and cargo handling, establishing ship and cargo clearance facilities for collection of customs at Paira Port, compliance with the international standard security arrangement (ISPS code), and organising efficient port operation by a skilled Ship Handling Operator and MMD clearance.

Two DPPs, namely building facilities for preliminary port infrastructure and Paira Port-Kalapara connecting roads, have been sent to the Planning Commission for approval. If the DPPs are approved in this fiscal year, development works worth Tk. 1,000 crore will be initiated next year, to be completed in two years. The DPP for the overall project is being processed and will be submitted to the Ministry of Shipping shortly.

Major Issues and Concerns in the Implementation Process

The project is planned to be established under a G-G scheme. A number of countries have expressed interest in financing the project, including India, China, Denmark and New Zealand. A total of nine Chinese companies have expressed interest in implementing the project. Denmark and New Zealand have showed their eagerness and a proposal of Tk. 900 crore is now on the table. Another proposal of Tk. 284 crore for river training and link roads is also waiting for approval of the Executive Committee of the National Economic Council (ECNEC). It has been recently reported that a consortium between India and Bangladesh is going to be formed for developing the deep sea port at Paira. According to a technical committee, the estimated cost for the construction will be Tk. 254 billion, including a 34 km link road. The major concern now is how transparent the selection process of the contracting companies will be.

Project Management Success/Failure

The success of Paira Port project depends on a number of conditions. First, this will depend on how efficiently the government signs contract with countries interested in the project. Second, product success will depend on whether the government will fully concentrate on Paira project by sidelining the Sonadia Deep Sea Port project or not.

e) 2x660 MW Moitree Super Thermal Power Project (Rampal)

Project Highlights

The formal name of Rampal power plant project is the Moitree Super Thermal Power Project. It is a 1,320 (2x660) MW imported coal-based power plant. The project is being implemented under a joint venture initiative between two public entities, Bangladesh Power Development Board (BPDB) and National Thermal Power Corporation (NTPC), India. In addition, a company has been formed, Bangladesh-India Friendship Power Company (BIFPC), with an equal stake of BPDB and NTPC. The project is estimated to cost around USD 1.8 billion, of which 30 per cent will be borne by BPDB and 70 per cent by NTPC, to be generated through commercial borrowing (Table 1.11). The project was initiated in 2010 and is targeted to begin its operations in 2019. The total generated electricity will be consumed at the domestic level, particularly by local industries, with there being no plan for export.

Table 1.11

Rampal Power Plant Project Overview

Issue	Feature	Issue	Feature
Production capacity (MW)	1,320 (2x660)	Implementing body	India-Bangladesh Friendship Company
Land acquisition (acres)	1,834	Financial investors	30% India-Bangladesh equal partnership, 70% loan
Budget (app.) (Tk. billion)	145.1	Location	Sapmari, Rampal, Bagerhat
Allocation for compensation (Tk. million)	625	Technology	Super-critical
Year of production	June 2019	EIA implementation	Center for Environmental and Geographical Information Services (CEGIS)

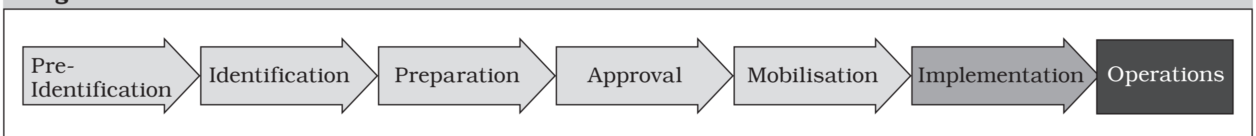
Source: Bangladesh India Friendship Power Company (BIFPC); various newspapers; TIB report.
Note: EIA: Environmental Impact Assessment.

Project Cycle Analysis

The project is currently at the execution phase (Diagram 1.9). All the necessary activities related to the planning phase have been completed, including pre-identification, identification, preparation, project approval and mobilisation.

Diagram 1.9

Progress of Work



Source: Prepared by the author.
Note: ■ Completed ■ Ongoing ■ Yet to be initiated.

Procurement Issues

For the project, a total of 1,834 acres of land have been acquired at a cost of approximately Tk. 62.5 crore. The pre-feasibility study and environmental impact assessment study have been carried out by NTPC and the Center for Environmental and Geographic Information Services (CEGIS). Based on these studies, the project gained approval from the Department of Environment (DoE). The power plant will use super-critical technology, which is safe for the environment. This technology has about 6 per cent more efficiency and requires less coal to be burnt per unit of electricity generated, resulting in lower greenhouse gases (CO_2) emissions than conventional, sub-critical technologies. Currently, this technology is being used in USA, UK, China, India and Australia, all with positive experience. Water for the plant will be used from the Pasur River. Water is required approximately 2.5m^3/sec and the volume of the water will be 0.05 per cent of the lowest flow of the river in the lean period. Based on information provided by BIFPC, a Close Circuit Water System will be used – under this system, discharged water, as well as plant emissions, are claimed not to be harmful to local biodiversity. As a result of using high-quality coal (high GCV (6,000 kcal/kg)), there will be low sulphur (max. 0.6 per cent) and low ash (max, 15 per cent), meaning that coal consumption per unit of electricity will be less, generating not only less greenhouse gases, but also less ash. The generated ash will be used for other industrial purposes.

Major Issues and Concerns in the Implementation Process

According to the DPP, 70 per cent of the total project cost, which is about USD 1.26 billion, will be managed through borrowing from international banks. To date, no steps have been taken to raise the funds. The World Bank and the ADB have decided not to finance this project as their organisational stance is not to finance coal-based power plants in developing countries. Without having a well-renowned guarantor, as is usually associated with the fund from World Bank and ADB, it will not be easy for the BIFPCL to raise funds from the international market.

Super-critical technology has been selected for the plant as this is safer for the environment. Although developed countries have been using this technology with positive experiences, environmentalists apprehend serious threat to the unique mangrove forest of Sundarbans, which is a UNESCO heritage site, and its nearby area, as the plant is located just 14 km away from the forest. In fact, Sundarbans already faces a range of challenges, including retreating of the coastal area, adverse effects of shrimp cultivation and sea level rise in the nearby area.[37] Without ensuring the safety of the Sundarbans, implementation of the project will put the forest at further risk.

A number of issues have been raised regarding the feasibility study. Responding to a writ petition filed by local farmers, in February 2011, the High Court stayed the activities of the project over an environmentally critical area without undertaking the prior feasibility study for the project. Taking this into account, NTPC has conducted a feasibility study at a cost of USD 250,000. According to the TIB, the DoE is not the appropriate authority to give approval for a project located in an environmentally sensitive area, with such approval usually being given by the Department of Forests. This was not the case in this project.[38] Further, earth filling at the site is perceived to be contrary to law. The implementing agency should adhere to the stipulated terms and conditions, and receive clearance from the appropriate authority.

Project Management Success/Failure

Project management success will depend on both project and product success. In the process of implementation, project success will depend on how effectively the company follows the relevant rules and regulations. However, product success will be much harder to achieve given the multi-faceted challenges associated with maintaining the safety and security of the ecologically vulnerable and sensitive region of the Sundarbans and the nearby area.

f) Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project

Project Highlights

The project involves construction of a 1,200 MW coal-fired power plant in Matarbari, Cox's Bazar. It will include two 600 MW coal-fired power units based on imported coal. The project is located in a broader power complex proposed in the Moheshkhali region. The total cost of the Matarbari project is estimated to be USD 4.6 billion, of which JICA will provide USD 2 billion and the remainder will be provided by the

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[37]In a study conducted in 2012, the Zoological Society of London found that the Sundarbans coast was retreating by up to 200 metres per year. Agricultural activities had destroyed around 17,179 hectares of mangroves within three decades (1975-2010). Shrimp cultivation had further destroyed another 7,554 hectares. Researchers from the School of Oceanographic Studies, Jadavpur University, estimated the total cost of sea level. They found that sea level will continue to rise and that rising sea levels may submerge around 7,500 hectares of forest.

[38]http://www.ti-bangladesh.org/beta3/images/2015/es_ffs_coal_15_en.pdf; government press release regarding TIB report: http://powerdivision.portal.gov.bd/sites/default/files/files/powerdivision.portal.gov.bd/press_release/ab0345c3_5e14_4888_b724_2cb39f40f663/Press%20Release.pdf

Table 1.12
Matarbari Power Plant Project Overview

Issue	Feature	Issue	Feature
Production Capacity (MW)	1,200 (2x600)	Implementing body	Tokyo Electric Services Co. Limited
Land acquisition (acres)	1,414	Financial investors	JICA (loan), CPGCBL, GoB
Budget (app.) (Tk. billion)	360	Location	Matarbari, Moheshkhali, Cox's Bazar
Allocation for compensation (Tk. billion)	2.37	Technology	Ultra-super critical
Year of production	June 2021	EIA implementation	Centre for Environmental and Geographical Information Services

Source: Coal Power Generation Company Bangladesh Limited (CPGCBL), various newspapers, TIB report.

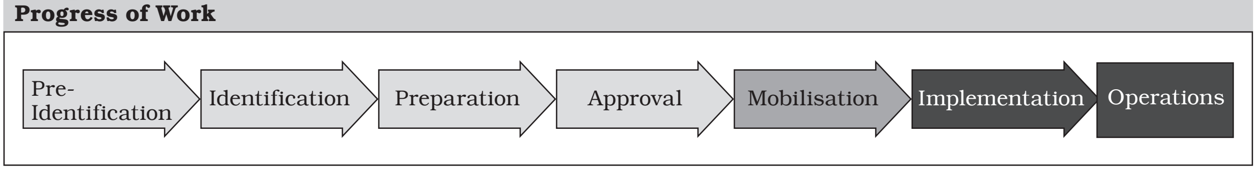
Government of Bangladesh (Table 1.12). The project involves construction of a jetty, construction of coal handling facilities for imported coal, construction of the power plant, development of a township, rural electrification, and construction of transmission facilities and road communications.

The project is being implemented by Tokyo Electric Service Co. Ltd., Japan. The project was initiated in 2011. The first power plant is targeted to begin operations in 2018, the second in 2021. As a result of initial delays, the timeline for completion has been extended to 2023. The electricity generated will be used locally, mainly by industries that are to be established in a nearby special economic zone (SEZ). A fund will be developed from the 'three paisa extra payment' for per unit consumption of electricity, which will be used to support the welfare of local people.

Project Cycle Analysis

Diagram 1.10 shows the progress of work. Of the seven phases of the project cycle, pre-identification, identification, preparation and project approval have already been completed. The project is at this moment at the execution phase. Except for acquisition of land, none of the other project components have yet been initiated.

Diagram 1.10
Progress of Work



Source: Prepared by the author.
Note: ■ Completed ■ Ongoing ■ Yet to be initiated.

Procurement Issues

The project feasibility study and environmental impact assessment study were completed in September-October 2013. Both countries signed the loan agreement in June 2014. JICA has provided a soft loan for this project where the first 10 years will be considered a 'grace period', and the subsequent 30 years of payments will be at a very low rate of interest (0.01 per cent per year).

As per the agreement, the plant will use the most modern and cleanest 'Ultra Super Critical' technology. At present, Japan, USA, Germany and many other western countries use this technology with no negative experiences. In South Asia, this technology will be used for the first time in Bangladesh. It is claimed to be 100 per cent safe environmentally, but expensive compared to that of super critical technology, according to experts.

Major Issues and Concerns in the Implementation Process

The project site was found to be unsuitable for constructing heavy infrastructure as it is situated at low sea level. As such, the entire site needs to be elevated by 8-10 metres in order to make it suitable for construction, which will be a challenging task for the developer. This additional task will require additional time to complete the project, with JICA having already extended the original timeline by 19 months. This work requires around USD 1 billion, an amount that will need to be mobilised by the government from local resources.

There have been some allegations of corruption in the land acquisition process; however, this issue has been dealt with subsequently (*The Daily Star*). In addition, since the project will use ultra-super critical technology, operational costs will be high. However, these costs are expected to have a limited impact on overall operational costs and on bulk and retail tariffs for consumers.

Project Management Success/Failure

Project management success will depend on both project and product success. In the process of implementation, project success appears not so difficult to ensure. Given the huge demand for electricity, particularly from nearby industries, product success also appears to be likely.

g) Construction of LNG Terminal

Project Highlights

The government decided to construct the first LNG terminal in Moheshkhali, aimed at importing LNG in order to meet the growing domestic energy demand. The proposed project will have a capacity to handle 138,000-260,000 cubic metres of LNG. The project was initiated in 2009-10, with the invitation of bids internationally for building the LNG terminal and its re-gasification facilities within 18 months, on a build-own-operate-transfer (BOOT) basis, for 20-25 years (Table 1.13). While the project was initially set for completion in 2013, the timeline was later extended till 2016. In January 2015, Petrobangla signed a

Table 1.13
LNG Terminal Project Overview

Description	LNG Terminal
Capacity	138,000-260,000 cubic metres
Expected supply	500 mmscfd (million standard cubic feet per day)
Completion	2016
Components	1. FSRU construction; 2. Pipeline from the FSRU to land; 3.LNG imports
Operation	Selected contractors will operate the FSRU for 20 to 25 years on a rental basis (USD 0.474 for per million BTU (originally it was USD 0.39 and then USD 0.41)
Study	Feasibility and geotechnical studies
Investors	International Finance Corporation (IFC)
Contractor	Astra Oil and Excelerate Energy Consortium
Implementation process	Implement the project on a BOOT basis for 15 years, before then transferring to the government

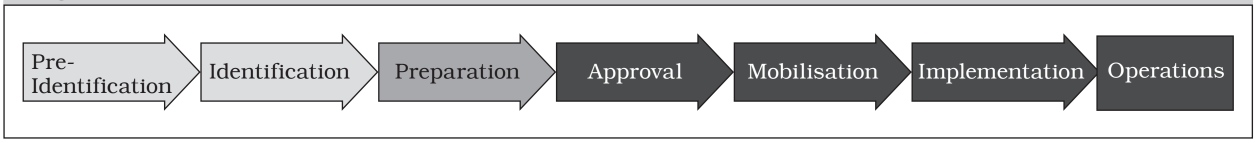
Source: Various newspapers.

contract with Excelerate Energy-Astra Consortium (US JV), Astra Oil and Excelerate Energy Consortium for the purposes of building the terminal. The project has three components, including building a floating storage and re-gasification unit (FSRU), establishing a pipeline from the FSRU to land, and LNG imports. Among the original six bidders, US JV was short-listed. The feasibility study is currently ongoing.

Project Cycle Analysis

Diagram 1.11 shows the project cycle of this project. The project is at a very early stage in the planning process – only pre-selection and identification activities have been completed. After completion of the feasibility study, the final contract will be signed with the selected bidder, Excelerate Energy-Astra Consortium. The project is well behind schedule.

Diagram 1.11
Progress of Work



Source: Prepared by the author.
Note: Completed Ongoing Yet to be initiated.

Procurement Issues

In January 2015, Petrobangla signed a primary contract with US JV as the contractor to build the terminal. The JV is currently conducting a feasibility 'metrocean study'. After completion of the study, the final contract will be signed with JV. JV will then conduct a geotechnical study. Among the three components of the project, significant progress has been made as regards the first component, construction of the FSRU, which is being carried out by US JV. The second component is being carried out by the Gas Transmission Company Ltd. (GTCL) along with a foreign contractor. The GTCL has claimed that the study has been completed. Regarding the third component, a memorandum of understanding (MoU) was signed between Petrobangla and Qatar Petroleum to import 4 million tonnes of LNG per year. However, the MoU has now expired so the government is now trying to renew this as well as searching for other sources. According to American Singapore Consortium of Astra and Excelerate (AEC), if four million tonnes of LNG is imported from Qatar every year, the price of per mmcfd LNG would be USD 14, including delivery and shipping costs. With duty, tax and other expenses, the cost would be USD 17 per mmcfd at the delivery point. Based on those figures, total annual government expenditure would be around USD 2.7 billion.

Major Issues and Concerns in the Implementation Process

Since the contractors will finance the FSRU, and as per proposal it will recover the cost from the rent, there should be guidelines regarding the rental charge. According to the DPP, the rental charge was initially fixed at USD 0.39 for per million BTU. However, with the delay in project completion, the rental charge has been revised upwards more than once (to USD 0.41 and finally to USD 0.474). The project is well behind schedule and there is little possibility of completing the remaining works by 2016.

Project Management Success/Failure

Project management success will depend on both project and product success. While delays in implementing the project have reduced project success, there is a strong possibility that the product will be a success, resulting in an overall positive project management outcome.

h) Construction of Rooppur Nuclear Power Plant

Project Highlights

After a long interval of inaction, the Rooppur Nuclear Power Plant project was revived in 2009. Following discussions with Russia, an agreement was signed between the two governments on February 2009 as part of which the project will be completed. According to the agreement, Russia will provide 90 per cent of the total cost of the project as loan (Table 1.14). The Russian state energy corporation, Rosatom, and its subsidiary, Atomenergoproket, will implement the project. As per the initial project plan, there will be two 1,000 MW units at the nuclear power plant. The plant will be established in accordance with International Atomic Energy Agency (IAEA) guidelines. In May 2015, the Cabinet approved the draft of the 'Nuclear Power Plant Law 2015'. Although the project was initially planned for completion in 2017, it is currently progressing at an extremely slow pace.

Table 1.14
Rooppur Nuclear Power Plant Project Overview

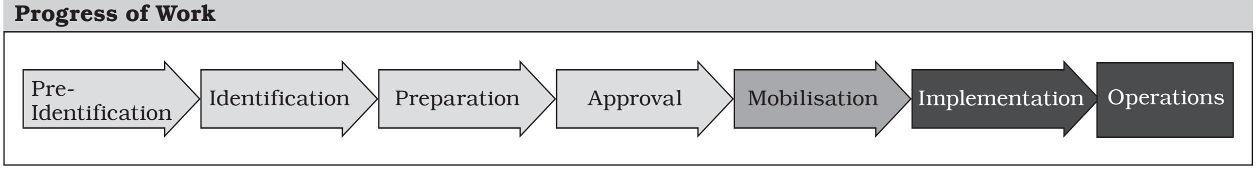
Description	Rooppur Nuclear Power Plant
Capacity (MW)	2,000 MW (2x1000MW)
Production (year)	Unit 1 completion: 2017; unit 2 completion: 2022
Guidelines	Guidelines followed by the rules of IAEA
Technology	VVER-1000 (costing USD 7-8 billion)
Financial Investors	The Russian Government (90% in the fields of procurement of machinery, expert services, research, plant building, manpower) and the Government of Bangladesh (10%; local purchases)
Total Project Cost	Tk.5242 crore
Plants	Two units
Payments	Payment periods: 28 years at three per cent interest rate, with first ten years as grace period

Source: Bangladesh Atomic Energy Commission (BAEC); various newspapers.

Project Cycle Analysis

The project is at the planning phase, with pre-selection, identification, preparation and approval works have been completed (Diagram 1.12). In April 2013, ECNEC approved the construction of the project at a cost of Tk. 5,242 crore, of which Tk. 4,000 crore will be provided by the Russian Government. A number of studies, initiated in 2013, are currently ongoing. These include geological, geographical and hydrological studies, set for completion in October 2015. Information gathered will be sent to the Drawing and Design Division of Rosatom, in Moscow, which will then use this information for draft drawing and designing of the plant.

Diagram 1.12
Progress of Work



Source: Prepared by the author.
Note: Completed Ongoing Yet to be initiated.

Procurement Issues

According to the agreement, Rosatom will manufacture and supply the necessary machinery, build the plant and supply the fuel (Uranium 235), as well as returning dangerous spent fuel. In this regard, another intergovernmental agreement was signed with AtomStroyExport for the ordering of construction materials, the supply and installation of equipment and materials, and assembling works. Bangladesh Government has signed a further agreement with Russia under which a USD 500 million loan will be provided for conducting on site engineering surveys, project development and personnel training. However, the interest rate on this loan is particularly high, at over 4.5 per cent. Russia will provide another loan of USD 1.5 billion for construction of the first plant unit.

Rooppur Nuclear Plant will be built using VVER1000 technology, meaning that the capacity of one unit is 1,000 MW. However, a more advanced version of this technology, the VVER1200, is currently available, although the cost of this is higher. The cost of the project using VVER1000 would be about USD 7-8 billion, whereas that for VVER1200 would be in the region of USD 10 billion. The workforce required for construction, operation and maintenance of the plant will be provided by Rosatom as Bangladesh does not have the necessary local experts. In total, around 1,000 highly skilled professionals will be needed for construction, operation and maintenance of the two nuclear power plants, including engineers, physicists and scientists. Recently, the University of Dhaka has opened a Nuclear Engineering department under which 10-15 students will receive higher education scholarships and training, funded by the Russian government.

The Rooppur project lacks transparency and accountability. As the project is being implemented based on an understanding between the two governments, it is not so easy to establish a competitive environment in the implementation process. This may affect overall cost, including during construction, operation and ongoing maintenance.

Major Issues and Concerns in the Implementation Process

The lack of a sufficiently-skilled workforce at the domestic level is a major concern, as this limits any engagement by local professionals with the project. The question is how the Government of Bangladesh is planning to develop the domestic workforce necessary for the operation and maintenance of the nuclear power plant. Since project monitoring and supervision lacks competitiveness, it will be difficult to ensure a favourable price and as such overall project cost should be expected to increase significantly. It is expected that the high cost of electricity generation from the nuclear power plant will have a limited impact on tariffs at the wholesale and retail level. The interest rate charged on the loan is quite high. Since there is no third party involved in monitoring and inspection, the expenditure and quality of the project may be questioned at a later stage of project implementation.

Project Management Success/Failure

Project management success will depend on both project and product success. In the process of implementation, it appears that project success will prove difficult to achieve. However, product success may be more positive, making the project, overall, a success.

1.4.5 Major Issues and Concerns with regard to Implementation of Fast Track Projects

Overall progress of the ‘fast track’ projects remains unsatisfactory (Table 1.15). Although two of the eight projects (Padma Bridge and Metro Rail projects) have made visible progress over the period of operation of the FTPMC, most of the projects are behind schedule, with some remaining stalled (i.e. Sonadia Deep

Table 1.15
Status of Fast Track Projects

Project	Procurement	Implementation Process		Project Success	Product Success
		Time	Cost		
a) Padma Multipurpose Bridge	Concerns raised	Thoroughly revised	Thoroughly revised	Conditional	
b) Dhaka Mass Rapid Transit Development Project (Metro Rail)	No concerns	Not revised	Not revised	Can be ensured	
c) Deep Sea Port at Sonadia	N/A	Not revised	N/A	Difficult to ensure	Difficult to ensure
d) Deep Sea Port at Paira	No concerns	Not revised	N/A	Can be ensured	
e) 2x660 MW Moitree Super Thermal Power Project (Rampal)	Concerns raised	Revised	Revised	Conditional	
f) Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project	No concerns	Not revised	Not revised	Can be ensured	
g) Construction of LNG Terminal Project	No concerns	Thoroughly revised	Revised	Can be ensured	
h) Construction of Rooppur Nuclear Power Plant	Concerns raised	Revised	Not revised	Conditional	

Source: Prepared by the author.

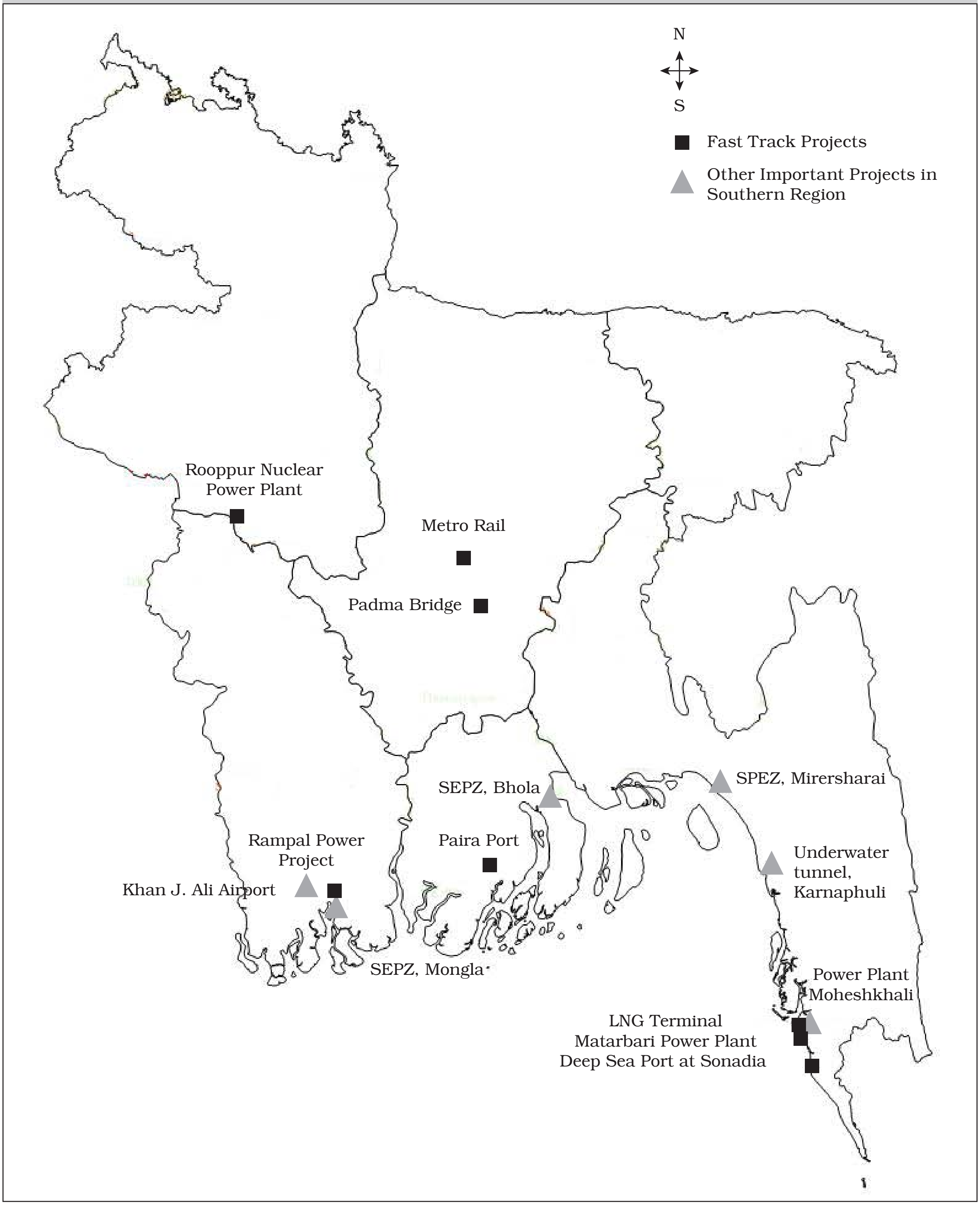
Sea Port). As a result, the distinction between 'fast track' projects and other projects is not so clear from the perspective of project implementation. Unfortunately, implementation of fast track projects suffers systemic problems as is the case with implementation of other projects. As such, it is clear that the FTPMC's performance in facilitating implementation has been rather weak. It is of critical importance now to focus on timely completion of these projects.

Although most of the projects are important, and from a project management perspective are viable, project and product success will depend on addressing the complexities and challenges associated with implementation of these projects. According to Table 1.15, a number of the projects have concerns related to overrun of both cost and time (Padma bridge, Rampal power plant, LNG terminal and Rooppur Nuclear Power Plant), particularly when the component to be built relies on local resources. When there is cost escalation, the returns will be lower and involved beneficiaries will be deprived of the services for a prolonged period of time. This will then undermine the benefits accruing from the projects. Further, a number of projects are being implemented in the absence of competitive bidding process which is likely to contribute to cost escalation (e.g. Rooppur Nuclear Power Plant). In addition, there are concerns regarding environmental safety and security for a number of projects (e.g. Rampal Power Plant). Environmental concerns ought to be addressed properly and solutions need to be built adequately. Finally, there are projects that may become redundant due to a lack of proper policy planning (e.g. Sonadia Deep Sea Port).

A better selection of fast track projects from the list of infrastructure-related ADP projects could ensure better outcome. Annex Table 1.9 shows a list of 14 projects related to road and rail communication and power-related projects which are at different stages of development, but are behind the timeline. A number of those projects could be considered as fast track projects instead of some of the existing one which are yet to start or lack the needed progress. A timely implementation of the earlier mentioned projects could ensure better outcome.

In addition to the eight fast track projects, there are a number of other infrastructure-related projects that are either at the planning or preparatory phases. These projects are located either at the same location or

Map 1.1
Locations of Fast Track Projects



Source: Author's elaboration.
Note: ■ Fast track projects; ▲ Other important projects in southern region.

in regions near the fast track projects (Map 1.1). Examples include the SEZs in Mongla, Mirersharai and Bhola, construction of power plants in Moheshkhali, development of an underwater tunnel at Karnaphuli River, and construction of Khan Jahan Ali Airport in Bagerhat. Such projects, located across the southern belt of the Bay of Bengal, could transform the region into an important hub. With these infrastructure facilities comes the need for development of transport routes in inland waterways and seaways. It is of critical importance to identify and understand all positive and negative implications associated with developing such infrastructural facilities in the southern part of Bangladesh and take appropriate corrective measures. Development partners will need to be carefully chosen so that Bangladesh's short, medium and long-term interests are adequately safeguarded.

1.5 ANALYSIS OF IMPLEMENTATION OF THE SIXTH FIVE YEAR PLAN (SFYP): EXAMINING THE BENCHMARK CONDITION FOR FY2015-16

1.5.1 Introduction

The current fiscal year (FY2014-15) is the final fiscal year under the Sixth Five Year Plan (SFYP). This medium term plan, along with the long-term Perspective Plan (2011-2020), is government's key policy instruments towards realising its political vision of Bangladesh becoming a middle-income country by 2021 (Vision 2021). As is known, currently, the government is in the process of finalising the Seventh Five Year Plan (7FYP), which will be implemented between FY2015-16 and FY2019-20.

Proper benchmarking of the current state of the economy is of critical importance in setting appropriate future targets and strategies. During the planning period, the Planning Commission has conducted two reviews (interim and mid-term) of the progress of SFYP implementation. Both of these assessments have aimed to capture the main dynamics and changes in the economy, and have sought to establish links with the targets and strategies outlined in the SFYP. In addition, the background preparation documents for the 7FYP in part capture the progress made in regard to SFYP implementation.

However, while a number of reviews have been published to date, serious assessment of outcomes of SFYP implementation has been rather limited. First, the interim reviews conducted by the government have not adequately addressed a number of important domestic and international developments that have occurred subsequent to the reviews. This concern needs to be taken into account when setting 7FYP targets. Second, the reviews reported on a number of issues for which a comprehensive perspective is needed. Third, it is important to examine how economic developments during the Plan period are distinct from those of the non-Plan period, particularly in order to differentiate the outcome of the former.

1.5.2 Objectives and Methodology

This section seeks to analyse the benchmark condition of the 7FYP, with particular regard to the targets and strategies to be set for implementation during FY2015-16 to FY2019-20. As part of this, the present section analyses implementation of the SFYP, focusing particularly on the gaps between targets and actual achieved results for a range of macroeconomic indicators, as well as the strategies suggested in the SFYP and to what degree these have been realised. For clarity, the analysis in this section follows the monitoring and evaluation framework suggested in the SFYP.

A series of key informant interviews have been carried out with personnel from selected Bangladesh ministries, including the Ministry of Planning (general and programme divisions); Ministry of Power, Energy and Mineral Resources; Ministry of Industries; and the Ministry of Agriculture – in order to gain their views regarding the extent to which key line ministries had engaged with SFYP implementation.

1.5.3 Overall Achievements of SFYP Targets

Within the SFYP, targets were set for a range of indicators under the nine broad areas of production, income generation and poverty; human resource development; water and sanitation; energy and infrastructure; gender equality; environmental sustainability; ICT; and governance and urban issues. While a lack of available real time data hinders a full assessment of the current level of progress, a conservative projection can be made, based on available data from 2013 and 2014, as to expected achievements by the end of the Plan period. Table 1.16 presents the targets, achievements and gaps for major indicators throughout FY2010-11 to FY2013-14 (full details can be found in Annex Table 1.10). Since the targets on different indicators are available only for the terminal year (FY2014-15), the gap measured on the basis of the data up to FY2013-14 needs to be interpreted cautiously.

During the Plan period, only a limited number of indicators have experienced significant progress. These include reduction in poverty (although still below target), net enrolment in primary education, reduction

Table 1.16
SFYP Targets and Achieved Results

Indicator	Target (FY2014-15)	Achieved (FY2013-14)	Gap
A. Production, Income Generation and Poverty			
Headcount poverty (%)	22.5	24.7****	-2.2
Overseas employment of skilled labour (%)	50.0	35.9*	-14.1
Government spending on social protection (% of GDP)	3.0	2.2***	-0.8
Agricultural GDP growth rate (%)	4.4	3.4****	-1.0
B. Human Resource Development (Education, Health and Population)			
Net enrolment rate at primary education level (%)	100.0	97.0****	-3.0
Net enrolment rate at secondary education level (%)	75.0	75.0***	0.0
Adult literacy rate (%)	80.0	56.8***	-23.2
Total fertility rate reduction	2.2	2.3****	-0.1
Under-5 mortality rate (per 1,000)	50	46****	+4
Maternal mortality ratio (per 100,000 live births)	143	170***	-27
Infant mortality rate (per 1,000 live births)	31	38****	-7
C. Water and Sanitation			
Proportion of urban and rural population with access to sanitary latrines (%)	Urban: 100.0 Rural: 90.0	Urban: 59.7*** Rural: 66.2***	Urban: -40.3 Rural: -23.8
Proportion of urban and rural population with access to safe drinking water (%)	Urban: 100.0 Rural: 96.5	Urban: 99.4*** Rural: 98.2***	Urban: -0.6 Rural: +1.7
D. Energy and Infrastructure			
Electricity generation (MW)	15,457	7,681*****	-7,776
Electricity coverage (%)	68.0	62.0****	-6.0
Contribution of road sector to national income (%)	7.5 avg. growth rate	6.7***	-0.8
Per capita consumption of electricity (kWh)	390	275****	-115
E. Gender Equality and Female Empowerment			
Ratio of girls to boys in tertiary education (%)	60.0	73.0***	+13.0
Ratio of literate females to males (% of ages 20-24)	100.0	86.0**	-14.0
F. Environmental sustainability			
CO_2 emissions (tonnes per capita)	0.38	0.34***	+0.04
Number of usable cyclone shelters	5,352	3,770***	-1,582

(Table 1.16 contd.)

(Table 1.16 contd.)

Indicator	Target (FY2014-15)	Achieved (FY2013-14)	Gap
G. ICT			
Internet users (per 100 people)		20.5**	
H. Governance			
Proportion of directly elected female representatives (%)	6.0++	7.0+***	+1.0
Numbers of bills passed per year	45	54+***	+9
Average parliamentary attendance (%)	70.0++	63.0+***	-7.0
Income tax (as % of GDP)	5.0	3.4***	-1.6

Source: Mid-Term Implementation Review of SFYP of Bangladesh (2011-15); Proposed Development Results Framework (DRF) for Monitoring the Seventh Five Year Plan 2016-2020 (Draft Version).
Note: *2010;**2012; ***2013; ****2014; *****2015; +9th National Parliament; ++10th National Parliament.
+9th National Parliament; ++10th National Parliament.
In 'Gap' column, '-' indicates underachievement/lag, while '+' indicates respective target being achieved/surpassed.

A comprehensive comparison is presented at Annex Table 1.10.

in the fertility rate, electricity coverage, proportion of elected female representatives, and the number of bills passed in the Parliament. However, majority of the indicators are somewhat off-track. These include real income growth, percentage of individuals reaching Grade V, immunisations, maternal mortality ratio, number of births attended by skilled staff, and electricity generation, as well as a range of indicators related to water and sanitation, transport, the environment, ICT, and governance. The largest gaps between target and achieved results include overseas employment (14 per cent), adult literacy (23.2 per cent), individuals reaching Grade V (4.7 per cent), maternal mortality (27 per cent), access to sanitary latrines (40 per cent (urban areas) and 24 per cent (rural areas), electricity generation (7,776 MW), per capita electricity consumption (115 kWh), and the number of cyclone shelters (1,582). The mixed nature of progress in most areas, and numerous examples of below average performance in a number of other areas, indicates a lack of robustness in the implementation process (Annex Table 1.10).

1.5.4 GDP Growth

SFYP targets for economic growth failed to be achieved throughout the Plan period. In fact, the gaps between the target and actual figures have widened over recent years. Nevertheless, the average rate of GDP growth over the SFYP period was, at 6.3 per cent, higher than the average growth achieved in any of the previous Plan periods. Further, the gap between the target and achieved figures was substantially lower in the SFYP period than in the 1997-2002 plan period (Table 1.17). However, the actual GDP growth rate of SFYP (6.3 per cent) was not significantly different from the GDP growth rate achieved in the preceding five-year period (2006-2010), during which no medium term plan was implemented. Ministry statements have often asserted that Bangladesh's economic growth during the Plan period has been one of the 'fastest growing' in the world (MTIR, 2014) – this is somewhat of an overstatement. An analysis of average GDP growth rates in all world economies between 2010 and 2013 reveals that Bangladesh ranked 43rd out of the top 45 fastest growing economies in the world (Figure 1.13).[39] Among the South Asian economies, Sri Lanka is far ahead of Bangladesh, while India ranks only just behind Bangladesh.

Major sectors, including agriculture, industry and services, were unable to achieve target growth levels set in the SFYP (Table 1.18). During FY2010-11 to FY2012-13, while the industrial sector fell just short of target, the rates of growth in the agriculture and services sectors were significantly below target. Shifts in the nature of the composition of the Bangladesh economy, from agriculture to non-agriculture sectors, have continued during the Plan period, albeit at a pace of change slower than what had been projected in the SFYP.

[39]Bangladesh's position has improved during the 2011-13 period (28th out of 30 fastest growing economies).

Table 1.17

GDP Growth Performance in Bangladesh's Five Year Plans

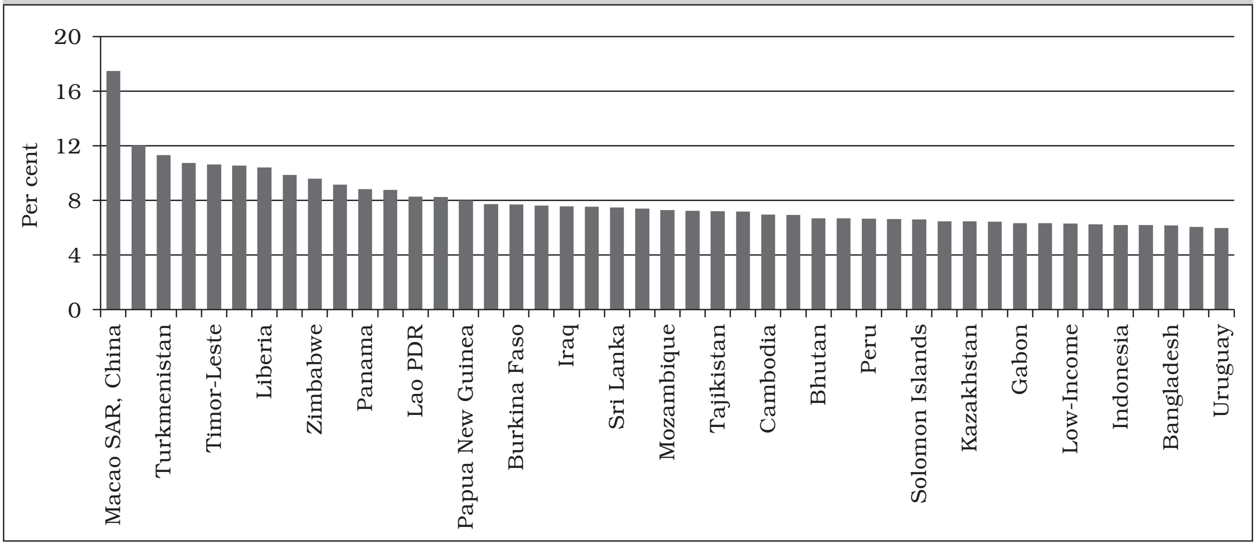
(in Per cent)

Plan Period	Annual Average GDP Growth Rate		Gap between Target and Actual Growth Rates
	Target	Actual	
First Five Year Plan (FY73-FY78)	5.5	4.0	-1.5
Two Year Plan (FY78-FY80)	5.6	3.5	-2.1
Second Five Year Plan (FY80-FY85)	5.4	3.8	-1.6
Third Five Year Plan (FY85-FY90)	5.4	3.8	-1.6
Fourth Five Year Plan (FY90-FY95)	5.0	4.2	-0.8
Fifth Five Year Plan (FY97-FY02)	7.0	5.1	-1.9
FY02-FY06	N/A	5.5	N/A
FY06-FY10	N/A	6.3	N/A
Sixth Five Year Plan (FY11-FY14)	7.3	6.3	-1.0

Source: Sixth Five Year Plan (SFYP) and Centre for Policy Dialogue (CPD).

Figure 1.13

Average GDP Growth Rate of the Top 45 Growing Economies: 2010-2013



Source: Based on the World Development Indicator (WDI) database.

During the Plan period, per capita income (per capita GNI) has significantly increased, from USD 843 in 2010 to USD 1,314 in 2015. This rise in per capita income is partly associated with the rebasing of GDP estimates (from the earlier base year of 1995-96 to the new base year of 2005-06). As a result, the revised figure has increased by 15.6 per cent for overall GDP, and by 13.3 per cent per capita GNI, in 2013. At its current level of per capital GNI (USD 1,319 in FY2013-14), Bangladesh has already reached the minimum threshold level required to be considered a lower middle-income country (USD 1,045 – USD 4,125 as of 2013, according to the World Bank). If growth in the economy continues at its current rate, Bangladesh will move out of LDC status in the coming decade. While this is definitely positive, this also presents costs. The graduation process for Bangladesh should start with the full utilisation of all allocated resources for social and education spending, as well as new investment in its human assets. Bangladesh should put in place an operational, investment-related, employment-creating strategy aimed at facilitating business creation, and provide the necessary associated infrastructure and banking facilities (Bhattacharya and Borgatti, 2012).

Table 1.18

Structure of the Economy: FY2010-11 to FY2014-15

Sector	Projected					Actual (Base: 1995-96)			Actual (Base: 2005-06)		
	FY11	FY12	FY13	FY14	FY15	FY11	FY12	FY13	FY13	FY14	FY15
Growth Rate (%)											
Agriculture	5.0	4.5	4.4	4.3	4.3	5.1	3.1	2.2	2.5	4.4	3.0
Industry	9.2	9.6	9.9	10.5	11.5	8.2	8.9	9.0	9.6	8.2	9.6
Manufacturing	9.5	9.8	10.1	10.7	11.7	9.4	9.4	9.3	10.3	8.8	10.3
Services	6.6	6.8	7.1	7.3	7.8	6.2	6.0	5.7	5.5	5.6	5.8
Share as % of GDP											
Agriculture	18.4	17.7	16.9	16.2	15.5	19.3	18.8	18.1	16.8	16.5	16.0
Industry	28.7	28.9	30.4	31.3	32.0	29.3	30.1	30.9	29.0	29.6	30.4
Manufacturing	18.2	18.7	19.6	20.4	21.1	17.8	18.3	18.9	19.0	19.5	20.2
Services	52.9	52.9	52.7	52.5	52.5	47.9	47.8	47.6	54.2	54.0	53.6

Source: Sixth Five Year Plan (SFYP) and Bangladesh Bureau of Statistics (BBS).

1.5.5 Macroeconomic Framework

The SFYP macroeconomic framework was designed to achieve high economic growth by the end of the Plan period. A target of 8 per cent had been set for GDP growth in FY2014-15, a figure sufficient to reaching middle-income status by 2021. A general equilibrium model (CGE model) has been applied to set targets for macroeconomic indicators. The following analysis has been carried out by making comparisons between target and actual figures for a range of major macroeconomic indicators, as well as identifying factors responsible for the progress achieved for these indicators.

Performance of Major Macroeconomic Indicators

The low level of GDP growth during the Plan period was largely due to slow growth of a number of key macroeconomic indicators, including investment and export. Except for public investment, which as a share of GDP (base 2005-06) has increased from 4.7 per cent in 2010 to 7.3 per cent in 2014, none of the main macroeconomic indicators have achieved the target level of growth (Table 1.19). Growth of private investment during the Plan period was below target, with the private investment-GDP ratio increasing slowly over the same period, from 21.6 per cent in 2010 to 22 per cent in 2014. In the backdrop of huge public investment during the Plan period, this slowdown in private investment raises questions about the effect of crowd-in of public investment. The incremental capital-output ratio (ICOR) shows an upward

Table 1.19

Performance of Major Macroeconomic Indicators

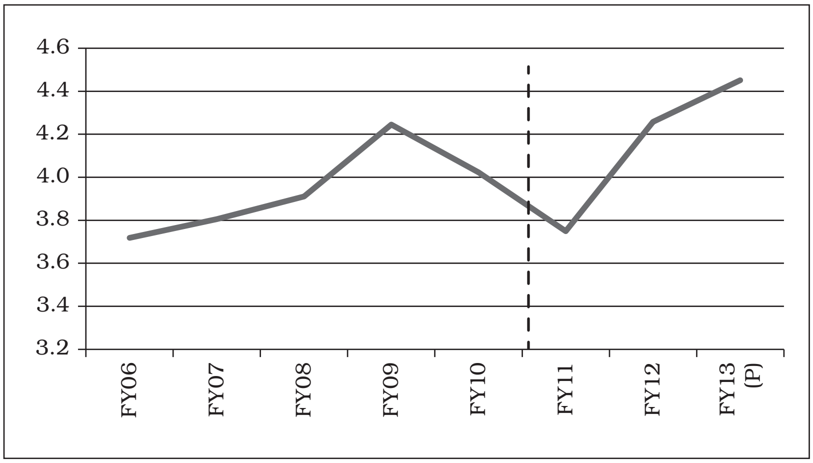
Indicator	Growth Rate FY10 (Actual)	CAGR FY11-FY14 (Target)	CAGR FY11-FY14 (Actual)	CAGR FY11-FY12 (Actual)	CAGR FY13-FY14 (Actual)
Public investment	20.5	24.7	30.9	31.0	31.0
Private investment	11.4	19.9	17.9	16.9	19.0
Export	4.1	20.2	16.4	22.9	10.2
Import	5.5	21.2	14.6	22.3	7.4

Source: Bangladesh Bank and the Ministry of Finance (MoF) Monthly Fiscal Report.

Note: CAGR: Compound annual growth rate.

Figure 1.14

Trend in the ICOR: Plan vs. Non-Plan Periods



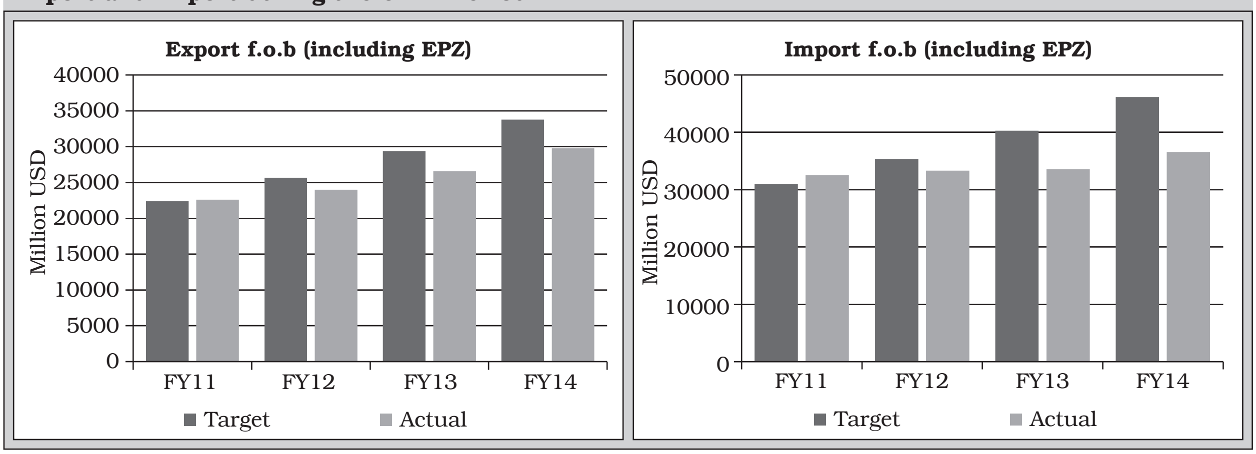
Source: CPD database.

trend during the Plan period, which indicates deceleration of capital-output (Figure 1.14). In fact, average ICOR in the non-Plan years preceding SFYP (FY2005-06-10) was lower than that of the Plan period (FY2010-11-13), at 3.9 and 4.2 per cent respectively. Overall, capital productivity has slowed over the Plan period. Poor private investment can be attributed to a lack of infrastructure, the high cost of bank borrowing, an absence of any standard institutional structure, and a lack of reform in public institutions and corporate governance (CPD, 2014).

The export sector is one of the major drivers of the Bangladesh economy. However, partly as a result of limited growth in exports, economic growth during the Plan period has been inconsistent and sluggish (Figure 1.15). During FY2010-11 to FY2013-14, the average export growth rate hovered around 16.4 per cent, which was significantly below the target of 20.2 per cent. As a result, actual exports at the end of FY2014-15 are expected to be far below the corresponding SFYP target, falling short of USD 7-8 billion.

Figure 1.15

Export and Import during the SFYP Period



Source: Sixth Five Year Plan (SFYP) and Bangladesh Bank.

This underwhelming performance in the export sector has been influenced by a number of developments concerning both domestic and international scenarios. At the domestic level, prolonged political unrest during FY2012-13 and the first half of FY2014-15, lack of adequate gas and electricity supply, incidence of fire at the factory of Tazreen Fashions, and the collapse of Rana Plaza, have all had an adverse impact on the level of exports, particularly on the RMG. At the international level, appreciation of the Taka against major currencies of competing countries, strengthening of the USD (particularly against Euro), volatility in the levels of export demand in major markets, withdrawal of the GSP facility in the US market, and a rise in competition due to access being given to competing countries (e.g. Pakistan) to preferential market facilities (GSP plus) in the EU are all likely to have negatively impacted exports. Further, to a certain extent, the sluggish rise in import levels is associated with low demand for capital machinery, raw materials and intermediate products for backward linkage export-oriented and domestic market-oriented industries.[40]

While the SFYP placed a focus on export diversification, specifically from traditional RMG to non-RMG products, the reality has been that exports have further concentrated towards RMG products – the share in RMG in total exports has increased from 77.1 per cent in FY2009-10 to 81.2 per cent in FY2013-14. However, the RMG sector itself has experienced diversification over time, both in terms of products and markets. Although the Government of Bangladesh has initiated a number of studies with a view to promoting and diversifying exports, such as the preparation of a comprehensive trade policy and a diagnostic study on eight potential export-oriented sectors, no effective outcome has yet to come from these studies.

Public Finance

The SFYP has been implemented under a mid-term budgetary framework. This has had the objectives of ensuring linkages between strategies and resource allocation and distribution; delegating greater responsibility and authority to line ministries; institutionalising a system for measuring outputs; improving budget discipline; and achieving greater budget effectiveness. All ministries have gradually been brought under this framework. However, the effectiveness of the framework has been limited, given that it was only followed during the initial phase of the Plan period. In response to change, on numerous occasions the Medium Term Budgetary Framework (MTBF) has been revised, with the current revision adopted in FY2012-13 for the FY2012-13 to FY2016-17 period (Table 1.20). While a number of targets in the

Table 1.20

Comparison between SFYP, MTBF FY2011-FY2015 and MTBF FY2013-FY2017

(Billion Tk.)

Component	FY2012-13			FY2013-14			FY2014-15		
	SFYP (Target)	MTBF FY11-15 (Projected)	MTBF FY13-17 (Projected)	SFYP (Target)	MTBF FY11-15 (Projected)	MTBF FY13-17 (Projected)	SFYP Target	MTBF FY11-15 (Projected)	MTBF FY13-17 (Projected)
Total revenue	1,373.0	1,313.9	1,396.7	1,636.0	1,551.3	1,667.3	1,953.0	1,824.8	1,986.2
Total revenue as % of GDP	13.4	13.1	13.4	14.0	13.6	14.0	14.6	14.1	14.6
Total expenditure	1,882.0	1,745.2	1,917.4	2,217.0	2,030.4	2,227.8	2,617.0	2,342.4	2,613
Total expenditure as % of GDP	18.4	17.4	18.4	19.0	17.8	18.8	19.6	18.1	19.3
Budget deficit as % of GDP	-	-4.3	-5.0	-	-4.2	-4.7	-	-4.1	-4.6
Financing operations	-	431.3	520.7	-	479.1	560.5	-	517.7	626.8

Source: Sixth Five Year Plan (SFYP) and Medium Term Budgetary Framework (MTBF).

[40]The low global market price of petroleum and foodgrains, particularly during the second part of the Plan period, reduced spending for import of those items.

latest revision remained the same (including revenue generation and total expenditure), some targets have been revised upwards (including export and import), and others downwards (including gross investment and gross savings). The rise in interest payments as set in the MTBF due to possible high levels of bank borrowing is another concern. Overall, in regard to effectiveness, such revisions of the MTBF indicate an overall downward adjustment of the Plan period's macroeconomic framework by the government.

It is necessary to examine the impact and implications of various initiatives undertaken by the government during the Plan period. For example, the government has enacted the Public Money and Budget Management Act 2009, which establishes budget and planning branches in the ministries/divisions, and initiated an economic code based mapping of development and non-development budget, and an analysis of audit performance on a pilot basis.

Revenue Mobilisation

Performance in revenue mobilisation was impressive during the first two years of the Plan period. However, overall performance over the entire period did not achieve the target, with average growth in total revenue during FY2010-11 to FY2013-14 being 10.6 per cent against a target of 14.3 per cent. This gap between target and achieved revenue-GDP ratio has increased over time. This shortfall has been mainly induced by NBR taxes, as non-tax-GDP ratio was mostly in line with target. Tax-GDP ratio is projected to remain flat at slightly more than 10 per cent of GDP between FY2011-12 and FY2013-14, with a decline of revenue from import-related taxes offset by gains in income taxes and domestic VAT.

A positive upshot of expanding the economic base and widening the withholding mechanism was that direct taxes continued to rise (although at a decreasing rate) from Tk. 23,420 crore in FY2010-11 to Tk. 3,556 crore in FY2013-14. In the SFYP, the revenue structure of NBR was designed in such a way that customs duty would reduce gradually over the Plan period, while revenue from direct tax and local VAT would gradually increase. This strategy was successful. However, due to slow implementation of necessary reforms, growth in domestic VAT and direct tax (income) remained poor.

The share of revenue from the import stage has gradually declined – revenue from customs duty has decreased from 15.2 per cent in FY2009-10 to 12 per cent in FY2013-14. In FY2014-15, SD on 770 product lines has been changed with the expectation that the share of customs duty would decline more. Such broad-based reduction of SD is likely to have a mixed impact on local industries. For example, a reduction of SD on intermediate input of filament bulb, a reduction of VAT on imported materials for the mobile assembling industry, and a reduction of SD on input for leather and pharmaceutical industries are likely to have a positive impact on local industries. On the other hand, reduction of CD/SD on imported finished products has caused a reduction in tax from (-) 3 per cent to (-) 56 per cent, and is likely to adversely impact local industries (CPD, 2014).

The ongoing reform measures for tax and revenue administration are associated with the IMF's cash and debt management-related programme, which is financed under the Extended Credit Facility (ECF). Unlike various other reform measures undertaken in other areas, progress related to the reform in tax administration is rather slow. The IMF has placed emphasis on implementation of the VAT Act. It has called for further automation of tax administration, introduction of an online taxpayers' registration, and increased staffing levels and training at the NBR. Some of the reforms have led to concerns by businessmen, for example, in regard to the enactment of the new VAT Act, which stipulates a universal single rate of 15 per cent. Considering the adverse impact on small and medium enterprises (SMEs), multiple and reduced VAT rates were suggested.

Public Expenditure

Public expenditure during the Plan period was in general below target. Growth of public expenditure was much slower in FY2013-14 compared to FY2011-12 (Table 1.21). Expenditure on interest payments has exceeded target mainly due to high levels of domestic borrowing used to finance the budget deficit.

Table 1.21

Analysis of Public Revenue and Expenditure: Target and Actual

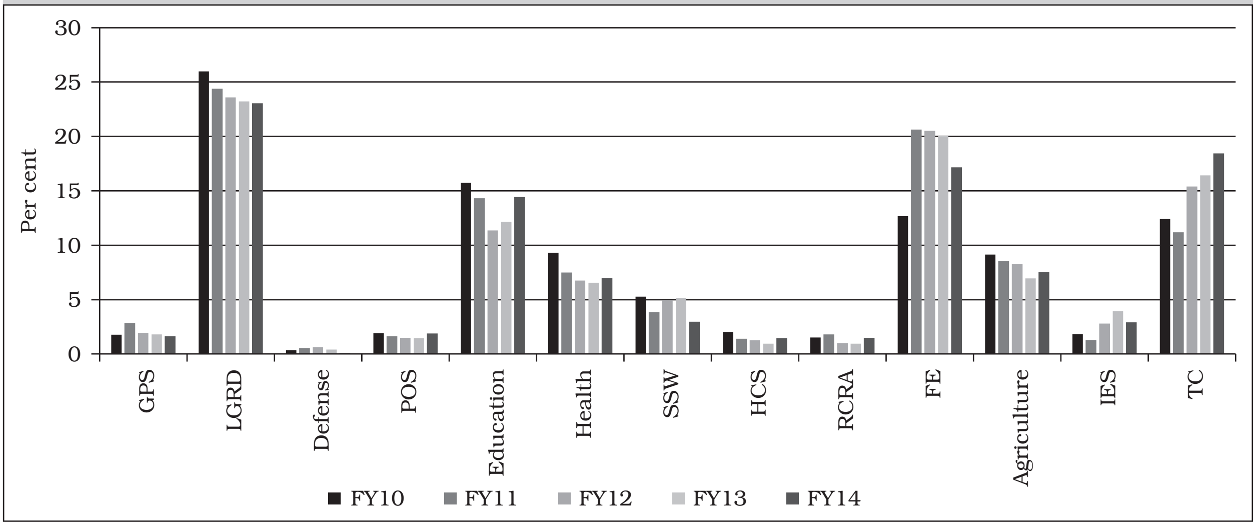
Component	CAGR FY2011-14 (Target)	CAGR FY2011-14 (Actual)	CAGR FY2011-12 (Actual)	CAGR FY2013-14 (Actual)
Total revenue and grants	20.7	15.7	22.1	9.7
Total revenue	21.2	16.7	23.1	10.6
Tax revenue	21.9	16.7	23.4	10.4
NBR taxes	22.1	16.9	23.9	10.3
Non-tax revenue	18.1	16.5	21.4	11.8
Foreign grants	7.8	-10.7	1.2	-21.3
Total expenditure	21.6	16.2	22.0	10.7
Current expenditure	16.5	16.1	17.4	14.8
Pay and allowances	18.4	-36.4	14.4	-64.6
Goods and services	17.2	14.7	12.9	16.6
Interest payments	11.9	17.3	16.9	17.7
Subsidies and transfers	15.7	11.1	17.1	5.4
Block allocations	84.8	-4.5	-25.5	22.5
ADP (PPP+ Public entities)	27.0	21.1	26.4	16.1
Overall balance (incl. grants)	24.8	17.9	21.5	14.4
Overall balance (excl. grants)	22.6	14.7	18.6	10.9
Net financing	22.6	12.5	13.0	12.0
External	21.9	-25.2	-57.4	31.5
Domestic	23.1	25.5	42.2	10.7
Banks				-18.3
Non-banks	-15.0	3.2	-53.6	129.3

Source: Sixth Five Year Plan (SFYP) and Ministry of Finance Monthly Fiscal Report.

The composition of development expenditure has changed during the Plan period. While the top ten ministries still comprised a substantial share of total development expenditure, this share has decelerated, from 84 per cent in FY2008-09 to 77 per cent in FY2013-14 (Figure 1.16). Changes in priorities, with movement away from local government and towards transport and power, are consistent with the medium and long-term needs of the economy (CPD, 2014). Low allocation levels for social infrastructure sectors remain a concern in the context of human resource development. Despite low allocation to social sectors, the education and health sectors have performed impressively well. However, overall public investment could make limited improvement in terms of cost, quality and timely implementation of projects. A large part of the problem stems from, among other factors, the burden of carry on projects, cost overrun and the timeliness of resource availability. Inclusion of unapproved and unallocated projects seriously undermines the overall allocative efficiency of the development budget (CPD, 2014). Operational inefficiencies lead to significant wastage and theft of public money, and causes excessive delays in realising expected returns

Figure 1.16

Actual Public Investment as a % of Total Public Investment by Sector



Source: Ministry of Finance (MoF).

from development projects. Further, the Government of Bangladesh made little effort towards reforming the SoEs. For instance, instead of working towards increasing the efficacy of the Privatization Commission, the government closed this institution and merged its functions with the Board of Investment. The overall debt of SoEs has soared against the projection made in the SFYP.[41]

With regard to non-development expenditure, sector priorities in the allocation, especially for the top five sectors, remained more or less the same, with their share increasing further, from 59.4 per cent to 66 per cent during the same period. The top five priority sectors in terms of allocation are interest payments, education and technology, defense, general public services and agriculture. It is important to examine the implications of this rise on the allocations made to other sectors. Given the fact that structural rigidities usually leave little space for making required changes in the composition of public spending in a short period of time, the intersector allocation in the medium to long-term, with better 'degrees of freedom,' should reflect required changes in the allocation (CPD, 2014).

Rise in expenditure for subsidy payments was a key concern as regards non-development expenditure. The subsidy allocation for electricity and fuel has increased over the years, followed by allocation for agriculture. There has been a rise in allocation for SoEs, particularly for the Bangladesh Jute Mills Corporation (BJMC). Information is not available as regards the considerations and the basis that have informed this decision. Unless a transparent and accountable mechanism is developed for repayment of due debt service liability (DSL) by different public sector organisations, such DSL rises will result in unsustainable operations.[42] A subsidy policy needs to be developed in order to streamline the government's subsidy payments (CPD, 2015).

[41]Public debt of SoEs under the Ministry of Industries and Ministry of Textiles and Jute has increased from Tk. 9,383.5 crore in June 2010 to Tk. 12,426.4 crore in June 2014 (a rise of 32.4 per cent over this period).

[42]As of 30 June 2012, there was a huge amount of dues of DSL to the government to total 104 different public sector entities, which was amounted to be Tk. 1,20,68,771 crore; the highest amount of dues of DSL was to the Power Division (42.4 per cent of total DSL), followed by the BPC (11 per cent) and Petrobangla (8.4 per cent). A large amount of these dues have already expired the timeline (24 per cent of total principal loan), which was even as high as 100 per cent in selected organisations (MoF, 2014).

The prevailing high share of non-development expenditure, particularly for pay and allowances, is likely to continue in the coming years.[43] A significant rise in expenditure on 'recapitalisation' under the category of investment in shares and equities has raised concerns in recent times. The government's initiative to recapitalise the SCBs with a view to meet capital shortfall and to make their operations viable has been carried out as part of the understanding with the IMF under the ECF-supported programme. However, without addressing the core weaknesses of the SCBs, including bad governance, insider lending, undue interference of the Board, political pressures and corruption, lack of transparency and accountability, and low productivity, mere injection of capital will have little impact.

In regard to financing, while foreign finance management has been in line with the SFYP target, domestic financing has slightly exceeded its target. In FY2014-15, large borrowing from the sales of NSD certificates was used to repay government borrowing from non-bank sources (sources outside borrowing from sale of NSD certificates). However, this growing strain is becoming more evident, particularly on account of lower revenue collection. At the same time, the MoF must address the issue of high dependence on NSD sales for financing the budget deficit, which is likely to have negative implications for medium term DSL (CPD, 2014).[44]

Monetary Management

During the Plan period, growth of overall broad money has met its target. This was possible mainly as a result of maintaining higher than targeted level of growth of net foreign assets owing mainly to large foreign exchange reserves (Table 1.22). However, growth in all other indicators concerning monetary management was below target. Over the Plan period, monetary management under the auspices of the central bank has

Table 1.22
Monetary Management: Targets and Achievement

Monetary Aggregates	CAGR FY11 to FY14 (Target)	CAGR FY11 to FY14 (Actual)	CAGR FY11 to FY12 (Actual)	CAGR FY13 to FY14 (Actual)
Broad money	17.0	17.9	19.3	16.4
Net foreign assets	9.1	24.3	8.4	42.5
Net domestic assets	18.6	16.3	21.7	11.1
Domestic credit (a+b+c)	21.5	17.0	23.0	11.3
Claim on public sector (a+b)	24.5	17.0	24.2	10.3
a. Claim on govt. (net)	26.8	21.2	29.9	13.2
b. Claim on other public	14.7	-4.0	1.1	-8.9
c. Claim on private sector	20.7	17.0	22.7	11.6
Net other assets	37.1	21.8	31.7	12.7

Source: Sixth Five Year Plan (SFYP) and Bangladesh Bank.

[43]The new pay scale for public sector employees to be implemented in FY2015-16 will cause additional fiscal burden, which will need to be addressed both by raising additional revenue and by measuring against expected improvements in productivity and efficiency of public services.

[44]A number of ongoing reform measures are taking place under the IMF-ECF. According to the Fourth Review Report of the IMF (2014), major progress were made in areas of management of subsidies and SoEs, in terms of bringing down the cost of energy, improvements in internal financial management of BPC, improvements in public debt management through tightened procedures and controls over non-concessional external borrowing, preparation of a draft medium-term debt strategy, finalisation of a Debt Management Performance Assessment, maintaining external debt ceiling, better financial supervision in terms of amended Bank Companies Act (BCA), temporary relaxation of loan rescheduling guidelines to help mitigate the impact of political unrest, reforming SCBs through signing of MoUs with Bangladesh Bank to enact new policies for better credit and liquidity risk management and strengthening internal control, completion of action plan for automation of SCBs and moving forward towards gradual liberalisation on exchange regulations on current and capital account transactions.

placed particular emphasis on controlling inflation. The contractionary monetary policy undertaken in the second half of FY2011-12 and the first half of FY2012-13 due to high inflation has reduced the growth of credit to the public sectors. In FY2012-13, both public and private sector credit declined. The slow growth of credit to the private sector in FY2012-13 and FY2013-14 is a reflection of low demand in the sector for credit, this being mainly related to a dampened investment climate in Bangladesh stemming from a lack of necessary infrastructure (including power and gas supply) and political turmoil. Despite Bangladesh Bank targeting a 22.9 per cent increase in public sector credit in its Monetary Policy Statement (MPS) for January-June FY2013-14, growth was only 6.7 per cent. Falling oil prices in the international market have contributed to the lower demand for credit by the public sector. A relatively lower growth of credit during the first four months of FY2014-15 indicates that industrial activities and investment still need to pick up in the economy. In addition, the opportunity to borrow loans in foreign currency from foreign sources has also led to decreased demand by entrepreneurs for private sector credit.

Weak governance in the banking sector has emerged as a major concern (CPD, 2014). A series of scams in the banking sector have been identified during the Plan period, including at Sonali Bank, Basic Bank and a number of private commercial banks.[45] Weak risk management, pressure exerted by certain powerful groups/individuals, inappropriate alliances between senior bank managers and clients, lack of supervision from Head Office, oversight of the Board, and a lack of regulatory hindsight have been the reasons behind the embezzlement of large sums of money from a small branch of Sonali Bank.[46]

The rise in the number of NPLs of commercial banks has been a growing concern, although a number of initiatives have been undertaken to reduce the pressure of NPL, including providing loan rescheduling facilities to those defaulting (Table 1.23). The share of NPL has increased from 7 per cent in June 2011 to 10.5 per cent in March 2015. More significantly, the share of NPL in national commercial banks (NCBs) has soared during the same period, from 14 per cent to 22.5 per cent. Between December 2014 and March 2015, the number of loss-making branches of SCBs has increased by 175.[47] Strikingly, the share of NPL

Table 1.23

State of Non-Performing Loans: FY2010-11 to FY2014-15

Type	June 2011 (FY2010-11)			March 2014			March 2015		
	Distribution of Total Loans Outstanding	Distribution of Total Loans Classified	Rate of Classified Loans (%)	Distribution of Total Loans Outstanding	Distribution of Total Loans Classified	Rate of Classified Loans (%)	Distribution of Total Loans Outstanding	Distribution of Total Loans Classified	Rate of Classified Loans (%)
NCBs	23.0	45.4	14.1	18.5	38.8	22.0	19.3	41.4	22.5
PCBs	64.3	31.9	3.5	69.7	38.5	5.8	72.2	41.6	6.0
FBs (9)	6.1	2.7	3.1	5.0	2.5	5.3	4.3	3.4	8.2
DFIs (5)	6.6	20.1	21.8	6.8	20.2	30.9	4.2	13.6	33.5
TOTAL	100.0	100.0	7.1	100.0	100.0	10.5	100.0	100.0	10.5

Source: Bangladesh Bank.

[45] A total of Tk. 35.47 billion has been misappropriated from the bank's Ruposhi Bangla Hotel branch through forgery. Of the amount, the Hallmark Group alone managed to embezzle Tk. 26.86 billion in 2013. A total of Tk. 45 billion has been misappropriated from Basic Bank in 2014.

[46] A number of challenges have been mentioned in the CPD (2014) which include absence of risk management policy, lack of internal control, political baggage of the board of directors, inappropriate appointment of CEOs and senior officials, Shortcomings of human resource policy, inertia for automation and management information system (MIS), dualism in the regulatory mechanism and regulator's oversight, etc.

[47] http://www.bonikbarta.com/ (accessed on 28 May, 2015).

has also been increasing in PCBs and FCBs. Despite various institutional and operational reforms, weak NCB performance has raised questions about the efficacy of IMF-inspired reforms.[48]

1.5.6 Sector Issues

Sectoral Allocation of Public Investment

While the SFYP allocation target for public investment was Tk. 309,907 crore, actual total disbursement during the Plan period is expected to total Tk. 254,473 crore – a shortfall of Tk. 55,433 crore (Table 1.24). More importantly, SFYP target allocations that had been set per priority have not been realised. During the Plan period, allocations made were highest for agriculture, rural development and water resources (as high as 21.4 per cent); physical planning, water supply and housing (19 per cent); energy (17.3 per cent); transport (15.7 per cent); and education (14.7 per cent). Such a distribution reflects a change in government priorities, and as a consequence a number of social sectors, including health, population, nutrition and public administration, received lesser allocations than planned.

Table 1.24

SFYP Public Investment Allocation by Sector (Current Price)

Sector (SFYP Classification)	FY11	FY12	FY13	FY14	FY15	Total Period (Target)		Total Period (Actual/Budgeted)	
	Difference between Target and Actual (Crore Tk.)					Total Period	Share (%)	Total Period	Share (%)
Agriculture, rural development and water resources	4,099	4,166	5,844	6,027	4,099	27,095	8.7	54,433	21.4
Manufacturing	-350	121	826	1,678	-350	4,650	1.5	7,561	3.0
Energy	828	-656	1,528	-2,931	828	53,588	17.3	48,110	18.9
Transport	-1,173	-1,429	2	-653	-1,173	48,783	15.7	50,736	19.9
Physical planning	-5,476	-6,080	-6,382	-8,058	-5,476	58,839	19.0	25,582	10.1
Knowledge economy	-296	-394	-335	854	-296	3,060	1.0	5337	2.1
Education	-322	-2,364	-2,082	-2,664	-322	45,641	14.7	34,922	13.7
Health, population, and nutrition	-608	-1,533	-1,896	-2,603	-608	28,560	9.2	18,602	7.3
Poor and vulnerable	-132	-100	111	115	-132	3,006	1.0	3,191	1.3
Environment and disaster management	-1,667	-2,164	-2,381	-2,844	-1,667	12,324	4.0	0	0.0
Public administration and others	-2,881	-3,489	-3,868	-4,126	-2,881	24,363	7.9	5,998	2.4
Total	**-7,979**	**-13,923**	**-8,632**	**-15,206**	**-7,979**	**309,907**	**100.0**	**254,473**	**100.0**

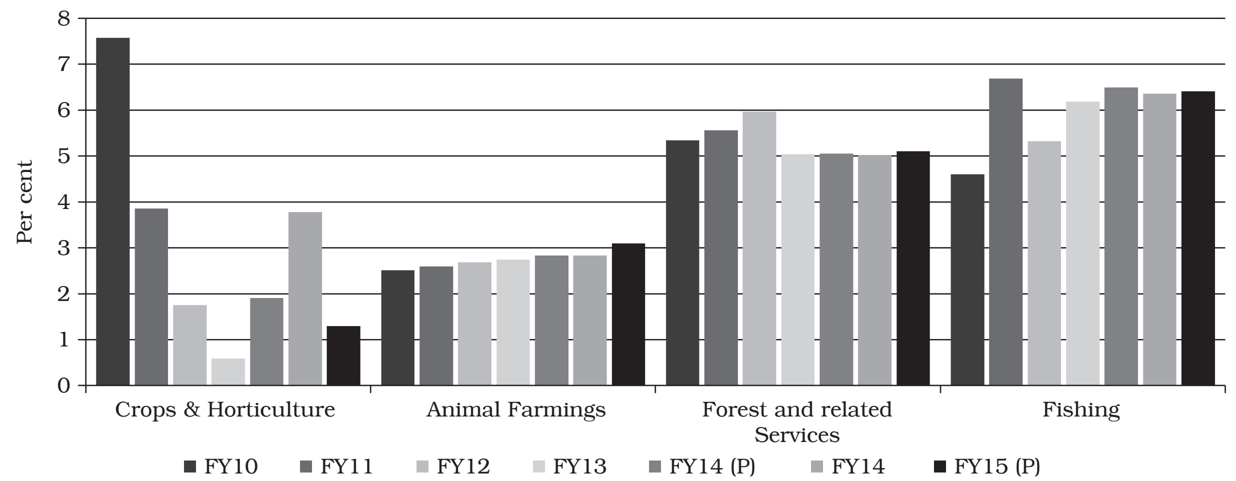
Source: Sixth Five Year Plan (SFYP) and CPD database.

[48] As part of strengthening financial management, government has decided to amend at least three acts: (a) inclusion of the bank resolution and lender of last resort (LOLR), facilities under the Bank Company Act 2013, (b) Bangladesh Bank Order 1972 and (c) Deposit Insurance Act. The facility of LOLR would provide the central bank to intervene in case any bank or financial institution fails to cope up with emerging adverse situation. Given a number of large loan scams which made the position of some of the SoEs vulnerable, Bangladesh Bank is considering implementing the LOLR facility.

Agriculture Sector

Although the agriculture sector achieved a growth of 5.1 per cent in FY2010-11, this level of growth was not sustained, falling sharply in subsequent years, from 3.1 per cent in FY2011-12 and 2.1 per cent in FY2012-13. A breakdown of GDP growth rates reveals that the agriculture sector makes only a small contribution to overall growth, just 0.5 per cent of a total 6.3 per cent in FY2011-12, which is half of the figure in FY2010-11. Deceleration in agricultural growth rates has been predicated by depressed crop performance (CPD, 2013).[49] However, non-crop sectors, including animal farming, fishery, and (to a lesser extent) forestry, have performed impressively during the Plan period (Figure 1.17).

Figure 1.17
Growth of Agriculture Sector



Source: Bangladesh Bureau of Statistics (BBS).

Public Investment in the Agriculture Sector: Status of Implementation of SFYP Strategies

A number of strategies are outlined in the SFYP for the purpose of developing a range of agricultural subsectors. Such strategies include increasing land productivity, increasing diversification, promoting commercialisation, ensuring availability of credit, ensuring easy access to local and international markets, developing agro-processing industries in underperforming regions, and providing subsidies in the poorest upazilas. In order to implement these strategies, the necessary development projects need to be taken in successive ADPs. A number of projects have been identified in the ADP that are in line with the strategies stipulated in the SFYP.[50] In addition, a number of policies and reforms have been undertaken during the Plan period.[51] Various policy changes in the agricultural sector are expected to facilitate diversification of the agricultural sector in the medium to long-term.

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[49]Fall in crops sector's (and hence agriculture sector's) contribution to the GDP growth corresponds to the overall fall in total GDP rate (0.2 percentage point) in FY2011-12.

[50]These projects include training to the farmers to transfer technology at the sub-district level; production, protection and distribution of advanced seed of rice, jute and wheat to the farmer level; National Agricultural Technology Project (NATP); farm's machinery and technology development and dissemination; development and expansion of research and research infrastructure of Bangladesh Agricultural Research Institute (BARI); establishment of fertiliser testing laboratories and research centres; and marketing of agricultural products through development of rural communication project.

[51]These include formulation of the National Agriculture Policy 2013; formulation of Master Plan for Agricultural Development, formation of Agricultural Policy Support Unit; implementation of the Integrated Agricultural Productivity Project; granting Online Fertiliser Recommendation Software and Bangladesh Rice Knowledge Bank; enactment of Fish Feed and Animal Feed Act, 2010, Fish Hatchery Act, 2010, Fish Food Rules, 2011 and Animal Slaughter and Meat Quality Control Act; 2011 issuing Fish Hatchery Rules 2011; and enacting Cattle Grazing Land Policy for the Cooperatives, 2011.

Industrial Sector

Growth in the industrial sector has remained close to the SFYP target. Manufacturing, which dominates the industrial sector, maintained a consistent level of growth during FY2010-11 to FY2012-13. However, growth slowed in the second half of the Plan period due to a lack of an enabling environment, particularly as a result of political instability in FY2013-14 and FY2014-15. In contrast, mining and quarrying, and electricity, water and gas maintained a moderate level of growth. Strikingly, production of gas performed dismally throughout the Plan period.

Growth in the manufacturing sector is mainly led by medium and large-scale enterprises (Table 1.25). Despite various efforts over the Plan period, the performance of small-scale enterprises has been underwhelming, raising doubts over the efficacy of various initiatives and incentives that have been provided to small enterprises. Due to political unrest in FY2013-14 and the first half of FY2014-15, production in industries oriented towards the domestic market has suffered more compared to export-oriented industries. According to CPD (2015a), the disruption of January-March 2015 resulted in a total economic loss of approximately 0.4 per cent of GDP.

Table 1.25

Industrial Growth (Projected and Actual)

(in Per cent)

Sectors	FY10	FY11 (E)	FY12	FY13	FY14	FY15 (P)
Projected						
Industry	N/A	9.2	9.6	9.9	10.5	11.5
Manufacturing	N/A	9.5	9.8	10.1	10.7	11.7
Actual						
Industry	7.0	9.0	9.4	9.6	8.2	9.6
Mining and quarrying	8.1	3.6	6.9	9.4	4.7	7.5
Manufacturing	6.6	10.0	10.0	10.3	8.8	10.3
Large & medium scale	6.3	11.1	10.8	10.7	9.3	10.2
Small scale	8.2	5.7	6.6	8.8	6.3	10.7
Electricity, gas and water supply	10.0	13.4	10.6	9.0	4.5	7.0
Electricity	10.5	15.8	11.0	9.7	4.5	6.9
Gas	8.8	0.1	7.4	5.9	1.7	5.7
Water	5.8	8.2	10.9	4.8	10.9	10.3
Construction	7.2	7.0	8.4	8.0	8.1	8.6
Services	5.5	6.2	6.6	5.5	5.6	5.8

Source: Sixth Five Year Plan (SFYP) and Bangladesh Bureau of Statistics (BBS).

Public Investment in the Industrial Sector: Status of Implementation of SFYP Strategies

A number of strategies are mentioned in the SFYP for the purposes of increasing the capacity of the industrial and manufacturing sector. A number of projects in the ADP can meet some specific strategies of the SFYP.[52] Further, a number of policies and reform initiatives have been undertaken during the

[52]These include establishment of 10 textile vocational institute (2nd Revised), establishment of four textiles vocational institute, HYV jute and jute seed production and improved jute retting project, etc.

period.[53] However, little change can be secured without ensuring effective implementation of these new policies. Further, the industrial sector continues to face governance and compliance-related issues, which have led to the capital market incident of 2010 and financial scams in the banking sector.

Power and Energy Sector

Development of the power sector is one of the major policy priorities of the present government. During the Plan period, installed generation capacity increased from 3,267 MW in 2009 to 11,203 MW in 2015. However, this still remains below the target of 15,757 MW. Various measures undertaken over the Plan period have contributed to increased power generation capacity, its availability and its accessibility. In contrast, development of the gas sector is far behind target, falling short of the required level of growth (Table 1.26).

Table 1.26
Annual Growth Rate (Actual)

(in Per cent)

	FY10	FY11 (E)	FY12	FY13	FY14	FY15 (P)
Electricity and gas	10.0	13.4	10.6	9.0	4.5	7.0
Electricity	10.5	15.8	11.0	9.7	4.5	6.9
Gas	8.8	0.1	7.4	5.9	1.7	5.7

Source: Bangladesh Power Development Board (BPDB).

Public Investment in the Power and Energy Sector: Status of Implementation of SFYP Strategies

SFYP strategies in the power and energy sector mainly highlight the need for increased power generation, use of energy saving technologies, diversification of fuel used in electricity generation, mobilisation of funds for electricity generation in the form of PPP at the national and international levels, providing fiscal incentives to foreign companies for setting up new power plants, undertaking necessary reform measures for the energy sector, finalising the coal policy, and imports of LNG supplements. In this regard, a number of policies and reforms have been undertaken.[54]

However, a major concern is the widening gap between installed and maximum capacity generation, which has increased from 1,004 MW in 2009 to 2,985 MW in April 2014. This has been the case mainly as a result of a low level of capacity utilisation of quick rental power plants (QRRs). This huge unrealised capacity raises questions about the quality of power plants, especially of the QRRs. The government has not been able to carry out its exit plan, and as a consequence, its fiscal burden remains high. Ensuring long-term supply of primary energy for power generation is increasingly becoming a major concern for enhancing power supply. As such, the long-term fuel diversification target of 25 per cent coal, 50 per cent natural gas and 25 per cent other fuels, by 2030, appears difficult to attain.

[53]Including, reorganisation of the Securities and Exchange Commission (SEC) and reforming its legal and regulatory framework; reducing unused and unnecessary expenditure in state-owned industries; approval of the Industrial Policy, 2010 and preparing the draft Industrial policy 2015; passed the EPZ Workers Welfare Association and Industrial Relations Act, 2010, Mandatory Use of Jute Package Act, 2010, Bangladesh Textile University Act, 2010, Policy, National Salt Policy, 2011, Ship-Breaking and Recycling Policy, 2011, Jute Policy, 2011, National Skill Development Policy, 2012, National Tourism Policy, 2010; issued and passed Strategy for Public-Private-Partnership (PPP), 2010, Bangladesh Rubber Policy; 2010, Labour Welfare Association and Industrial Relations Act, 2010, Bangladesh Tourism Board Act, 2010; Bangladesh Tourism Reserved Area and Special Tourism Zone Act, 2010, Trademarks Act, 2009 and Consumer Rights Protection Act, 2009.

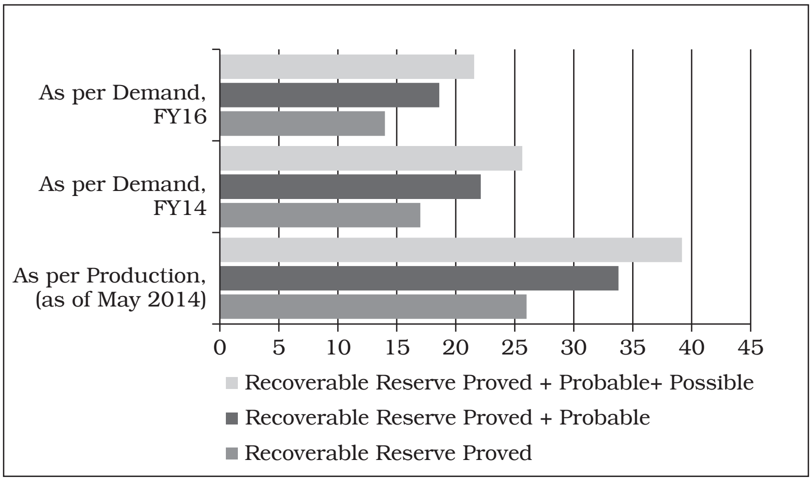
[54]These include Sustainable and Renewable Energy Development Authority (SREDA), Act 2012, The Rural Electrification Board (REB) Act, 2013, Interim Action Plan for Improvement of Energy Efficiency and Conservation, Clean Cook Stove Country Action Plan, Special Act for Quick Procurement in Power and Energy Sector, Electricity (Amendment) Act, 2012 (drafted), and Energy Efficiency and Conservation Rules.

Efficiency issues in power generation have suffered from serious neglect. The question is whether the revision in power tariffs could effectively reduce the overall fiscal burden of the BPDB. In fact, the huge subsidy burden on account of continuous dependence on QRRs, which has occurred due to inefficient operation of the BPDB and poor implementation of large-scale power plants, has been partly shifted to the consumers through periodic revisions of power tariffs. A number of large-scale projects have stalled at different phases of implementation.[55] Overall, nine out of 11 public sector low-cost projects (generation capacity of 1,700 MW) are likely to be delayed by two years.

The depletion over recent years of domestic gas reserves has reduced the scope for which gas can be used to generate power. The Petrobangla will only be able to supply gas to the BPDB for the purpose of power generation until 2016-2017. The gas reserves in Bangladesh as per proven, probable and possible estimates are 20.7 trillion cubic feet (tcf). 27.04 tcf and 31.34 tcf respectively. It is expected that proven gas reserves will be exhausted between 2028 and 2040, and proven and probable reserve will be exhausted between 2033 and 2048 (CPD, 2014) (Figure 1.18).

Figure 1.18

Estimated Gas Reserves in Bangladesh (Number of Years)



Source: CPD (2014).

Transport Sector

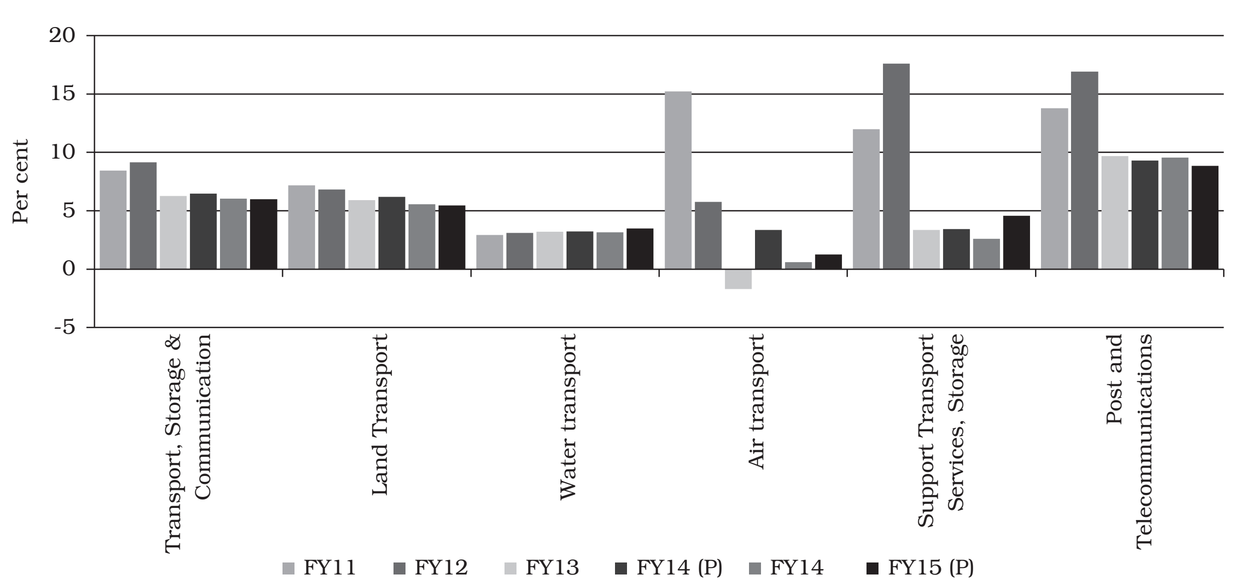
Progress in the transport sector has decelerated during the Plan period mainly due to sluggish growth of the road sub-sector (Figure 1.19). According to a report by the Road Transport and Highways Division (RTHD), although the RHD had a target of constructing 4,672 km of new roads by FY2014-15, only 8 per cent of this target (406.5 km) had been completed by the end of FY2012-13. In regard to the strengthening and widening of roads, only 23 per cent of the FY2014-15 target had been achieved.

Similarly, in regard to the rail network, to achieve the target for FY2014-15 of having 3,252 km of usable railway requires additional efforts given current progress (actual as of FY2012-13 is 2,877 km, which is only 42 km more than the benchmark figure of FY2009-10). This dismal state of Bangladesh's physical infrastructure is also reflected in the perceptions of businessmen in the executive opinion survey conducted by CPD (2014).

[55]These include Bibiyana phase one (341 MW) gas-fired power plant due to lack of on time financing and delay in handing over of land; Bhola 225 MW gas-fired plants due to delay in selecting the awardee through tender process; and Siddhirganj 450 MW due to procedural delays.

Figure 1.19

Growth of Transport and Communication Sector in terms of GDP



Source: Bangladesh Bureau of Statistics (BBS).

Public Investment in the Transport Sector: Status of Implementation of SFYP Strategies

A number of projects in the ADP are relevant to the strategies of the SFYP. Important policies and institutional reforms in the roads sector have been undertaken including:

- Approval of the National Integrated Multimodal Transport Policy 2013
- Approval of the Road Fund Board Law 2013
- Adoption of the Vehicle Axle Load Control Station Operation Policy 2012
- Passing of the Dhaka Transport Coordination Authority Act 2012
- Establishing the Dhaka Transport Coordination Authority
- Formulating the 20-year Road Master Plan
- Approving the 20-year (2005 to 2024) Strategic Transport Plan (STP)
- Drafting the National Road Safety Strategic Action Plan (2011-2013)
- Enacting the Road Maintenance Fund Board Act 2013

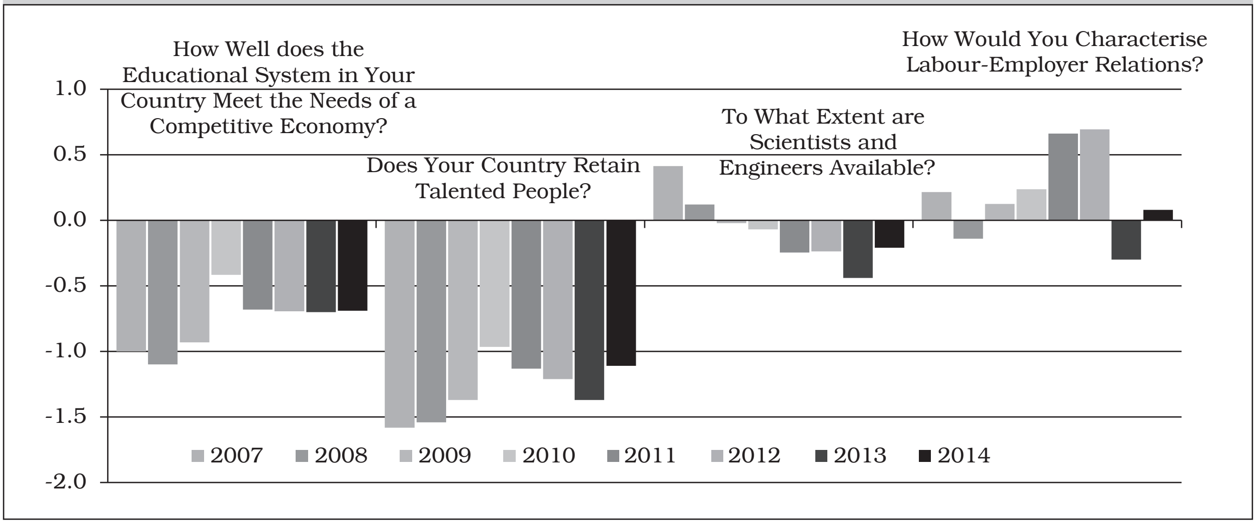
However, despite allocating a large amount of resources and undertaking various policies and reforms, the performance of the transport sector is far behind the expected level.

Education Sector

The education sector has performed moderately well over the Plan period. As mentioned in Table 1.16, the government has been successful in improving access to and participation in education. As of 2012, net enrolment at primary level was 98.7 per cent, just short of the 100 per cent target. However, while access to education has improved, government expenditure on education has not met the SFYP target of 14.7 per cent of total allocation. While the education sector has made horizontal progress (in terms of quantity) during this period, it could not make vertical progress (in terms of quality) to that extent. Despite a number of positive developments, the education sector requires further improvements so as to generate sufficient skilled workers to meet domestic demand (Figure 1.20).

Figure 1.20

Trends in Level of Perception on Selected Education and Human Capital Indicators: 2009-2014



Source: Global Competitiveness Report 2011-2015, World Economic Forum (WEF).

Public Investment in the Education Sector: Status of Implementation of SFYP Strategies

To meet the strategies detailed in the SFYP, a number of relevant projects have been undertaken, including:

- Creation of Infrastructure of Laboratory Facilities for Introduction New Departments in Five Public Universities
- Infrastructure Development of Inter Services Selection Board (ISSB)
- Mosque Based Child and Mass Literacy Programme (5th phase)
- Skilled Development Project
- Higher Education Quality Enhancement Project
- Special Development of Dhaka University (Phase III)

In addition, important steps have been taken during the Plan Period in regard to a number of key policies, including:

- Issuing of the Education Policy 2010
- Approval of the Informal Education Policy
- Enactment of the Private University Act 2009
- Enactment of the Prime Minister's Education Assistance Trust Act 2012
- Formulation of the Creative Talent Hunt Policy 2012

1.5.7 Benchmark Condition for FY2015-16

Lessons from the SFYP Implementation Process

Lessons from the analysis conducted regarding the process and outcome of the SFYP implementation process can be used to understand the benchmark condition for the 7FYP. These lessons can be categorised into the three areas of political commitment; the planning process; and operational issues.

a) Political Commitment

The commitment of the incumbent government to implement the SFYP is well acknowledged. However, successful implementation of the Plan depends on how comprehensively high-level political commitment is translated through the institutional process and how effectively the relevant institutions undertake the initiatives necessary to implement the Plan. Although it is evident that the public sector is aware of the political commitment to implement the SFYP, the sector has not always been adequately equipped to effectively implement the strategies set out in the Plan. It is therefore of critical importance to adequately prepare the relevant line ministries, even local level administration, for strategy implementation so as to achieve the targets set.

In order to achieve the targeted goal of a Plan like SFYP, there should have a strong linkage between vision framework, resource framework and allocative priorities. A major instrument to establish that linkage was to follow the mid-term budgetary framework and to ensure sectoral allocation in accordance with the target set in the Plan. In both accounts significant deviation has taken place, particularly in the later years of the Plan period. Besides, inefficiency in terms of allocation and operation has further weakened the achievement of the implementation process.

b) Planning Process

SFYP implementation has faced a range of barriers and challenges. A number of global issues, including the aftermath of the global financial and economic crisis, as well as a number of domestic issues, such as prolonged political unrest, governance failures in the banking sector, capital market, and undesirable incidents in the garments sector, have complicated the implementation process and slowed progress. At the same time, a series of weaknesses in the institutional structure and policy failures have hampered the implementation process. While a number of these problems were unpredictable and as such difficult to safeguard against, some were predictable and known. It appears to be the case that the targets set out in the SFYP, based on the general equilibrium framework, could not adequately take into account those issues and concerns. As a result, overall target setting, particularly of the macroeconomic framework under the SFYP, appeared fixed at the upper bound level.

Although resource generation and line ministry budgetary allocation are supposed to be in line with the MTBF, as a result of the changing situation and government priorities, MTBF is not always used as a point of reference for 7FYP implementation. As such, its influence in the budgetary process has been somewhat limited.

c) Operational Issues

One of the major limitations of the SFYP is that it put more emphasis on allocative (or generating) priorities (not necessarily allocative efficiencies) and less on operational efficiencies. This is reflected in most of the aspects related to public finance, monetary management and sector issues. As a result, while SFYP outcomes appeared quantitatively near to the average, qualitatively they lagged far behind. Without ensuring efficiency and quality, the targeted objectives cannot be achieved by implementing the Plan.

Line ministry capacity in regard to implementation needs to be reexamined. An assessment needs to be conducted of the required human resources of line ministries based on the demand for handling large scale projects. There is scarcity of competent human resources to handle complex, multi-sector, multi-phased projects, which are of increasing prevalence in the ADP. In this regard, reforms are needed in the ministries of Planning and Finance, in terms of project development, approval, implementation and monitoring, as well as resource generation.

Further, there exists no proper institutional mechanism for successful completion of projects that can ensure an effective outcome. Practice has shown that the success of the project depends more on the person specific to the institution rather than to the institution as a whole.

Although a large number of changes have been made with regard to policies, laws, rules and regulations which partly focuses on reform in different areas, in general, institutional reforms did not get priority in the SFYP. Government needs to put focus on reforms in a number of areas including introduction of civil service act, restructuring of the Board of Investment, privatisation of SoEs, reforms in NCBs, rationalisation of size of the public sector and strengthening the activities of different ministries in terms of monitoring and supervision.

A major challenge is to develop an effective connection between the public and private sectors through implementation of the Plan. The public sector needs to give greater attention to the requirements and demands of the private sector, and provide services accordingly. The crowed in effect on private investment supposed to be developed through huge public investment, appears to be weak. Finally, the basic infrastructure for doing business is still lagging behind the required level.

Targets Set for Major Macroeconomic Indicators for FY2015-16 under the 7FYP

Tables 1.27 and 1.28 show the targets set for FY2015-16 (the first year of the 7FYP) against those achieved in FY2014-15 (the final year of the SFYP), with comments on the possibility of achieving the set targets.

It appears that the targets set for major macroeconomic indicators in the first year of the 7FYP are less ambitious, an approach that is justifiable given the experience of the SFYP. However, while most of the targets appear to be more 'moderate', some targets remain ambitious for the first year of the 7FYP. 'Moderate' level of targets appears in the case of real income growth, private investment, rate of inflation, broad money growth, completion rate of primary education, etc. Some of the targets appear to be below moderate level of ambition which include public investment-GDP ratio and tax-GDP ratio. Overall, the targets indicate that a moderate growth path to be followed during the 7FYP.

Table 1.27

Major Targets for FY2015-16 under the 7FYP

Indicator	Achieved (FY2014)	Target (FY2016)
A. Production, Income Generation and Poverty		
Real income growth (%)	6.5 **	6.6
Exports (% of GDP)	19.76 **	16.0
Private investment (% of GDP)	21.39 **	22.6
Public investment (% of GDP)	7.3 **	5.8
Tax revenue as % of GDP	10.4 *	10.3
Average annual CPI inflation rate	7.7 *	6.3
Broad money growth (%)	16.7 *	16.0
Agricultural GDP growth rate (%)	3.35 **	3.28
Proportion of living population living below national poverty line	24.7**	20.99

(Table 1.27 contd.)

(Table 1.27 contd.)

Indicator	Achieved (FY2014)	Target (FY2016)
B. Human Resource Development (Education, Health and Population)		
Net enrolment at primary level (%)	97 **	97
Completion rate (%) at primary level	79	83
Number of enrolled children with disabilities	76,522	77,287
Total fertility rate reduction	2.3**	2.24
Under-5 mortality rate (per 1000)	4 **	43
Maternal mortality ratio (per 100,000 live births)	170 *	143
Births attendant by skilled health staff (% of total)	42.1 **	48
Infant Mortality Rate (per 1000 live births)	38 **	32
C. Energy and Infrastructure		
Per capita consumption of electricity	275 kWh (2013-14) (PD)	350 kWh
Access to electricity (% of household)	65 (2013-14) (PD)	80
Length of targeted new railway network (km)	2877 **	2925.5

Source: MTIR: Mid-Term Implementation Review of SFYP of Bangladesh (2011-15); Proposed Development Results Framework (DRF) for Monitoring the Seventh Five Year Plan.
Note: *2013; **2014.

Table 1.28
Major Targets in the 7FYP for 2016

Component	Achieveved (FY2014)	Target (2016)
Real GDP growth (%)	6.5	6.6
Broad money	16.1 (12.5 up to March 2015)	16.0
Claims on private sector	12.3 (13.6 up to March 2015)	14.5
Export as (%) of GDP	19.9 (17.19 in FY2015)	16.0
Import as (%) of GDP	26.7 (25.77 in FY2015)	21.2
Remittance as (%) of GDP	9.4 (6.46 up to April 2015)	8.0
FDI as (%) of GDP	1.0	1.2
National savings	29.0	27.4
Total revenue	11.9 , 5.9 (up to February 2015)	12.3
Tax	9.8	10.3
Total expenditures	15.9 (6.95 up to February 2015)	17.3
Overall balance (excl. grants)	4.1	4.5

Source: Proposed Development Results Framework (DRF) for Monitoring the Seventh Five Year Plan; Economic Review (2013) and Monthly Fiscal report, Ministry of Finance.
Note: * Base year 2005-06.

However, in the near term, it is of high importance to improve institutional capacity, reduce structural bottlenecks in the budget implementation process, and place greater focus on operational efficiency along with allocative efficiency so as to ensure quality and efficacy of Plan outcomes. It is expected that the implementation of the 7FYP will be focused and targeted taking into account the experience of the SFYP. *First,* the linkage between government's vision, resource framework to achieve the vision and allocative priorities needs to be ensured following the MTBF. *Second,* the line ministries and local level administration need to be prepared for achieving the targets set in the Plan through appropriate strategies. *Third*, given the volatility at the global and local levels, there should be better preparation to address the shocks/crisis, with adequate flexibility (in terms of allocation of additional resources and expenditure and others) in the implementation process for accommodating any unwarranted situation. *Fourth,* towards implementing the Plan, equal priority should be given to allocational and operational efficiency with a view to ensure better outcome from the Plan. In this context, assessment of public expenditure needs to focus more on qualitative issues. *Fifth,* the capacity of the line ministries and local level administration needs to be improved both in terms of skill upgradation and selection of appropriate persons to handle complex, multi-sectoral and multi-phased projects. *Sixth*, the linkage between public investment and private investment needs to be strengthened. In this context, necessary reforms need to be initiated in the case of different sectors/institutions including Board of Investment, SoEs, financial sector, etc. *Seventh*, it is important to improve the crowd-in effect of public investment through increasing project management success so that private investment is stimulated.

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ANNEXURE

Annex Table 1.1
Large and Medium-Scale QIP Share and Growth

Major Industry Group	Share	FY14	FY15 (Jul-Dec)
General Index of Manufacturing	**100.0**	**8.2**	**15.0**
Manufacture of food products	10.8	9.4	50.5
Manufacture of beverages	0.3	28.1	8.2
Manufacture of tobacco products	2.9	3.5	-3.5
Manufacture of textiles	14.1	-1.9	-12.8
Manufacture of wearing apparel	34.8	10.5	0.7
Manufacture of leather and related products	4.4	5.8	9.2
Manufacture of wood and products of wood and cork	0.3	1.9	7.3
Manufacture of paper and paper products	0.3	-5.3	14.0
Printing and reproduction of recorded media	1.8	2.7	8.8
Manufacture of coke and refined petroleum products	1.3	-8.6	27.0
Manufacture of chemicals and chemical products	3.7	-5.0	2.8
Manufacture of pharmaceuticals and medicinal chemicals	8.2	17.4	56.2
Manufacture of rubber and plastic products	1.6	7.7	15.0
Manufacture of other non-metallic mineral products	7.1	3.0	17.4
Manufacture of basic metals	3.2	10.1	5.2
Manufacture of fabricated metal products except machinery	2.3	10.3	54.1
Manufacture of computer, electronic and optical products	0.2	6.5	20.0
Manufacture of electrical equipment	0.7	2.7	9.0
Manufacture of machinery and equipment	0.2	10.8	15.0
Manufacture of motor vehicles, trailers and semi-trailers	0.1	10.3	465.4
Manufacture of other transport equipment	0.7	10.6	7.1
Manufacture of furniture	0.9	-7.3	10.3

Source: Calculated from national accounts, Bangladesh Bureau of Statistics (BBS).

Annex Table 1.2

Progress of Top 26 Projects that should be Implemented by FY2015-16 (June)

Sl. No.	Sector	Project Name	Project Cost (Crore Tk.)	Implementation till FY2015 (Jul-Nov) (%)			Cumulative Progress up to FY2015 (November) (%)			End Date
				Total	Taka	Project Aid	Total	Taka	Project Aid	
1	Transportation	Padma Multipurpose Bridge Project	20,507	10.3	12.9	0.0	22.3	100.8	1.7	31 Dec 15
2		Dhaka-Chittagong 4-Lane	3,190	23.4	23.4	N/A	52.9	52.9	N/A	31 Dec 14
3		Joydebpur-Mymensingh Road Development	1,815	41.8	41.8	N/A	56.1	56.1	N/A	30 Jun 15
4		Construction of Third Karnaphuli Bridge (Revised)	651	0.2	0.5	0.0	66.6	155.3	0.0	31 Dec 15
5		Support to Dhaka Elevated Expressway PPP Project	3,217	7.2	7.2	N/A	6.7	6.7	N/A	30 Jun 15
6		Dhaka-Chittagong Railway Development Project	2,870	17.0	24.2	5.8	68.6	66.3	71.4	30 Jun 16
7		Construction of Bypass Road in Satkhira Town connecting Bhomra Land Port	117	2.7	2.7	N/A	46.3	46.3	N/A	30 Jun 14
8	Power	Ashuganj 450 MW PP	3,400	37.1	2.8	40.8	16.3	1.0	18.4	30 Jun 15
9		Construction of Haripur 412 MW Combined Cycle Power Plant and Associated Substation	3,966	12.4	3.6	29.9	73.6	32.8	83.8	30 Jun 15
10		Construction of Bibiana-3, 400 MW Combined Cycle Power Plant	3,358	0.0	0.0	0.0	1.4	4.8	0.0	31 Dec 15
11		Construction of Ghorashal 365 MW Combined Cycle Power Plant	2,512	0.5	0.9	0.0	0.0	0.1	0.0	30 Jun 16
12		Siddhirganj 335 MW PP	4,239	27.4	27.3	27.5	34.0	20.0	52.4	30 Jun 15
13		Shahjibazar 330 MW Combined Cycle Power Plant	2,844	48.7	2.9	100.5	20.0	28.8	16.0	31 Dec 15
14		Shikalbaha Dual Fuel 225 MW Combined Cycle Power Plant	2,022	14.1	1.7	17.9	1.9	0.7	2.5	30 Jun 16
15		Bhola 225 MW Combined Cycle Power Plant	2,001	63.4	33.8	73.8	48.1	25.0	57.9	30 Jun 15
16		Chapainawabganj 100 MW HFO Based Power Plant	1,113	0.2	1.4	0.0	0.1	0.3	0.0	30 Jun 15
17		Bheramara Combined Cycle Plant (360 MW) Development	4,140	5.8	1.3	8.3	8.8	5.6	9.7	30 Jun 15

(Annex Table 1.2 contd.)

(Annex Table 1.2 contd.)

Sl. No.	Sector	Project Name	Project Cost (Crore Tk.)	Implementation till FY2015 (Jul-Nov) (%)			Cumulative Progress up to FY2015 (November) (%)			End Date
				Total	Taka	Project Aid	Total	Taka	Project Aid	
18		Providing Electricity Connection to 18 Lakh Clients through Rural Electricity Extension	5,413	20.8	20.8	N/A	45.5	45.5	N/A	31 Dec 15
19	Industry	Shahjalal Fertilizer Project	5,409	21.7	9.9	35.9	75.3	27.2	92.4	30 Jun 15
20		Power Production and Sugar Refinery Establishment through Co-generation Process in North Bengal Sugar Mill	73	0.5	0.5	N/A	0.1	0.1	N/A	31 Dec 16
21		Leather Industrial City, Dhaka (Second Revised)	1,079	2.9	2.9	N/A	13.1	13.1	N/A	30 Jun 16
22	Oil, Gas and Mineral Resources	Mubarakpur Oil/Gas Well Exploration Project	89	16.3	16.3	N/A	55.0	55.0	N/A	30 Jun 15
23		Augmentation of Gas Production under Fast Track Program (Dredging of 5 Wells and Workover of 1 Well under BGFCL and SGFL)	1,224	35.3	35.3	N/A	75.0	75.0	N/A	30 Jun 14
24		Establishment of Gas Compressor Station in Ashuganj and Elenga	1,494	27.1	21.1	34.5	64.6	48.5	74.7	30 Sep 15
25	Rural Development and Institutions	Construction of 950m long PC Guarder Bridge over Dharla River at Phulbari Upazila of Kurigram District	207	0.7	0.7	N/A	9.8	9.8	N/A	30 Jun 15
26		Construction of 520m long Bridge in Nagarpur-Mirzapur Via Mokna over Dhaleswari River under Nagarpur Upazila of Tangail District	70	2.4	2.4	N/A	0.6	0.6	N/A	30 Jun 16
Total			**77,023**	**17.0**	**15.1**	**21.9**	**33.1**	**42.8**	**25.7**	**17.0**

Annex Table 1.3

Weighted Average Deposit and Advances Rate

Period	SCBs		SBs		FCBs		PCBs	
	Deposit	Lending	Deposit	Lending	Deposit	Lending	Deposit	Lending
Mar-14	7.69	11.33	9.61	13.07	4.61	13.39	8.63	13.94
Jun-14	7.26	11.04	9.39	13.11	4.49	12.45	8.13	13.68
Sep-14	7.16	10.73	9.18	11.88	3.85	11.89	7.75	13.16
Dec-14	7.05	11.24	8.23	10.52	3.62	11.46	7.55	12.99
Mar-15	6.95	10.30	8.28	9.55	3.39	11.24	7.33	12.58

Source: Bangladesh Bank website.

Annex Table 1.4

Capital Adequacy and Profitability of Banks

Component	Bank Type	As of June 2014	As of September 2014	As of December 2014
Capital to risk-weighted asset ratio (%)	NCBs	8.70	5.52	8.26
	DFIs	-13.70	-16.58	-17.35
	PCBs	12.10	11.99	12.54
	FCBs	20.60	20.81	22.67
	Total	10.70	10.57	11.35
Return on asset (%)	NCBs	-0.09	Not applicable	-0.55
	DFIs	-0.87	Not applicable	-0.68
	PCBs	0.78	Not applicable	0.99
	FCBs	3.48	Not applicable	3.38
	Total	0.61	Not applicable	0.64
Return on equity (%)	NCBs	-2.35	Not applicable	-13.46
	DFIs	-9.46	Not applicable	-5.97
	PCBs	8.40	Not applicable	10.26
	FCBs	20.14	Not applicable	17.67
	Total	8.36	Not applicable	8.09

Source: Bangladesh Bank.

Note: NCBs refer to National Commercial Banks. Basic Bank Ltd. has been considered as NCBs. DFIs refer to Development Financial Institutions.

Annex Table 1.5

Export Growth of Competing Countries of the Top 5 Knit and Woven Items Exported by Bangladesh to the USA: FY2014-15 (July-March)

(in Per cent)

HS Code (6 Digit)	Bangladesh	El Salvador	Honduras	India	Vietnam
Top 5 Knitwear Items of Bangladesh					
611020	-2.9	15.9	1.1	6.9	2.8
610910	9.8	-9.0	-11.6	16.7	15.5
611030	12.7	43.5	14.0	11.5	22.4
610821	2.9	50.0	-1.4	11.4	20.0
610711	-19.6	9.8	6.1	13.0	7.3
Top 5 Woven Wear Items of Bangladesh					
620342	-0.6	0.0	21.5	1.1	-1.6
620520	6.0	2.4	0.0	0.0	13.0
620462	-5.0	-25.0	-4.1	-13.0	-10.8
620920	1.0	0.0	-48.8	0.0	-3.7
620343	-9.4	33.3	18.8	-23.5	5.4

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

Annex Table 1.6

Export Growth of Competing Countries of the Top 5 Knit and Woven Items Exported by Bangladesh to the EU: FY2014-15 (July-March)

(in Per cent)

HS Code (6 Digit)	Bangladesh	Cambodia	Pakistan	Vietnam
Top 5 Knitwear Items of Bangladesh				
610910	22.6	48.7	69.7	5.3
611020	8.5	14.7	75.4	-4.6
611030	24.4	39.8	116.8	47.6
610510	21.5	-44.5	50.6	48.5
610462	45.8	79.6	86.9	42.6
Top 5 Woven Wear Items of Bangladesh				
620342	20.2	73.4	92.4	-23.1
620462	26.3	22.1	38.1	-11.6
620520	19.0	61.1	41.2	15.7
620630	12.3	124.7	6.3	2.8
620530	20.8	113.8	-10.6	-2.2

Source: Estimated from EUROSTAT data.

Annex Table 1.7

Estimated Total Demand for and Supply of Rice and Wheat

(Million MT)

Item	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16
A. Gross Production[a]									
Aus	1.51	1.90	1.71	2.13	2.09	2.05	2.01	1.97	1.93
Aman	9.66	11.61	12.21	12.79	13.05	13.31	13.57	13.85	14.12
Boro	17.76	17.81	18.34	18.62	19.27	19.94	20.64	21.36	22.11
All Rice	**28.93**	**31.32**	**32.26**	**33.54**	**34.41**	**35.30**	**36.22**	**37.18**	**38.16**
Wheat	**0.84**	**0.85**	**0.97**	**0.97**	**1.00**	**1.03**	**1.06**	**1.09**	**1.13**
Total	**29.78**	**32.17**	**33.23**	**34.51**	**35.41**	**36.33**	**37.28**	**38.27**	**39.29**
B. Gross Production after Correction for Area and Yield Discrepancies									
Aus	1.37	1.72	1.55	1.94	1.90	1.86	1.82	1.79	1.75
Aman	8.77	10.54	11.08	11.61	11.84	12.08	12.32	12.56	12.81
Boro	16.12	16.16	16.64	16.89	17.48	18.10	18.73	19.39	20.06
All Rice	**26.25**	**28.42**	**29.27**	**30.44**	**31.22**	**32.03**	**32.87**	**33.73**	**34.63**
Wheat	**0.63**	**0.64**	**0.73**	**0.73**	**0.75**	**0.77**	**0.80**	**0.82**	**0.85**
Total	**26.88**	**29.05**	**30.00**	**31.16**	**31.97**	**32.80**	**33.66**	**34.55**	**35.47**
C. Gross Production after Correction for Reporting Discrepancy									
Aus	1.33	1.68	1.51	1.89	1.85	1.81	1.78	1.74	1.70
Aman	8.56	10.29	10.82	11.33	11.56	11.79	12.03	12.27	12.51
Boro	15.78	15.82	16.29	16.54	17.11	17.71	18.33	18.97	19.64
All Rice	**25.67**	**27.78**	**28.62**	**29.75**	**30.52**	**31.32**	**32.13**	**32.98**	**33.86**
Wheat	**0.62**	**0.63**	**0.71**	**0.72**	**0.74**	**0.76**	**0.78**	**0.81**	**0.83**
Total	**26.29**	**28.41**	**29.33**	**30.47**	**31.26**	**32.08**	**32.92**	**33.79**	**34.69**
D. Net Production after Allowances for SFW									
Aus	1.19	1.50	1.35	1.69	1.65	1.62	1.59	1.56	1.53
Aman	7.42	8.92	9.38	9.83	10.02	10.23	10.43	10.64	10.85
Boro	13.84	13.87	14.29	14.50	15.01	15.54	16.08	16.64	17.23
All Rice	**22.45**	**24.30**	**25.02**	**26.02**	**26.69**	**27.38**	**28.10**	**28.84**	**29.60**
Wheat	**0.53**	**0.53**	**0.61**	**0.61**	**0.63**	**0.65**	**0.67**	**0.69**	**0.71**
Total	**22.98**	**24.83**	**25.63**	**26.63**	**27.32**	**28.03**	**28.76**	**29.52**	**30.31**
E. Total Consumption Requirement									
Rice	24.50	24.84	25.15	25.84	26.14	26.41	26.66	26.76	27.08
Wheat	2.55	2.57	2.59	2.64	2.66	2.68	2.71	2.75	2.80
Total	**27.05**	**27.40**	**27.74**	**28.48**	**28.80**	**29.09**	**29.37**	**29.51**	**29.88**
F. Food Gap: [D–E]									
Rice	-2.05	-0.54	-0.13	0.18	0.55	0.97	1.44	2.08	2.53
Wheat	-2.02	-2.03	-1.98	-2.03	-2.03	-2.03	-2.05	-2.06	-2.09
Total	**-4.06**	**-2.57**	**-2.11**	**-1.86**	**-1.48**	**-1.06**	**-0.61**	**0.02**	**0.43**

Source: Younus *et al.* (2012).

Note: a. Actual BBS data on production are used for FY2008-FY2011 period and FY2012-FY2016 are projected data based on historical growth trend.

Annex Table 1.8

Targets and Achievements of Aman and Boro Procurement Programmes: 1995-2010

Year	Aman				Boro			
	Paddy		Rice		Paddy		Rice	
	Target ('000 Tonnes)	Achievement (%)	Target ('000 Tonnes)	Achievement (%)	Target ('000 Tonnes)	Achievement (%)	Target ('000 Tonnes)	Achievement (%)
1995	75	0.22	150	27.67	75	33.80	250	60.36
1996	152	66.51	149	89.93	53	94.96	385	99.71
1997	270	0.20	120	0.17	200	94.65	120	100.42
1998	75	0.05	200	0.00	203	37.60	282	75.99
1999	75	20.79	200	112.00	150	100.47	500	101.30
2000	73	73.73	200	99.70	154	87.27	500	102.52
2001	146	8.66	150	68.93	154	84.29	500	80.44
2002	146	0.45	100	18.37	154	52.49	600	96.07
2003	73	23.29	150	88.00	154	63.53	750	92.07
2004	73	0.004	150	0.00	154	24.66	700	103.20
2005	42	0.01	175	47.56	39	50.13	977.5	93.96
2006	37	0.01	175	93.03	300	4.83	1000	102.50
2007	75	0.00	150	0.00	300	2.11	1000	70.20
2008	75	18.61	150	102.29	300	15.71	1200	94.74
2009	150	0.21	200	7.24	95.66	100.02	1135.32	99.86
2010	-	-	-	-	150	5.71	1052	53.06

Source: Food Planning and Monitoring Unit (FPMU).

Annex Table 1.9

Selected Infrastructure-related ADP Projects

Project	Projects Timeline	Cost (Crore Tk.)	Percentage of Completion (up to Mar-14)	ADP Allocation in FY15 (Crore. Tk.)
4 Lane of Dhaka-Chittagong Highway (Daudkandi-Chittagong Section) (Revised)	1 Jan 06-31 Dec 14		41.6	8,100.0
Greater Dhaka Sustainable Urban Transport Project (BRT Gazipur-Airport)	1 Dec 12-31 Dec 16	2,039.9	1.2	71.2
SASEC Road Connectivity: Improvement of Jaydebpur-Chandra-Tangail-Elenga Road (N-8) to Four Lane Highway	1 Apr 13-31 Dec 18	2,788.5	0.0	492.3
Construction of Second Kanchpur, Meghna, Gamati Bridge and rehabilitation of existing bridges	1 Apr 13-31 Oct 21	8,486.9	0.6	28.3
Support to Dhaka Elevated Expressway PPP Project	1 Jul 11-31 Dec 14	20,507.2	0.8	600.0
Bangladesh Railway Sector Improvement project		2,351.6	58.6	451.8
Dhaka-Chittagong Railway Development Project		2,578.5	58.0	411.0
Construction of Bibiana-3, 400 MW combined cycle power plant	1 Jan 13-31 Dec 15	3,358.1	0.0	412.0
Bheramara combined cycle power plant	1 Jul 10-31 Dec 14	4,140.8	7.6	625.0
Construction of Haripur 412 MW combined cycle power plant and associated sub-station	1 Jul 07-30 Jun 15	3,965.9	64.9	60.0
Siddhirganj 335 MW combined cycle power plant construction	1 Jan 09-30 Jun 15	4,239.5	17.8	750.0
Ashuganj 450 MW combined cycle power plant construction (North)	1 Dec 11-30 Jun 15	3,400.0	6.7	885.0
400/230/132 KV Grid Network Development	1 Jul 13-30 Jun 17	3,227.1	0.0	30.0
18 lakh new consumer connection through extension of rural electrification	1 Jan 12-31 Dec 15	5,413.4	31.8	1,784.0

Source: Annual Development Programme 2014-15, Government of Bangladesh.

Annex Table 1.10

Major Targets in SFYP and Achievements

Target	Target for FY2015	Achievement	Gap
A. Production, Income Generation and Poverty			
Real income growth (%)	8.0	6.5**** (Base year 2005-06)	-1.5
Exports (% of GDP)	23.9	19.8****	-4.1
Private investment (% of GDP)	25.0	21.4****	-3.6
Public investment (% of GDP)	7.5	7.3****	-0.2
Remittances (USD billion)	17.8	14.3***	-3.5
Tax revenue as % of GDP	12.4	10.4***	-2.0
Average annual CPI inflation rate (%)	7.3	7.7***	-0.4
Fiscal balance (as % of GDP)	6.0	7.7***	-1.7
Broad money growth (%)	15.0-16.0	16.7***	(+)1.7-(+)0.7
Current account balance (as % of GDP)	-0.3	1.9***	+2.2
Headcount poverty (%)	22.5	24.7****	-2.2
Overseas employment of skilled labour (%)	50.0	36.0*	-14.0
Faster employment growth in manufacturing and organised services (million)	Agriculture: 23.5 Manufacturing: 10.0 Services & others: 27.4	Agriculture: 24.2*** Manufacturing: 8.1 Services & others: 24.1	-0.7 -1.9 -3.3
Government spending on social protection (% of GDP)	3.0	2.2***	-0.8
Agricultural GDP growth rate (%)	4.4	3.4****	-1.0
Growth of real wages in agriculture (%)	Positive growth in real wages	5.8***	
B. Human Resource Development (Education, Health and Population)			
Net enrolment at primary level (%)	100.0	97.0****	-3.0
Grade V completion rate by gender (%)	75.0	70.3**	-4.7
Net enrolment rate in secondary education by gender (%)	75.0	75.0***	0.0
Adult literacy rate (%)	80.0	56.8***	-23.2
Student-teacher ratio in primary education	30:1	40:1***	-10
Percentage of cohort reaching Grade V (%)	100.0	75.3**	-24.7
Total fertility rate reduction	2.2	2.3****	-0.1
Contraceptive prevalence rate (%)	50.0	62.4****	+12.4
Under-5 mortality rate (per 1,000)	50	46****	+4
Immunisation, measles (% of children under 12 months)	100.0	84.0***	-16.0
Maternal mortality ratio (per 100,000 live births)	143	170***	-27.0
Births attendant by skilled health staff (% of total)	50.0	42.1****	-7.9
Prevalence of child malnutrition (% of children under-5)	41.0	35.1***	-5.9
Infant Mortality Rate (per 1,000 live births)	31	38****	-7

(Annex Table 1.10 contd.)

(Annex Table 1.10 contd.)

Target	Target for FY2015	Achievement	Gap
Valid coverage of fully immunised children (%)	90.0	92.2***	+2.2
Underweight of under-5 children (%)	33.0	35.1***	-2.1
Stunting of under-5 children 16-59 months (%)	25.0	38.7***	-13.7
C. Water and Sanitation			
Proportion of urban population with access to sanitary latrines (%)	100.0	59.7***	-40.3
Proportion of rural population with access to sanitary latrines (%)	90.0	66.2***	-23.8
Proportion of urban population with access to safe drinking water (%)	100.0	99.4***	-0.6
Proportion of rural population with access to safe drinking water (%)	96.5	98.2***	+1.7
D. Energy and Infrastructure			
Electricity generation (MW)	15457	7681*****	-7776
Electricity coverage (%)	68.0	62.0****	-6.0
% of road network in 'Good to Fair' condition	95.0	62.0***	-33.0
Construction of new roads (km)	4,672.0	406.5***	4265.5
Improvement/rehabilitation of roads (km)	8,433.0	1993.0***	-6440.0
Construction of new bridges/culverts/ overpass (metre)	23,777	17,239***	-6538
Contribution of road sector to national income (%)	7.5 growth rate (avg.)	6.7*** growth rate (avg.)	-0.8
Per capita consumption of electricity (kWh)	390	275****	-115
Access to electricity (% of households)	65.0	62.0***	-3.0
E. Gender Equity and Women Empowerment			
Ratio of girls to boys in tertiary education (%)	60	73***	+13
Ratio of literate females to males (% of ages 20-24)	100	86**	-14
F. Environment Sustainability			
CO_2 emissions (tonnes per capita)	0.38	0.34***	0.04
No. of usable cyclone shelters	5,352	3770***	-1582
No. of rural communities with disaster resilient habitats and communities assets	20000	18100***	-1900
G. ICT			
Internet users (per 100 people)		20.52**	
H. Governance			
Proportion of the elected (directly) female representatives (%)	6 10th National Parliament	7*** 9th National Parliament	+1
Numbers of bills passed per year	45	54*** 9th National Parliament	+9
Average parliamentary attendance (%)	70 10th National Parliament	63*** 9th National Parliament (first 15 sessions)	-7
% of gross NPL in public banks	12.0	28.8****	-16.8
Income tax as % of GDP	5.0	3.4***	-1.6

(Annex Table 1.10 contd.)

(Annex Table 1.10 contd.)

Target	**Target for FY2015**	**Achievement**	**Gap**
Weighted average national disposal rate		32.24**	
Case disposal rate (criminal)		42.33**	
Case disposal rate (civil)		8.23**	
Case backlogs in the formal justice system (lower and upper judiciary)		2.7 million***	

Source: Mid-Term Implementation Review (MTIR) of SFYP of Bangladesh (2011-15); Proposed Development Results Framework (DRF) for Monitoring the Seventh Five Year Plan 2016-2020 (Draft Version).

Note: *2010; **2012; ***2013; ****2014; *****2015.

In 'Gap' column, '-' indicates underachievement/lag, while '+' indicates respective target being achieved/surpassed.

Chapter 2

Surfing in Uncertain Times

An Outlook for the Upcoming Budget

This report was released to the media by the Centre for Policy Dialogue (CPD) on 5 April 2015.

2.1 INTRODUCTION

National budget for FY2015-16 is being prepared at a time when the country is going through another round of political turbulence. It may be recalled here that in its review in January 2015, Centre for Policy Dialogue (CPD), had observed that in the first half of FY2014-15 macroeconomic stability had been maintained, to a large extent (CPD, 2015b). As political instability aggravated during second half of the ongoing fiscal year, disquieting trends may be observed as regards a number of macroeconomic correlates including revenue mobilisation, import of capital machineries[1] and disbursement of private sector credit. At the same time, macroeconomy continued to evince stability as regards correlates such as exchange rate against United States Dollar (USD), foreign exchange reserves, inflationary trend and the budget deficit. Regrettably, the Bangladesh economy may once again fall short of the planned targets for economic growth and private investment in FY2014-15. Under the present circumstances, the objective of the upcoming national budget for FY2015-16 should be to support the economy to shift towards a higher economic growth trajectory and maintaining macroeconomic stability. In order to attain these objectives, an assessment of incurred losses from the political impasse is perceived to be critical. It is also important that the budget for FY2015-16 takes cognisance of the emerging global economic scenario. Indeed, the ongoing global economic trends pose both opportunities and challenges for the Bangladesh economy in FY2015-16. It is also expected that future direction of economic policies in Bangladesh including fiscal and budgetary measures will be influenced by the ongoing reform programmes under the Extended Credit Facility (ECF) arrangement of the International Monetary Fund (IMF) and the budgetary support programme with the World Bank which is currently under negotiation.

In this backdrop, the outlook for budget FY2015-16 focuses on a number of key areas which will have important implications for the performance of the Bangladesh economy during the upcoming fiscal year, and hence, will inform the fiscal-budgetary measures for that period:

i. a review of macroeconomic developments in FY2014-15 and the needed macroeconomic policy measures including formulation of a sound fiscal framework for FY2015-16;
ii. an assessment of economic losses due to political violence during the third quarter of FY2014-15;
iii. an appraisal of key developments at the global level and their implications for budget FY2015-16;
iv. a critical look at the IMF's ECF and World Bank's proposed Development Support Credit (DSC) and their implications for the upcoming national budget.

It may be recalled that, the budget for FY2015-16 will be the first one during the tenure of the Seventh Five Year Plan (7FYP) of Bangladesh, and thus will be considered as the 'benchmark year' for the rest of the period. Accordingly, the targets set for budget FY2015-16 need to be formulated carefully and to be in consonance with the 7FYP targets.[2] Besides, within next few months the global development agenda for next fifteen years (2016-2030), known as the Sustainable Development Goals (SDGs), will be finalised at the United Nations (UN). The budget for FY2015-16 will also be the first step towards implementation of the global development agenda in the Bangladesh context. In view of all these, the budget for FY2015-16 will be an important policy document for the incumbent government.

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[1]Growth of capital machinery import during the month of January 2015 was 16.4 per cent, which was as high as 42.6 per cent during July-December of FY2014-15.

[2]Plan targets may be set at ambitious levels. However, the budget targets needs to be realistic.

2.2 MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015-16

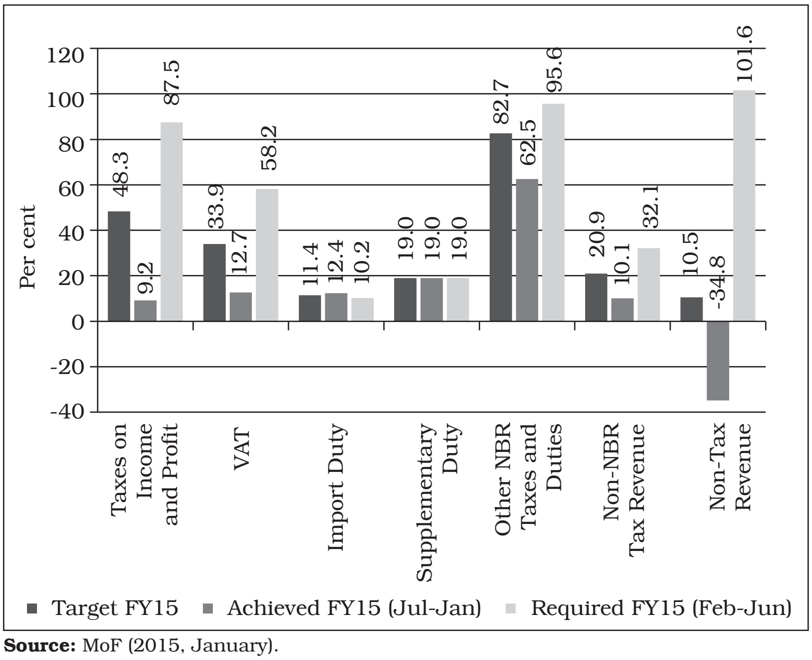
2.2.1 Setting the Macroeconomic Benchmark for FY2014-15

It is important that formulation of the national budget for FY2015-16 takes cognisance of current macroeconomic trends in Bangladesh in the backdrop of which fiscal-budgetary measures and incentives will need to be calibrated and designed. In consideration of this, the present section reviews performance of major macroeconomic correlates in the ongoing fiscal year, and sets the benchmark for the forthcoming national budget. It may be recalled here that in January 2015, CPD in its first interim review of Bangladesh's macroeconomic performance in FY2014-15, pointed out that despite relative macroeconomic stability, the economy was unlikely to achieve the envisaged economic growth and private investment targets (CPD, 2015b). As is known since January 2015, Bangladesh has been experiencing higher degree of political instability with detrimental implications for the performance of economy. The cautionary note in CPD's review has now been further strengthened by subsequent development in the economy unforeseen at that time.

Revenue Mobilisation in FY2014-15 is Likely to Miss Target by a Significant Margin

The resource mobilisation target will not be achieved as collection of both tax revenue and non-tax revenue continued to suffer while chasing their ambitious targets. It is likely that the National Board of Revenue (NBR)[3] will miss its target for the third consecutive fiscal year. Tax revenue collection by NBR has seen a growth rate of 13.1 per cent during July-January of FY2014-15 as against its target of 34.4 per cent growth over the actual earnings in FY2013-14 (MoF, 2015, January). It may be noted that, in January 2015, revenue earnings by NBR declined by (-) 11.8 per cent; in large part, a reflection of the disruptions to the economy witnessed in this period. Among the sources, thanks to strong growth in import payments, import duty was the only revenue head which surpassed the annual target during the first seven months. Collection of supplementary duties (SDs) was also on track to attain the annual growth target (19 per

Figure 2.1
Growth Rates of Revenue Collection



Source: MoF (2015, January).

Note: Other NBR taxes and duties include: excise duty, export duty, travel tax and other NBR duties.

[3]NBR is the core revenue collection authority, which is responsible for generating about 80 per cent of the total revenue collected in Bangladesh every year.

cent). Indeed, target for these two heads were more realistic, when compared to those set for income tax and value added tax (VAT) components of revenue earnings. Non-tax revenue collection declined by (-) 34.8 per cent during July-January of FY2014-15 (Figure 2.1). CPD had estimated in its first reading of Bangladesh's state of the economy in January 2015 that, overall revenue collection may fall short by a margin of Tk. 25,000 crore against the ambitious target for FY2014-15 (of Tk. 1,82,954 crore), if effective remedial measures were not put in place (CPD, 2015b). Regrettably, trends of updated data indicate that the situation has not changed in any significant manner.

Total Public Expenditure will be Lower than Planned in FY2014-15

On the expenditure side, government's non-development expenditure remained under the targeted limit. Expenditure for Annual Development Programme (ADP) did not mark any significant breakthrough from its past trends of low rate of implementation in the early quarters. During July-January, 41.7 per cent of non-development budget[4] for FY2014-15 was spent, evincing only a 2 per cent growth.[5] Barring 'Pay and Allowances', which has experienced a growth of 13.8 per cent during the mentioned period against the annual target of 8.8 per cent, other sub-heads remained within the limit of budgetary growth. Government has disbursed Tk. 1,716 crore for recapitalisation of the state-owned commercial banks (SCBs) till January 2015, for which a budgetary provision of Tk. 5,000 crore was set aside in the budget for FY2014-15.[6] Expenditure for the major two sources of non-development spending, i.e. 'Subsidies and Current Transfers' and 'Interest Payments' were well within the limit, with respectively 4.2 per cent and 1.6 per cent growth during July-January of FY2014-15. Thanks to drastic fall in international oil prices, Bangladesh Petroleum Corporation (BPC) moved to the profit earning terrain in FY2014-15 and will not require further subsidy. Subsidy demands from Bangladesh Jute Mills Corporation (BJMC) also remained within the planned limit. However, the subsidy requirement for Bangladesh Power Development Board (BPDB) will be higher than budget target as it appears that the government has refrained from any upward revision of electricity prices for the time being. Administered price of gas has also remained unchanged. The higher demand of subsidy requirements for BPDB and fertiliser could be met from unutilised fund earmarked for BPC. Indeed, CPD (2015b) earlier recommended not to revise these prices on grounds of the need to catalyse private investment.

ADP Implementation Remained Business as Usual

ADP implementation was found to be in a business as usual scenario with 38.5 per cent spending of original ADP during the first eight months (July-February) of FY2014-15, which was 38.3 per cent over the corresponding periods of FY2013-14. Indeed, spending in the form of foreign funding (project aid) fared marginally better in the reported period of FY2014-15 (July-February) compared to the corresponding figure of FY2013-14 (36 per cent as against 34.7 per cent). While revising the ADP, a number of ministries (e.g. Power Division, Ministry of Railways, Ministry of Health and Family Welfare, Bridges Division and Ministry of Water Resources) had demanded and received reduced allocation. None of the mentioned ministries could spend their respective allocations above the overall average of 38.5 per cent during July-February of FY2014-15. Indeed, allocations for most of the line ministries/divisions were slashed, while finalising the Revised ADP (RADP) for FY2014-15. According to the official documents of the Planning Commission, due to resource constraints and slow pace of implementation of the programme, the RADP was slashed by Tk. 5,315 crore (or 6.6 per cent) to Tk. 75,000 crore from the original ADP of Tk. 80,315 crore. Project aid component was reduced by Tk. 2,800 crore (or 10.1 per cent), while the Government of Bangladesh (GoB) allocation was reduced by Tk. 2,515 crore (or 4.8 per cent).

[4]The head includes: non-development revenue expenditure, capital expenditure and other programmes financed from non-development budget.

[5]In corresponding periods of FY2013-14, 46.5 per cent of the similar budget was spent and the growth target for FY2014-15 was planned at 23.7 per cent over actual spending in FY2013-14.

[6]In FY2013-14, government spent Tk. 4,477 crore for this account.

Budget Deficit Remained within Limit

Budget deficit was not a matter of concern in the early months of FY2014-15 and remained within the comfort zone. The deficit was a mere 0.9 per cent of gross domestic product (GDP) while planned limit was 5 per cent.[7] The budget deficit was likely to rise in the second half of FY2014-15. However, it is expected to remain close to the budgetary target. Although it is apprehended that there will be large revenue shortfall, the impact was likely to be offset by unutilised budgetary allocation. Data for first seven months (July-January) of FY2014-15 indicated that, financing of budget deficit followed the similar trend as was seen in the same periods in FY2013-14 – low net intake from foreign sources and heavy reliance on domestic sources. Within domestic financing structure, buoyant sale of high benefit yielding[8] national savings certificates, and hence, limited borrowing by government from banking sources, were observed. Sale of National Savings Bond (NSD) certificates was more than three times higher during July-January period of FY2014-15 (Tk. 15,747 crore) than the corresponding months of the previous fiscal, and has already surpassed the annual budgetary target of Tk. 9,056 crore.

Inflation Remained Stable despite Supply Chain Disruption

The declining trend of annual average headline inflation continued throughout the first eight months. In February 2015, annual average inflation was 6.8 per cent which was 7.4 per cent in FY2013-14. Non-food inflation was 5.7 per cent at the same time, while food inflation was higher at 7.5 per cent. Low level of international commodity prices, stronger value of Bangladeshi Taka (BDT) against major currencies of import sources and slower growth of money supply helped contain inflation. The growth rate of broad money (13 per cent as of January 2015) remained well below the target limit of 16.5 per cent (at the end of June 2015). At the same time, limited economic activities also held back demand-side pressure.

Export Remained Resilient against All Odds but Off-Target

Growth of export earnings during the first eight months (July-February FY2014-15) was 2.4 per cent with 2.6 per cent growth in export of readymade garments (RMG) products. Obviously, the 10 per cent annual growth target for FY2014-15 will not be achieved. During January-February, RMG export growth experienced some rebound with 7.6 per cent growth while earnings from non-RMG exports declined by (-) 7.1 per cent (Table 2.1). Market-wise analysis of July-February data revealed that, total export to the United States (US) market experienced negative growth driven mainly by the (-) 4.3 per cent growth in woven products.[9] On the other hand, export to the European Union (EU) market has grown up by 4.3 per cent largely due to 6.7 per cent growth in woven products in the EU markets. In the non-traditional market, export to Australia, Brazil (led by RMG products) and India (led by non-RMG products) have experienced significant growth of 23.1 per cent, 21.3 per cent and 36.8 per cent respectively.

Table 2.1

Periodic Growth of Export Products in FY2013-14 and FY2014-15

(in Per cent)

Product	Jul-Sep (Q1)		Oct-Dec (Q2)		Jan-Feb		Mar-Jun	
	FY14	FY15	FY14	FY15	FY14	FY15	FY14	FY15
RMG	24.2	0.5	15.7	1.1	8.3	7.6	8.7	NA
Non-RMG	10.0	2.7	-2.1	7.4	2.1	-7.1	3.2	NA
Total export	21.2	0.9	11.9	2.3	7.1	5.0	7.6	NA

Source: Calculated from the Export Promotion Bureau (EPB) data.

[7]The share is calculated taking 1995-96 base of GDP.

[8]The rates for savings instruments are at least 13 per cent, which remain above the commercial deposit rates.

[9]Woven products (Chapter 62) accounted for 70.6 per cent of total export to the US market in FY2013-14.

Growth of Import Payments was Strong

Import payments during July-January period of FY2014-15 experienced a growth of 16.5 per cent. Impressive growth was observed on account of petroleum, oils and lubricants (POL), fertiliser and textile articles imports. POL products accounted for about one-fourth of the overall import payments during the mentioned period with a 58.5 per cent growth. Import of crude oil has also seen a significant increase (over USD 200 million imports in each of the last two months). Taking into account the current low price of these products in the world market, it is to be noted that the growth would be much higher in volume terms. Import payments recorded a significant fall in the month of January 2015 recording 6.2 per cent growth (Table 2.2). It is likely that growth of import payments will come down during the remaining months of FY2014-15 in view of high benchmark set earlier and falling letter of credit (L/C) opening. Prevailing lower prices of commodities are also expected to contribute towards this.

Table 2.2

Category-wise Import Payments

(in Per cent)

Product Category	Share in FY14	Growth in FY14			Growth in FY15	
		Jul-Dec	Jan-Jun	Jul-Jun	Jul-Dec	Jan
Foodgrains	2.2	92.2	32.5	57.2	50.0	-23.6
Consumer goods	11.1	-3.4	-0.5	-1.9	2.5	37.2
Intermediate goods	57.1	3.6	10.3	7.1	20.4	3.4
Capital goods	21.7	6.8	29.8	18.2	20.5	-9.1
Others	7.9	15.9	-1.6	6.1	10.9	47.0
Grand Total	**100.0**	**5.5**	**12.1**	**8.9**	**18.3**	**6.2**

Source: Calculated from the Bangladesh Bank data.

Growth of Inward Remittances had been Fading Out

Inflow of remittances increased by 7 per cent during the first three quarters of FY2014-15. It may be recalled that during the first quarter of FY2014-15 remittances inflow recorded a strong growth of 22.6 per cent. However, during the third quarter of FY2014-15, inflow of remittances merely increased by 0.9 per cent, compared to the corresponding period of FY2013-14. On a positive note, following revitalisation of the Saudi Arabian market, manpower export had experienced a modest rise. In the first three quarters of FY2014-15, average outbound migration of Bangladeshi workers per month was 36,268, which was 32,998 in the same periods of FY2013-14.

Balance of Payments was at Ease

As import payments rose at a faster pace than export earnings, the trade balance widened to USD (-) 5,723 million during July-January, FY2014-15. Current account deficit on the other hand stood at USD (-) 1,337 million as inflow of remittances remained modest. Thanks to hefty financial account surplus (to the tune of USD 3,317 million), overall balance of payments surplus was USD 1,706 million. As a result, foreign exchange reserve continued to swell and reached above USD 23 billion at the end of March 2015, which was equivalent to six months of annual import payments of Bangladesh (Table 2.3).[10]

[10]In addition, it is to be noted here that the stock of foreign exchange reserve has increased during last three fiscal years as Bangladesh Bank continued to purchase foreign currencies from the open market to keep the exchange rate stable against USD.

Table 2.3

Macroeconomic Situation in FY2014-15

Indicator	Actual FY13	Actual FY14	Target FY15	Latest
GDP growth (%) (Base: 1995-96) GDP growth (%) (Base: 2005-06)	6.0 6.0	6.5 6.1	7.3 NA	NA NA
NBR revenue growth (%) (Ministry of Finance sources)	12.8	7.8	34.4	Achieved: 6.6 (Jul-Jan FY14) **Achieved: 13.1 (Jul-Jan FY15)** Required: 57.8 (Feb-Jun FY15)
Non-Development expenditure growth (%)	9.3	18.4	23.7	19.2 (Jul-Jan FY15) **2.0 (Jul-Jan FY15)**
ADP implementation (% of budget allocation)	91.0	86.1	41.5% more of actual expenditure in FY14	38.3 (Jul-Feb FY14) **38.5 (Jul-Feb FY15)**
Budget deficit (% of GDP; Base: 1995-96)	4.4	4.0	5.0	1.1 (Jul-Jan FY14) **0.9 (Jul-Jan FY15)**
Money supply (end June)	16.7	16.1	16.5	16.2 (as of Jan 2014) **13.0 (as of Jan 2015)**
Private sector credit	10.8	12.2	15.5	11.1 (as of Jan 2014) **13.3 (as of Jan 2015)**
Inflation (2005-06) moving average; end June	6.8	7.4	6.5 (MPS, Jan 2015)	7.6 (Feb 2014) **6.8 (Feb 2015)**
Export growth (%)	11.2	11.7	10.0	14.0 (Jul-Feb FY14) **2.4 (Jul-Feb FY15)**
Import growth (%)	0.8	8.9	15.0 (MTMF, 2015-17)	4.0 (Jul-Jan FY14) **16.5 (Jul-Jan FY15)**
Remittances growth (%)	12.6	(-) 1.6	16.1 (MTMF, 2015-17)	(-) 5.6 (Jul-Mar FY14) **7.0 (Jul-Mar FY15)**
Average outbound migrant workers (per month)	34,073	35,137	NA	32,998 (Jul-Mar FY14) **36,268 (Jul-Mar FY15)**
Foreign exchange reserve (billion USD; end June)	15.3	21.6	17.9 (MTMF, 2015-17)	19.4 (as of 1 April 2014) **23.0 (as of 1 April 2015)**

Source: Author's compilation.
Note: MPS: Monetary Policy Statement; MTMF: Medium Term Macroeconomic Framework.

Exchange Rate of BDT Remained Strong against All Major Currencies except Chinese Yuan

Value of BDT remained stable against USD, a currency which in recent times has become stronger against all major currencies. The fall of Euro value has been the highlight of global foreign exchange market in recent months. Indeed, BDT has appreciated by 16.5 per cent against the falling Euro during the last one year (between February 2014 and February 2015). Concurrently, Cambodian Riel and Vietnamese Dong have appreciated by 15.2 per cent and 15.8 per cent respectively against the Euro. Although negligible, lower appreciation of these currencies may give exporters of these countries some competitive edge in the European market compared to their Bangladeshi counterparts.

2.2.2 Proposed Macroeconomic Stance for Budget FY2015-16

Recent developments concerning the macroeconomic correlates and the emerging global economic scenario will have important implications for preparation of the national budget for FY2015-16. NBR has already scheduled discussions with key stakeholders including trade bodies, business leaders and sectoral associations to start negotiations on their respective demands. It is also equally important to structure the budgetary framework in a prudent manner so that the plans evince realism and is implementable.

Set Revenue Earnings Targets more Realistically

The shortfall of revenue collection in recent years has become a major concern from the perspective of budget formulation and implementation. It may be recalled that in reaction to the proposed budget FY2014-15, CPD termed the revenue targets unrealistic (CPD, 2015a). Before setting the revenue earnings targets for FY2015-16, the revision of FY2014-15 targets needs to be realistic.[11] At the same time, the discrepancy between revenue earning data reported by the NBR and the Ministry of Finance (MoF) needs also be taken into consideration. In FY2013-14, the discrepancy was Tk. 9,087 crore. During the first seven months of FY2014-15, the discrepancy has already reached Tk. 3,835 crore. It will perhaps be prudent to follow the revenue statistics reported by the MoF while planning the revised revenue targets for FY2014-15 and budget target for FY2015-16.

Emphasise Revenue Mobilisation

In FY2015-16, a major challenge for the government will be to cater to the growing need for higher revenue mobilisation. No doubt it will be the NBR which will need to mobilise most of the incremental revenue. The challenge for NBR is to widen the tax net and explore new sources of tax revenue. Implementation of NBR Modernisation Plan needs to be prioritised. There will be a higher demand for expanding fiscal incentives, particularly in view of losses arising from the ongoing political impasse. The NBR will need to review the existing and proposed tax incentives for FY2014-15 in order to draw practical lessons for FY2015-16. Taking into cognisance that small and medium enterprises (SMEs) have incurred significant losses because of the political disturbances, fiscal proposals, particularly that concern SME-led sectors, should be geared to safeguarding their interests. It is estimated that about Tk. 25,782 crore of revenue is currently eligible to be referred to Alternative Dispute Resolution (ADR) for settlement. NBR must make proper use of the ADR window to settle tax claims in an expeditious manner. The government will have to put emphasis on collection of wealth tax surcharge, which apart from raising additional funds can also contribute towards economic and social justice. To generate adequate amount of revenue from this source, there is a need to review the method of wealth valuation, particularly those of real estates. NBR needs to be vigilant to curb tax evasion emerging from trade mispricing, re-invoicing and misdeclaration. A strong and well-equipped specialised taskforce should be set up to deal with this issue appropriately; a number of public institutions (e.g. NBR, Bangladesh Bank and others) will need to act in a coordinated manner to make this successful. The Transfer Price Cell at the NBR will need to be further strengthened with human and financial resources.

Prioritise Mobilisation of Non-Tax Revenue

Coordinated steps are required to increase non-tax revenue. The fees, tolls, commission and service charges need to be revisited and rationalised periodically on a regular basis. Bangladesh Telecommunication Regulatory Commission (BTRC) has called for an auction of the unused 2G/3G spectrum bandwidths to generate additional revenue. BTRC recently came up with a guideline to sell 10.6 megahertz of unused 2G spectrum and 15 megahertz of 3G spectrum to the mobile operators in the country. The base prices for 1,800 megahertz and 2,100 megahertz have been settled at USD 30 million and USD 22 million respectively. However, the mobile operators have urged the government to settle the existing tax-related disputes first, prior to the auction. The date of auction has already been deferred once, for a month, and is now expected to be held in end of May 2015. These issues need to be resolved without compromising the country's interest.

[11]The target setting for FY2014-15 did not consider the possible shortfall in FY2013-14 which in effect had a detrimental impact on the fiscal framework for FY2014-15. In FY2013-14, total revenue shortfall was Tk. 27,123 crore against original budget target. Compared to the target set at the revised budget FY2013-14, the shortfall was Tk. 16,335 crore. As the budget targets of FY2014-15 were set against the optimistic revised budget targets of FY2013-14, they have now become vulnerable.

Finalise the New VAT and SD Act

The implementation of the forthcoming VAT and SD Act has already been deferred for one more year and will not be implemented in FY2015-16. However, it is important that the disputed issues are settled without further delay (for details, see Section 2.5).

Take Cognisance of Implication of the Forthcoming Pay Scale for Government Employees

The forthcoming new pay scale will entail a significant amount of additional revenue expenditure. If the proposed pay scale is implemented, the Commission estimated that, an additional Tk. 22,953 crore (excluding pay and allowances for defence) revenue expenditure will be required. This is 63.7 per cent higher than the earmarked figure of FY2014-15. The Commission also recognised that to finance such an expenditure package, the government will need to explore new sources of revenue collection. It is important that while finalising and implementing the new pay scale, the government takes note of the fiscal viability and may consider phased implementation.

Strengthen Monitoring of ADP

There was no breakthrough in implementation of the ADP over the last couple of fiscal years. CPD has prepared a list of 26 projects under ADP (see Annex 2.1), implementation of which should be the top most priority of the government. These projects, if implemented in a timely manner, can leverage and crowd-in private sector investment, help attainment of higher economic growth and generate new employment opportunities in the economy. For example, there are 11 power generation projects in the list which are scheduled to be completed by FY2015-16. If these power projects are implemented, about 2,842 mega watts (MW) of electricity will be added to the national grid. A special task-force needs to be formed which can closely monitor implementation of these projects. It is also important that the forthcoming ADP allocate sufficient funds for these projects. The ADP for FY2015-16 must avoid allocating the practice of 'symbolic allocation' (the minimum to keep the project in the ADP list). It may be recalled that 10 investment projects under ADP for FY2014-15 received only Tk. 1 lakh, while another 26 projects received Tk. 1 crore or less (but more than Tk. 1 lakh). Besides, the Executive Committee of National Economic Council (ECNEC) approves additional new projects on a regular basis. Some of these projects also receive very small allocation.

Revisit Incentives for NSD Certificates

It is observed that due to lack of demand for private sector credit, deposit interest rate offered by the commercial banks have seen some decline over the last 2-3 years. As a result, sale of NSD certificates, interest rates on which are significantly higher than bank deposits, has increased more than what was planned for. Although this has helped government to finance the budget deficit in a non-inflationary manner, it is important to keep in mind that these certificates also entail higher fiscal burden for the government. MoF must address the issue of high dependence on the NSD sales for financing the budget deficit which was likely to have negative implication for medium term debt servicing liability. In view of the emerging situation where domestic debt servicing already accounts for a significant amount of revenue expenditure, MoF may need to revisit the issue of NSD certificates. A combination of interest rate reduction and lowering of the ceiling may be considered in this context.

Better Delivery of National Budget Needs Meaningful District Budgets

Through district budgets, it was hoped that local level needs and expectations would be better reflected in the national budget. At the same time it will promote efficient distribution of resources and empower district administration in the areas of budget formulation and implementation. A latest study at the CPD (Khan and Sabbih, 2015[12]) argues that recent efforts towards preparing district budget could bring hardly any improvement in fulfilling the objectives of district budget. The present challenge for the MoF is to craft district budgets as per the needs of the particular district. To make implementation of district budget meaningful, strengthening the local government should be prioritised.

2.3 ECONOMIC LOSSES ARISING FROM POLITICAL VIOLENCE DURING JANUARY TO MID-MARCH, 2015

2.3.1 Introduction

Bangladesh has experienced a highly intensive political turmoil during January to mid-March, 2015 period when non-stop blockade and continuing general strikes (*hartal*) (81 days of blockade and 67 days of strike) accompanied with significant violence, afflicted considerable losses to the economy. Over a period of 85 days, more than 100 people suffered from burning with many succumbing to the injuries; more than 1,200 vehicles were vandalised/torched (Table 2.4). All these had severely disrupted day-to-day economic activities resulting in losses to various sectors of the economy to varying degrees. Prolonged periods of blockade had disrupted supply chains, and led to a disconnection between rural and urban markets and between domestic and international markets. Whilst the wrath of violence and its consequences appear to have eased somewhat in more recent times (Table 2.4), the short and medium to long-term impact for the economy is set to remain quite significant. Despite that, an uncertainty has been lingering due to lack of effective settlement of political issues.

Table 2.4

Extent of Violence during January to Mid-March, 2015

Phase	Duration	Number of Vehicles Vandalised/Torched (Transport & Rail)	Number of People Died	Number of People Burnt
First 12 days	5 Jan-16 Jan	429	18	111
Second 10 days	17 Jan-26 Jan	237	9	
Third 10 days	27 Jan-5 Feb	173	23	
Fourth 10 days	6 Feb-15 Feb	138	21	8
Fifth 10 days	16 Feb-25 Feb	48	19	4
Sixth 10 days	26 Feb-7 Mar	125	5	-
Seventh 10 days	8 Mar-17 Mar	61	5	-
Total		**1,211**	**100**	**123**

Source: Based on various issues of (Daily) Prothom Alo.

2.3.2 Magnitude of Economic Losses as Claimed by Trade Bodies

By any count, private sector had been the major party to bear the brunt of the economic consequences arising from the political unrest. Various trade bodies have made an effort to collect information on losses suffered by their members and respective sectors. According to the national dailies, as many as 16 associations/trade bodies have come up with estimates about the losses their respective sectors have incurred. Based on these reports, a ball-park figure about daily loss is estimated, which is about Tk. 2,278 crore per day.[13] This amount is equivalent to 61.5 per cent of one day's GDP of Bangladesh. Table

[12]For details of the study, see Chapter 3 of the present publication.

[13]It may be noted that, on 25 February 2015, the Hon'ble Prime Minister, while addressing the Parliament, informed that the continued *hartal* and blockade caused a loss of over Tk. 1.2 trillion to the country (Dhaka Tribune, 2015).

Table 2.5

Comparison of Per Day Loss Reported by Different Sectors and Per Day's GDP

(Crore Tk.)

Sector/Sub-Sector	**Per Day GDP (Current Value) (2013-14)**	**Per Day Losses Reported by Different Associations/Organisations**
Agriculture and forestry	443.1	Agri (288.1)+ Poultry (18.3)=306.4
Fishing	116.9	-
Mining & quarrying	59.2	-
Manufacturing	606.7	RMG (147.5)+ Other Mfg. (100)+ Ceramic (20)+Plastic (17.85)+Frozen Food (8)=293.35
Electricity, gas & water	49.0	-
Construction	267.2	-
Wholesale & retail trade	472.1	Wholesale (150)+Retail (15)=165
Hotel & restaurant	35.7	-
Transport, storage & communication	373.9	300
Financial intermediations	135.6	-
Insurance	14.8	15
Real estate, renting & other business activities	249.5	250
Public administration and defense	119.3	-
Education	90.6	-
Health and social work	73.8	-
Community, social and personal Services	431.5	Tourism (210)

Source: Based on Bangladesh Economic Review and Dhaka Chamber of Commerce & Industry (DCCI).

2.5 compares per day GDP generated by different sectors of the Bangladesh economy and per day loss estimates made by the private sector. As the Table would show, estimated losses for a number of sectors are almost equivalent to per day's GDP of the respective sector. Whilst no one would doubt that various sectors of the economy have suffered losses to varying extent, for many of the sectors the estimates appear to be very much on the high side and improbable. In many cases, such high estimates of losses resulted from errors of double counting.

According to the projections made by the Bangladesh Bank, the economy was expected to register 6.5 per cent growth in FY2014-15. If this is taken as a reference point, the additional GDP to be generated in FY2014-15 would be to the tune of Tk. 50,345 crore. The loss estimates made by the private sector was based on 23.4 days of blockade-losses. If the average daily amount of losses incurred is estimated to have taken place for the entire period of the blockade, the economy would indeed experience a negative growth in FY2014-15. This is quite unlikely considering the current state of the economy and the projections that can be made. Nonetheless, the information on losses shared by the private sector is highly relevant to understand the nature of damage caused by the political unrest, and also in terms of raising awareness and concerns about the consequences of political violence for the economy of Bangladesh.

2.3.3 An Estimate of Economic Losses due to Political Violence during January-March, 2015

Coming up with a relatively more accurate estimates of losses to GDP, arising from the recent political violence, would have been a feasible exercise if adequate current data on sectoral GDP were available. In the absence of such data in Bangladesh, it is not easy to come at a reliable estimate of losses to the GDP. Relevant global literature shows practice of application of either sophisticated econometric tools or deployment of descriptive statistical methods to arrive at estimates of economic losses. This study has taken resort to the second method – by using secondary data, the study has tried to come to a reliable estimate of losses. Applying the production method, the study has made an attempt to estimate losses to the GDP in different sectors of the economy. It is to be noted here, that CPD had earlier tried to estimate the economic losses occurred due to political unrest prior to the national elections that was held in 2014 (CPD, 2013; CPD, 2014). In one such estimate, CPD shows that 1 per cent loss to the country's capital stock leads to a 0.9 per cent loss of GDP. Another estimate shows that due to 55 days of strikes/blockades (during July 2013 to January 2014), total loss to the in land transport (rail and road), agriculture and agro-based industries, export-oriented clothing and textiles, and tourism sectors was estimated to be to the tune of Tk. 49,017.9 crore which was equivalent to 4.7 per cent of the GDP (FY2012-13).

Methodology of the Current Study

According to Production method, changes in gross output in the economy occur either due to changes in output (changes in sales and inventory), or changes in input (intermediate input, compensation, taxes/ interest rates, consumption of fixed capital and operating surplus). In order to maintain the balance in the equation, change in one side of the equation has to be adjusted by equivalent amount of changes on the other side.

Changes in Gross Output (GO):

ΔSale (S) + ΔChange in inventory (CI) = ΔIntermediate input (II) + ΔCompensation (CM) + ΔTaxes/interest rates (T) + ΔConsumption of fixed capital (D) + ΔOperating surplus (OS)

Given the diverse nature of damages, changes in output and input sides are different for different sectors. Hence manifestation of losses would also vary for different sectors of the economy, depending on the nature of the product and the process involved. According to the input-output model, there is no scope for counting the changed value twice in the general equilibrium framework in order to eliminate 'double counting' while estimating the losses. Aforesaid estimates of losses provided by the private sector appear to have resulted from such problem, resulting the relatively 'high' figures for the losses.

The present analysis is based on secondary data and information as regards losses reported in the national dailies during January-March, 2015. CPD researchers collected information on losses from different associations and inquired about the types of losses different sectors incurred because of the blockade. This information was examined in a thorough manner in order to identify the actual economic losses. As the situation gradually calmed down, the extent of damage had also come down over time (Table 2.4). Taking cue from this, the entire period was divided into three phases – 'high', when the vandalism and calamities were rather more intense, mainly during the first two weeks of January 2015; 'medium' when the situation was found to be moderate (mainly in the following one month period after first two weeks); and 'low' when the situation was found to be near normal as was with March 2015. Data reported on daily/ weekly/monthly basis were calibrated by putting weights on it.

Sectoral Estimates of Economic Losses

Agriculture Sector

Agriculture sector mainly faced the problem of marketing of farm products, particularly vegetables which are perishable by nature. Rice and non-rice crops which were at different stages of cultivation did not face major disruption as supply of inputs (fertiliser, medicine, diesel for irrigation) was reported to be 'normal'. Because of the continuing blockades, supply chain of farm products was severely disrupted, particularly during the period referred as 'high' in the above discussion. Consequently, a number of products including potato, cauliflower, eggplant, milk, raw pepper and rice often had to be sold at lower price than what the market would generally offer. In some cases vegetables perished in the fields. On both counts, farmers were severely affected.

From an economic point of view, products that perished in the fields are considered to involve economic losses incurred by farmers. Annex 2.2 shows that as many as 11 incidences were reported in the national dailies where farmers in different districts stated about their losses from damage of perishable products. These reports, however, show that, incidence of products sold at lower than market price were more common than letting them rot in the field. As it was found that these very items in most cases were later sold at market or higher prices in the retail market, so this shifting the value share from farmers to wholesalers and retailers would not be counted as economic losses; rather this would indicate readjustment of margins and distribution in the supply chain. Such readjustment is reflected in the rise of retail price of major agricultural commodities as presented in Table 2.6, often at the cost of farmers in rural areas. Overall, economic loss in the agriculture sector appears to be not that high. Considering the loss of vegetables during the political unrest (assuming the loss is not more than 10 per cent of total production), the loss in farm products is amounted to Tk. 398 crore.

However, receiving lower prices for their produces have affected the farmers hard, and they faced difficulty in repaying bank loans and other dues. According to Bangladesh Bank, repayment of agricultural credit in January 2015 was 18.9 per cent lower compared to the same period in the previous year; this was indeed the largest fall in a month in FY2014-15. In view of this, farmers need to be supported by way of allowing them to take necessary adjustments as regards their outstanding agricultural credit, particularly taken for non-rice crop cultivation.

Poultry Sector

Poultry sector's main problem was related to marketing of their products due to the disruption in the supply chain. The affected products included egg, chicken meat and one day chicks. Part of the losses was adjusted with high retail price as shown in Table 2.6. According to the Bangladesh Poultry Industries Coordination Committee (BPICC), during the 'high' period of blockade (first two weeks) the sector's loss amounted to Tk. 256 crore (Tk. 18.28 crore per day) which included destroying of unsold eggs, high transportation charge, low sales price of egg and meat, incurring additional expenses for feed and medicine for chicks and hens. According to the industry insiders, marketing had gradually eased over the following days. The loss per day was estimated to be Tk. 15 crore for the next 14 days of blockade; Tk. 7 crore for the next 14; and Tk. 3 crore for the following 14 days. The total loss for the poultry sector is estimated to be Tk. 606 crore.

Table 2.6

Average Retail Price of Selected Commodities in Dhaka

(Tk./kg)

Commodity	Jan-14	Jan-15	Feb-14	Feb-15	Mar-14	Mar-15
Potato	12.2	12.2	12.2	12.5	12.2	13.5
Eggplant	25.7	17.2	17.2	32.5	25.2	30.0
Cauliflower	12.8	-	12.8	-	12.8	-
Tomato	35.0	-	35.0	-	35.1	-
Poultry (chicken)	150.0	123.2	134.5	127.5	134.5	152.5
Rice	31.1	31.4	31.1	33.5	31.1	32.5
Egg (100 pieces)	633.5	689.0	633.5	737.5	633.5	737.5

Source: Based on Department of Agricultural Marketing (DAM).

Shrimp and Frozen Food Sector

Shrimp and frozen food sector had to confront the disruption in the supply chain like other sectors. Stock piling had led to fall in market price; also production during the peak season of February to March was sluggish. At the same time, relative appreciation of BDT vis-à-vis Euro had undermined competitiveness of local products in the Eurozone and pushed down the selling price. According to the Bangladesh Frozen Foods Exporters Association (BFFEA), it was apprehended that export of shrimp would reduce by 25 per cent when compared with the target set for FY2014-15 (USD 635.5 million). It was estimated that, of this: 10 per cent decline will occur due to the appreciation of BDT and the rest 15 per cent due to political unrest. Hence, the estimated loss due to political unrest would be to the tune of USD 95.3 million which is equivalent to Tk. 741.4 crore.

Apparels Sector

According to the Bangladesh Garment Manufactures and Exporters Association (BGMEA), apparels sector has faced multidimensional losses due to political unrest during January-March, 2015. These included: (a) cancellation of work orders by buyers; (b) compulsion to sell at highly discount rate; (c) higher cost incurred on account of higher airfreight charges; (d) additional charge due to delayed shipment; and (e) loss due to vandalism involving transports carrying apparels. As per a request from the BGMEA, a total of 41 factories have reported about different types of losses. However, many firms did not report their losses in order to avoid unnecessary queries from different organisations.

Cancellation of work orders in recent months has taken place mainly due to two reasons – lack of confidence on the part of buyers in terms of receiving the orders on time due to ongoing political unrest; secondly, for undermining of competitiveness of local products due to appreciation of BDT, against major competing currencies. This was particularly true for apparels products destined for the EU market. Anecdotal information indicates that 50 per cent of the cancelled orders were related to political unrest. Hence the losses due to political unrest would be to the tune of USD 5.9 million which was 50 per cent of total losses arising for cancellation of orders (USD 11.8 million). Besides, losses for discount would amount to USD 0.85 million. The additional expenses due to rising cost of airfreight and delayed shipment were USD 1.1 million and USD 6.2 million respectively. The loss arising from vandalism which caused damage of either imported materials or exported products amounted to USD 0.94 million.[14] Such losses had obviously cut into profit margins of firms.

Thus total loss for RMG sector due to political unrest is estimated to be USD 15 million which was equivalent to Tk. 116.7 crore, for the 41 units. A major loss for the sector in general is cancellation of orders by the buyers/brands for the period May-June, 2015 due to various reasons including political unrest. According to the officials of BGMEA, this is amounted to USD 2.1 billion. Considering cancellation of orders due to political unrest as entrepreneurs' loss of prospective income (assuming 50 per cent of total order cancelled are due to political unrest for 56 per cent of RMG owners) total loss would be Tk. 1,318 crore. The overwhelming majority of enterprises had suffered losses due to the disruption and actual losses due to the disturbances and lost orders are projected to be quite significant.

Plastic Sector

The plastic sector comprises of both domestic market-oriented and export-oriented firms. According to the Bangladesh Plastic Goods Manufacturers and Exporters Association (BPGMEA), plastic sector has faced a diverse range of difficulties during the period of unrest which include products remaining unsold leading to high storage and rental charges, additional shipping charge, lower work orders and damage suffered by

[14]Information of losses due to vandalism for one particular firm appears to be inexplicably high; no reasonable explanation was provided. Hence the loss incurred by this firm was adjusted.

delivery vans. In response to request of the BPGMEA, a total of 26 firms reported their losses during the first month; of these only 'financial loss' was taken into cognisance for estimation purpose.[15] About 500 firms had faced adverse consequences due to the political unrest.

The reported firms were categorised into large, medium and small, based on their extent of losses.[16] Average losses of large, medium and small firms during the first 30 days were Tk. 9.6 crore, Tk. 57.96 lakh and Tk. 25.25 lakh respectively. Among the 500 factories, there are 11 'large', 139 'medium' and 350 'small' firms. Thus the average amount of losses during the first 30 days (10 January-10 February, 2015) is estimated to be Tk. 195 crore. During the next 30 days, the situation had seen improvements and production adjustments were made keeping in purview the inventory pile up. Thus, loses over the following 30 days is projected to be significantly low (perhaps about one-fourth of the first month). This would be in the range of Tk. 49 crore. Thus total loss of the sector would be Tk. 244 crore.

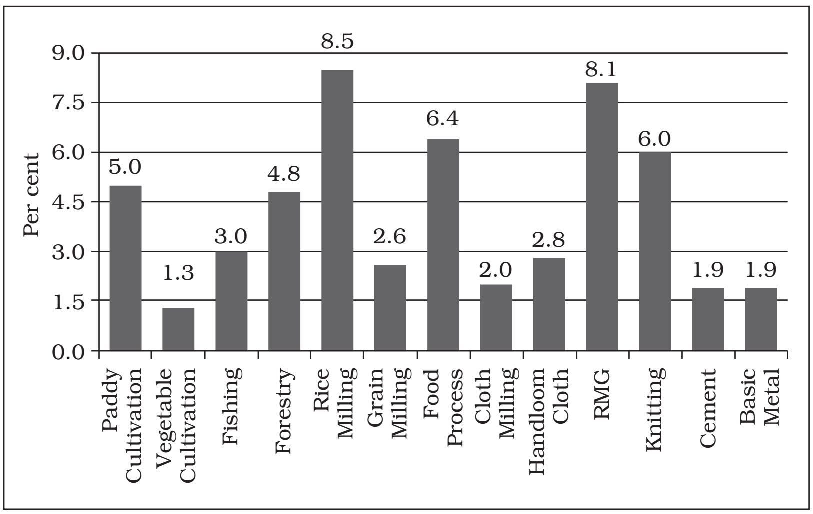
Transport Sector

Land transport service is resorted to by a wide range of production and services sectors including agriculture and manufacturing sectors. These are associated with rice cultivation, fishing, forestry, rice milling, grain milling, agro and food processing, handloom, RMG and knitting, wide array of manufacturing activities, construction services, materials movement, etc. Total contribution of land transport services to these sectors is about 50 per cent (Figure 2.2). The loss of land transport services for those activities have been discussed under specific sectoral analysis of losses which include agriculture, poultry, apparels, plastic and food processing. It is important that components of losses should not be accounted twice (i.e. to avoid double counting). Partial losses incurred by the transport sector have already been considered while estimating losses to other sectors above. Hence, those losses were not considered in estimating losses to transport sector here. Taking this into cognisance, losses incurred by transport sector amounted to Tk. 432 crore.

Table 2.7 presents the losses of transport services in major sectors. Losses of transport services have been calculated taking cognisance of the sectoral losses against the share of transport services in major activities. This loss is estimated to be Tk. 302 crore. Together with the loss of rest of the sectors, the final amount of losses would be in the range of Tk. 744 crore.

Figure 2.2

Contribution of Transport Services in Different Sectors (% of Total Input Value)



Source: Author's estimate based on Bangladesh Social Accounting Matrix (SAM), 2007.

[15]It is assumed that 'other losses' are by and large included in the financial losses.

[16]Firms having a financial loss over Tk. 1 crore are considered to be 'large', those having a loss between Tk. 10 lakh to Tk. 1 crore are considered to be 'medium', and those having a loss of less than Tk. 10 lakh are considered to be 'small' firms.

Table 2.7
Loss in Transport Services in Different Sectors

Sector	Sectoral Loss (Crore Tk.)	Share of Transport Input in Different Sectors (% of Total Input)	Loss for Transport (Crore Tk.)
Agriculture	398.0	9.7	39.0
Poultry	606.0	2.4	15.0
Shrimp farming	741.4	4.5	33.0
Apparels	1,318.0	13.0	171.3
Plastic (chemical industry)	243.8	13.3	32.0
Banking and insurance	156.0	1.1	1.8
Tourism	825.0	1.2	10.0
Sub-Total (41.2%)			302.0
Rest (59.8%)			438.0
Loss of potential income for 4 months from vehicles which were torched			4.0
Total			**744.0**

Source: Author's estimate based on Bangladesh Social Accounting Matrix (SAM), 2007.

A major loss in the transport sector took place due to vandalising or torching of vehicles during the time of blockade and strikes. As many as 1,405 vehicles were either vandalised or torched of which 1,390 were of tons/truck type and the rest 15 were railway compartments. As is known, vehicles such as CNG auto rickshaws and inter-district buses and railway compartments were also petrol-bombed and vandalised during this period albeit not on a large scale. According to the available information, about 35 per cent of vehicles were torched leading to capital loss and the rest 65 per cent were vandalised leading to partial capital loss (assuming the loss is about 25 per cent of the asset value). Hence an estimated 486 vehicles were torched and the rest 904 vehicles were vandalised to varying degrees. Considering that an average market value of a half-life bus or truck is about Tk. 12 lakh, total loss of assets would be Tk. 85.44 crore. In absence of insurance, this would call for some measure of support. Recently, Prime Minister's Office (PMO) has come up with a list of 823 vehicles which were vandalised/torched; owners of 270 vehicles received financial assistance to the tune of Tk. 1.57 crore.[17] The rest of the vehicle owners were assured of getting similar type of financial support.

Tourism Sector

Tourism sector faced a wide range of difficulties due to the prolonged political unrest. According to the association of tour operators the sector faced following kinds of losses: hotel/motel & resort bookings, food and beverage industry, transport sector in the tourist areas, entertainment attraction (i.e. theme park, eco-park, cinemas, etc.), and retailers of souvenir shops in tourist destinations. As October-February is the peak tourist season in the country, the losses were significant. According to the Tourism Board (reported on 15 January 2015), the sector would incur a loss of Tk. 150 crore during this season. Besides a significant number of foreign arrivals are associated with business purposes and the losses on that count would be also significant (about Tk. 675 crore).[18] Overall total loss incurred by the sector would be about Tk. 825 crore.

[17] Among the 823 vehicles against which financial support was sought, 287 were torched and the rest 536 were vandalised.

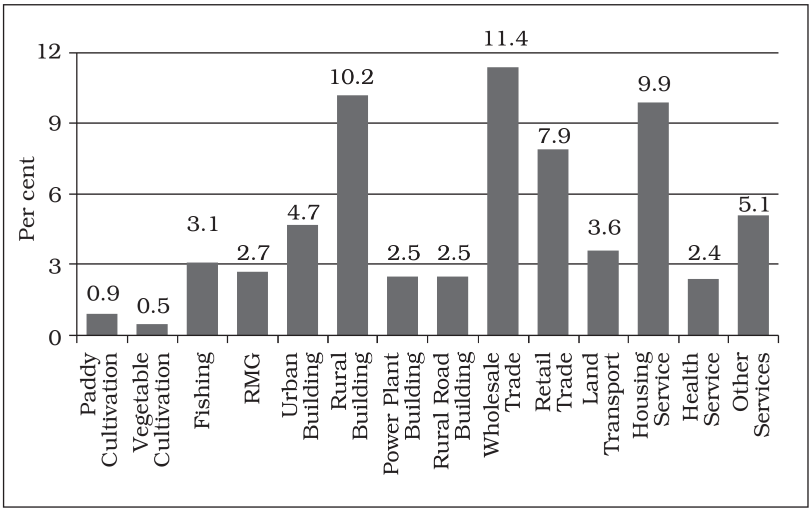
[18] According to tour operators, about 90 per cent foreigners visiting Bangladesh are business travelers. During the period of blockade their visits were affected as well.

Banking and Insurance

A major part of banking and insurance activities is related with RMG, real estate, power plants, wholesale and retail trade, land transport, fisheries sector, housing services, health and other services. These activities account for 74.4 per cent of total value added in the services sector of the economy (Figure 2.3). Losses to other services sectors appear to be low. Table 2.8 presents the losses incurred by banking and insurance services in those sectors – these amounted to Tk. 50 crore. A significant portion of losses incurred by this sector was included in the losses reported by the other sectors. Estimated loss suffered by rest of the sectors is about Tk. 67 crore. Thus, total losses suffered by the banking and insurance services amounted to about Tk. 156 crore.

Figure 2.3

Contribution of Banking and Insurance Services in Different Sectors (% of Total Input Value)



Source: Author's estimate based on Bangladesh Social Accounting Matrix (SAM), 2007.

Table 2.8

Loss in Banking and Insurance Services in Different Sectors

Sector	Sectoral Loss (Crore Tk.)	Share of Banking and Insurance Services Input in Different Sectors (% of Total Input)	Loss for Banking (Crore Tk.)
Agriculture	398.0	0.5	2.0
Poultry	606.0	0.8	5.0
Shrimp farming	741.4	0.1	0.7
Apparels	1,318.0	0.7	9.2
Plastic (chemical industry)	243.8	0.1	0.2
Transport	267.0	1.1	2.3
Retail and wholesale trade	448.0	3.2	14.3
Tourism	825.0	4.0	33.0
Sub-Total (43.1%)			67.0
Rest (56.9%)			89.0
Total			**156.0**

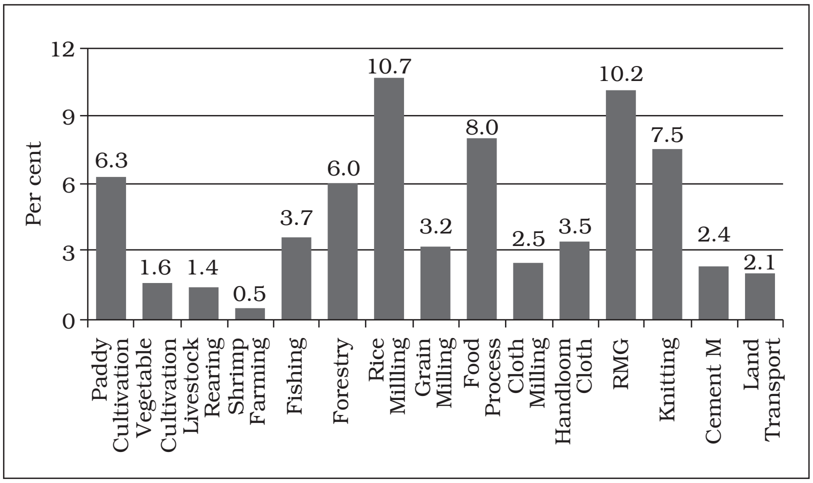
Source: Author's estimate based on Bangladesh Social Accounting Matrix (SAM), 2007.

Wholesale and Retail Trading

A large part of wholesale and retail trading is associated with paddy cultivation, fishing, forestry, rice milling, grain milling, food processing, cloth milling, handloom, RMG, knitting, cement, basic metals,

Figure 2.4

Contribution of Wholesale and Retail Trade in Different Sectors (% of Total Input Value)



Source: Author's estimate based on Bangladesh Social Accounting Matrix (SAM), 2007.

Table 2.9

Loss in Wholesale and Retail Trade in Different Sectors

Sector	Sectoral Loss (Crore Tk.)	Share of Wholesale and Retail Trading Input in Different Sectors (% of Total Input)	Loss for Trading (Crore Tk.)
Agriculture	398.0	23.5	94.0
Poultry	606.0	3.1	19.0
Shrimp farming	741.4	-	-
Apparels	1,318.0	-	-
Plastic (chemical industry)	243.8	32.4	79.0
Transport	267.0	4.2	11.0
Tourism	825.0	3.0	25.0
Banking	156.0	3.2	5.0
Sub-Total (51.8%)			232.0
Rest (48.2%)			216.0
Total			**448.0**

Source: Author's estimate based on Bangladesh Social Accounting Matrix (SAM), 2007.

mining and land transport. These together accounted for over 70 per cent under this broad heading (Figure 2.4). A large part of these activities have been covered in the aforesaid sectoral measures. Table 2.9 presents losses incurred by trading activities which is estimated to be Tk. 232 crore. If similar losses are incurred by the rest 48.2 per cent of activity, the total losses for wholesale and retail trading would be Tk. 448 crore.

Real Estate Sector

Real estate sector has been facing a plethora of problems in the recent past, leading to significant fall in sale of apartments. According to the Real Estate & Housing Association of Bangladesh (REHAB), realtors are facing a number of challenges including high bank interest rate, depressed demand from middle-income households due to high apartment prices and reduced bank loan facility for purchase of apartments. In addition, blockade and transport disruption have adversely affected their business. Also, in some cases realtors did not receive installments from their clients who suffered from depressed cash flow because of adverse implications of the disruptions.[19]

Education

Education sector was severely affected during this period. Government education services account for 48.5 per cent of contribution of this sector. Due to political unrest, most of the educational institutes remained closed throughout the period excepting the weekly holidays when classes were shifted. Both the public and private sector had to bear the brunt of the disruption. The medium to long-term losses to the country and society were significant, and whilst difficult to measure, losses in terms of economic value remained formidable. However, quantification of losses from the short-term perspective and in GDP terms remained a rather difficult exercise.

Labour-related Losses

Workers, both skilled and unskilled, take part in wide ranging economic activities. They are involved in paddy cultivation, fishing, rice milling, RMG, knitting, urban and rural building, retail trade, wholesale trade, land transport, health services, education services, other services, administration, banking and communication. Labour use in such activities covered about 76.7 per cent of their value addition. In case of contractual and fixed wage employment, a large part of the losses were incurred by the employers. These losses were covered in different sectoral analyses. However, adverse impact on informal sector workers may not have been covered under those activities; thus, the extent of impact and its measurement is rather difficult in this case.

Overall Loss Arising from Political Unrest

The analysis presented here provides only a partial estimate of the economic losses incurred by the major sectors of the Bangladesh economy. These sectors covered about 60 per cent of the country's GDP. As per the estimation, total losses suffered by these selected sectors during January to mid-March, 2015 due to political unrest would be to the tune of about Tk. 4,900 crore which would be 0.55 per cent of GDP of FY2014-15 (Table 2.10). This estimate is based on the information available in public domain and also

Table 2.10
Overall Economic Loss due to Political Unrest in Selected Sectors

Sector	Loss due to Political Unrest	Loss due to Other Reasons	Estimated Loss due to Political Unrest (Crore Tk.)	Loss of Operative Margin due to Political Unrest
Agriculture	Moderate	No	398.0	Significant (farmers)
Poultry	Significant	No	606.0	Significant
Shrimp	Significant	Significant	741.0	Significant
Apparels	Moderate	Significant	1318.0	Moderate
Plastic	Significant	No	244.0	Significant
Transport	Significant	No	744.0 (+85.0)	Significant
Tourism	Significant	No	825.0	Significant
Banking & insurance	Moderate	No	156.0	Moderate

(Table 2.10 contd.)

[19]According to REHAB, due to various reasons (not necessarily for political unrest) per day loss of the sector amounted to about Tk. 36 crore.

(Table 2.10 contd.)

Sector	Loss due to Political Unrest	Loss due to Other Reasons	Estimated Loss due to Political Unrest (Crore Tk.)	Loss of Operative Margin due to Political Unrest
Wholesale & retail trading	Significant	No	448.0	Significant
Real estate	Marginal	Significant	-	Marginal
Education	Marginal	No	-	Marginal
Total (excluding services counted in other activities)			**4880 (+85.0)**	

Source: Author's estimate based on Bangladesh Social Accounting Matrix (SAM), 2007.

information gleaned from various sources through key informant debriefings and discussions. If it was possible to capture all possible sources of losses, this would obviously raise the estimate of losses that this quick study has come up with. Needless to mention, different sectors have experienced different types of adverse effects; there is also short and medium to long-term aspects of this discourse, not to mention about the indirect and multiplier effects having adverse impact on the economy.

2.3.4 Addressing the Economic Loss in the Upcoming National Budget for FY2015-16

The upcoming national budget should address the issue of economic losses and the consequent adverse implications on various economic agents, through appropriate fiscal and budgetary support. A dedicated fund can be set up to take corrective measures to help various sectors and stakeholder groups to undertake the adjustments.

a) Although loss incurred by the agriculture sector could appear to be relatively low in monetary terms, farmers were badly affected by not being able to get market price and from lower operative margins. In some areas farmers are not being able to pay installments against loans. Central bank may consider providing rescheduling facilities for repayment of agricultural credit particularly concerning non-crop cultivation.

b) Transport sector's losses have been significant. Although the PMO has taken some measures by donating lump sum amount to some vehicle owners, many remain without support. It is still unclear whether the insurance companies have provided 50 per cent of the claim for damage as mentioned by State Minister for Home Affairs. Central bank could create a window to provide low-cost credit facility to the owners of vehicles.

c) The blockade had caused significant losses to wholesale and retail operators and also the SMEs. Fiscal and budgetary proposals in the FY2015-16 budget may be designed to provide some relief to the involved operators. Tax and SD policies may be calibrated accordingly. Special provision for timebound rescheduling and low cost credit window may be considered for them.

d) Sectors dealing with perishable goods were significantly affected due to disruption in the supply chain and lack of adequate storage/warehouse facilities. In order to address these problems and make the supply chains more efficient, private sector may be encouraged to invest in domestic supply chain, particularly in building warehousing facility, cold storage facility for perishable products and emergency support facilities. Upcoming national budget may consider putting in place special incentives towards supply chain development which will have positive impact on market management during times of disruption and also value retention by small operators.

e) Finally, there should be an institutional mechanism to estimate economic losses arising from either natural calamities or from man-made disasters. Recently Bangladesh Bank has taken an initiative to appreciate the adverse impact on the banking sector, and have collected information from commercial banks on the status of disbursement and repayment of credit during the period of unrest. However a comprehensive assessment on economywide impact requires developing the methodology for estimating the losses in different sectors. In this context, Bangladesh Bureau of Statistics (BBS) is in appropriate position to undertake this kind of exercise.

2.4 KEY DEVELOPMENTS AT THE GLOBAL LEVEL AND IMPLICATIONS FOR BUDGET FY2015-16

2.4.1 Recent Global Economic Trends and Outlook

Bangladesh's relatively small and open economy is mostly a taker in view of developments in the global economy. Consequently, budgetary measures and fiscal framework for FY2015-16 has to take into cognisance global economic outlook for the near term future. Potential channels of transmitting the implications of the emerging scenario will need to be considered in designing the budget. In view of this, the present section reviews the ongoing developments in the global economy, the outlook for the time that coincides with implementation of the upcoming budget, and attempts to capture their implications for budget FY2015-16.

Global Growth Outlook Indicates a Mixed Scenario

Global growth is expected to rise moderately, to 3.5 per cent, in 2015 and 2016. High-income countries are projected to grow by 2.2-2.4 per cent in 2015, and by 2.4 per cent in 2016.[20] The outlook for the US economy improved in the backdrop of lower energy prices and higher job creation with Dollar gaining strength. The US Bureau of Labor Statistics reported fall in unemployment rate to 5.5 per cent in February 2015 from the peak of 10 per cent in October 2009, and 9.8 per cent in February 2010. On the other hand, EU is experiencing an anaemic recovery which is evident from its sluggish pace of growth, weak investment, persistently depreciating Euro, and exceptionally low rates of looming inflation with risks of deflation (UNDESA, 2015). The growth outlook for the Euro area has been revised downward in the latest projections.

According to projections by the IMF (2015), Middle East and North Africa are expected to grow by 3.3 per cent in 2015, and by 3.9 per cent in 2016. However, projections by the World Bank evince a less optimistic scenario, with growth rates of 2.5 per cent and 3 per cent projected for 2015 and 2016 respectively. Projections for Saudi Arabia remain mixed with projections for United Arab Emirates (UAE), Oman and Bahrain remaining fairly consistent. These projections are important as the Middle East region is the major source of employment and remittance flow for Bangladesh. Growth projections are promising for the emerging markets and the developing economies at 4.3-4.9 per cent for 2015, and 4.7-5.3 per cent for 2016.

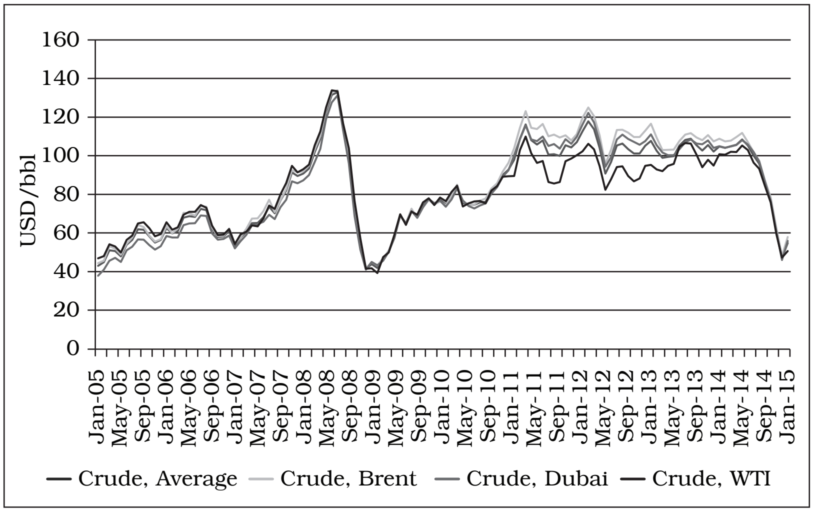
International Oil Price is Expected to Remain at the Current Lower Level

From the peak of USD 115 per barrel in June 2014, the (crude) Brent oil price experienced a significant fall to below USD 50 per barrel in January 2015, following four years of high and stable prices (European Commission, 2015) (Figure 2.5). As of 30 March 2015, the price stood at about USD 56 per barrel. Current projections estimate the average price of crude oil to remain at about USD 53 per barrel in 2015, which is 45 per cent lower than prices in 2014. It is envisaged that it will remain at a similar low level throughout 2016 (World Bank, 2015a). World Bank (2015a) highlighted three reasons for the drop in oil prices: weak demand in many countries due to slower economic growth coupled with surging US production, and reluctance of oil cartel by the Organization of the Petroleum Exporting Countries (OPEC) to reduce output to prevent further falls in prices. Saggu and Anukoonwattaka (2015) also mentioned three sets of reasons:

[20] The ranges of projections are obtained from the Global Economic Prospects and World Economic Outlook, provided by The World Bank and the IMF respectively.

Figure 2.5

Changes in International Oil Prices



Source: World Bank Commodity Price data.

China's transition to a lower level but more sustainable economic growth; continued Eurozone stagnation (by the exacerbated economic crisis in Greece); and lower growth across the commodity exporting economies resulting in lower demand for petroleum products. On the supply-side, the authors mentioned shell-energy boom in the US, OPEC's strategic shifts towards price targeting to maintain market share, export bans on certain minerals, and record agriculture harvest in the US. Saggu and Anukoonwattaka (2015) also pointed out two monetary factors driving lower oil price: appreciation of USD led to fall in lowered prices in USD-denominated commodities and the expected interest rate tightening by the US Federal Reserve.

The reduction in prices is expected to have global redistribution of income from oil-exporting countries to oil-importing ones. It may also boost global growth because oil-importing countries are projected to spend more of the additionally available funds than oil-producing countries who are expected to reduce spending through cuts.[21] Additionally, falling oil prices will have favourable impact on countries in Asia as estimated by the IMF in their World Economic Outlook. It should, however, be noted that within the exporting nations there will be significant departures in terms of consequences.[22] A sharp reversal in oil prices could undermine the outlook presented above which will then call for immediate policy responses because of possible uncertainties. This reversal of fortunes could induce households to postpone spending decisions if real disposable income falls, producers to delay investment decisions because of rising production costs, and could have negative impact on business activities in general. The projections of oil prices stated above could be subject to volatility because of increasing geopolitical tensions of the recent times.

Prices of Other Commodities also Declined

In international market, prices of almost all commodities followed the price trends of oil and experienced a decline, to varying extent. The fall in the IMF Commodity Price Index began in July 2014 and continued till January 2015. The price index increased marginally in February (by 5.51 per cent) although prices remained below the pre-fall level (Table 2.11). Prices of agricultural commodities are expected to experience a 4.8 per cent decline in 2015 (and then may recover marginally in 2016) and food commodity prices are

[21] In the two IMF scenarios, the 2014-15 oil price decline pushes global GDP by 0.3-0.7 per cent in 2015 and by 0.4-0.8 per cent in 2016 (IMF, 2015).

[22] Russia is the hardest hit from this decrease in oil prices as the value of Ruble plummets, and Venezuela is teetering on the brink of a recession with massive inflation rates. OPEC members such as Saudi Arabia, UAE and Kuwait are able to sustain low prices because of considerable foreign currency reserves, whilst other members such as Iran, Iraq and Nigeria have very little opportunity for continuing with the current strategy of inaction.

Table 2.11

Changes of the Monthly IMF Commodity Price Index and of Price of Commodities Vital to the Bangladesh Economy

(in Per cent)

Month	Commodity Price Index	TSP	Urea	Cotton	Rice, Thai 5%	Rice, Thai 25%	Rice, Thai A.1	Rice, Vietnam	Wheat, US SRW	Wheat, US HRW
Jun-14	0.5	1.7	-0.4	-2.0	2.3	2.9	2.8	3.6	-14.6	-8.4
Jul-14	-2.1	10.8	1.3	-7.8	6.3	5.3	8.2	4.1	-7.8	-8.5
Aug-14	-3.4	1.5	6.7	-11.7	5.5	10.4	5.8	5.2	0.9	-6.1
Sep-14	-3.9	-1.8	1.2	-0.8	-2.9	-0.7	-2.3	-0.1	-8.0	-7.5
Oct-14	-6.5	0.0	-1.4	-4.1	-0.9	-0.5	-2.7	-1.2	8.5	0.7
Nov-14	-5.7	-1.2	-3.1	-4.0	-2.3	-2.2	-3.2	-3.4	7.2	5.4
Dec-14	-11.9	-1.0	0.4	1.1	0.0	-0.5	-0.6	-9.4	10.9	4.2
Jan-15	-12.1	-0.3	2.2	-1.4	0.5	0.5	-0.6	-2.1	-11.6	-7.9
Feb-15	5.5	0.0	-7.0	3.7	0.0	0.0	-0.4	-5.6	-5.0	-4.6

Source: IMF Commodity Price Index, World Bank Commodity Price data.

expected to come down by 4.2 per cent (World Bank, 2015a). The fall in commodity and food prices have contributed to easing the inflationary pressure in the Bangladesh economy. Raw material prices are also projected to decline – cotton and natural rubber by 13 per cent each, and timber by 3 per cent (World Bank, 2015a). The fall in cotton prices is particularly important from the perspective of the competitiveness of the RMG exports from Bangladesh.

Global Trade Growth will Remain Moderate

Since the global financial crisis, world trade growth (in volumes) has slowed significantly from the trend of pre-crisis level. Global trade rose by less than 4 per cent per annum during 2012-14, well below the pre-crisis average annual growth of about 7 per cent (World Bank, 2015b; UNDESA, 2015). Part of this slowdown can be attributed to the reduced import demand originating from weak economic growth in advanced economies. The implication of low demand in high-income countries was reflected in the lower import volumes, which deviated from the trend by more than 20 per cent in both US and the Euro Area. With high-income economies accounting for about 65 per cent of the global imports, this lingering weakness contributed to the slow recovery in global trade.

Despite somewhat optimistic projections, global trade growth is not expected to revert to the steeply rising trajectory of the pre-crisis years. Strengthening of demand by high-income countries is expected to lift exports of developing countries (albeit to different degrees, depending on their major trading partners, and the composition of their export baskets). For 2015-17 period, improvements in the performance of the US will support manufacturing exports from Central America and Asia. Stabilising, or slowly expanding activities in other high-income countries, particularly in the Euro area and Japan, is also expected to add some momentum.

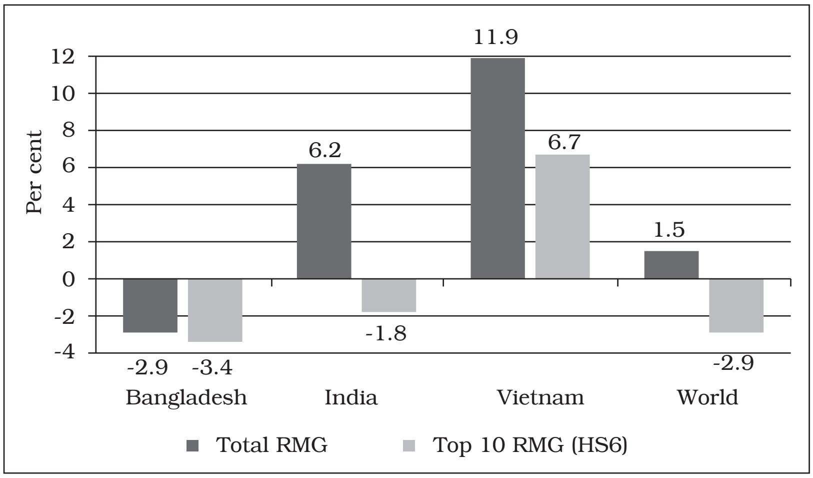
In view of the above, it is to be noted with some concern that, pace of export growth from Bangladesh is on the decline in FY2014-15. According to Export Promotion Bureau (EPB) data, during July-February, FY2014-15 export earnings from the US declined by (-) 2.6 per cent. Thankfully, Bangladesh's export to the EU during the mentioned period increased by 4.3 per cent. As would be expected, export of RMG, which is the single dominant product of Bangladesh, influenced the performance of Bangladesh's export in these two major markets.

According to the US import data (reported by the United States International Trade Commission (USITC)), during July-January FY2014-15 period, total RMG import from Bangladesh declined by (-) 2.9 per cent (Figure 2.6). Compared to Bangladesh, growth rates of RMG import from India (6.2 per cent) and Vietnam (11.9 per cent) had been impressive. Indeed, overall import of top ten RMG products (HS6)[23] by the US declined by (-) 2.9 per cent whereas import of those products from Bangladesh declined by (-) 3.4 per cent. In contrast, import from Vietnam of these ten RMG products during the reported period increased by 6.7 per cent.

In the EU market, performance of Cambodia and Pakistan were more robust compared to Bangladesh as regards export of RMG products. During July-December FY2014-15 period, import of RMG from Bangladesh to the EU increased by 9.7 per cent, whereas Pakistan recorded an impressive growth rate of 45.4 per cent (Figure 2.7). The corresponding growth rate for Cambodia was 19.7 per cent. For the top ten RMG products (HS6) of Bangladesh[24], the import growth rates from Cambodia and Pakistan were also higher than that from Bangladesh. Pakistan's exceptional surge in the EU market can be attributed to their inclusion in the GSP (Generalized System of Preferences) Plus scheme, from 1 January 2014, which

Figure 2.6

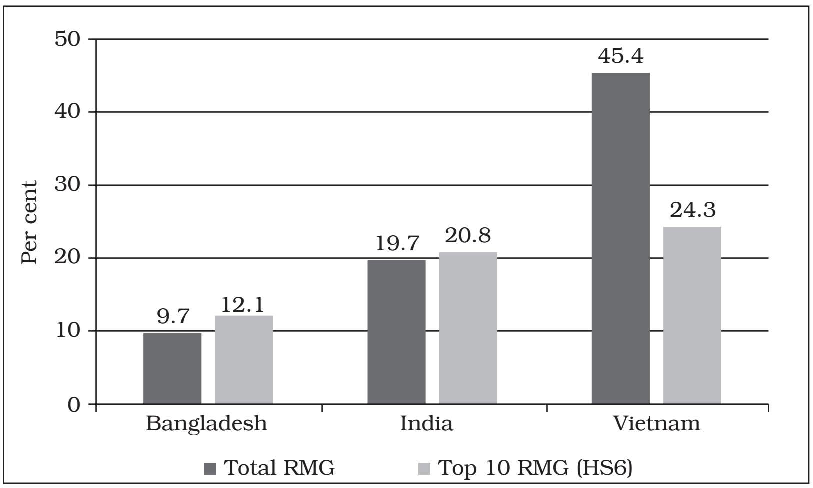
Import Growth of RMG Products by the US: FY2014-15 (July-January)



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

Figure 2.7

Import Growth of RMG Products by the EU: FY2014-15 (July-December)



Source: Estimated from the Eurostat data.

[23]The product codes are: 610821, 610910, 611020, 611030, 620342, 620343, 620462, 620520, 620630 and 620920. The share of these products in total RMG import by the US from Bangladesh is more than 70 per cent.

[24]The product codes are: 610821, 610910, 611020, 611030, 620342, 620343, 620462, 620520, 620630 and 620920. The share of these products in total RMG import by the US from Bangladesh is more than two-third of the total.

enabled them to export at zero tariff. It should also be taken into consideration that weak estimates and projections of economic growth for the EU may have adverse impact on the prospects for Bangladesh's export of RMG in the near term.

It appears that Bangladesh's RMG export in the US market is struggling while export in the EU market is facing greater competition. The budget for FY2015-16 needs to consider these trends while coming up with fiscal proposals including incentives.

The Falling Euro and Strong USD is Dominating Global Foreign Exchange Scenario

The USD is appreciating steadily, while the Euro appears to be plunging inexorably to below Dollar parity. There has been an 8 per cent gain of the USD against the Euro (IMF, 2015) which was set off at the end of June 2014 to early July 2014. Appreciation of the USD was driven by greater job creation and improvements in the macroeconomic performance of the US. The weakening of the Euro was attributed to the Quantitative Easing programme of the European Central Bank (ECB) resulting from weak recovery, undesirably low inflation and the uncertainty as regards the outcome of the Greek adversity for the Eurozone (European Commission, 2015). Consequently, the BDT has depreciated marginally (by 0.2 per cent) against the strengthening USD during the period of March FY2013-14 to March FY2014-15 whilst appreciating by 20.8 per cent against the Euro over the same period. However, it may also be noted that Euro depreciated against all major currencies (including those of competitors of Bangladesh's export) during the same period, although by varying degree.

A point to observe is that the rate of depreciation against the USD is only marginal because the exchange rate policy of Bangladesh is directed to maintaining a stable rate of BDT against USD. However, this policy has led to a significant appreciation of the BDT against a persistently weakening Euro. Moreover, the BDT has appreciated against the Indian Rupee and depreciated against the Chinese Yuan. Concerns arise from these movements in the exchange rate since countries in the EU are major RMG export destinations for Bangladesh which faces strong competition from India, China, Vietnam, Cambodia and Pakistan.

Morgan Stanley[25] forecasts the appreciation of the Dollar to continue till the fourth quarter of 2015, to a rate of 1.12 Euro/USD; a reversal of this trend is expected only in the second quarter of 2016 to 1.13 Euro/USD. The extent of the adverse effect of the movement towards a Dollar-Euro parity, alongside a steady USD-BDT exchange rate, remains to be seen. It must be kept in mind that forecasts are underpinned by various factors and are dynamic, and hence subject to change. The speculation about the impending rise in the federal funds rate in the US later this year (2015), depending on the economic outlook, will undeniably affect the current forecasts and currency flows. Thus, the sustainability of these trends is indeterminate and demands continuous monitoring and prudent exchange rate of management policies.

2.4.2 Implications of Global Economic Trends for Budget FY2015-16

Developments in the global markets have important consequences for the Bangladesh economy at a time when the budget for FY2015-16 is being prepared. Thus care must be taken to mitigate the effects of the shocks arising from these fluctuations.

Lower International Oil and Commodity Prices will Provide Additional Policy Spaces

A critically important issue at hand is the persistently falling oil prices. Bangladesh being a net importer of crude oil stands to make formidable gains from low oil prices. The falling oil prices at the international level have already allowed the government greater fiscal space. As was discussed in Section 2.2, lack of

[25]Morgan Stanley (2015, January 15).

demand for subsidy from BPC has helped the government not to go for another upward adjustment of electricity prices. The price of oil, as was also noted is projected to be at low level throughout FY2015-16. According to the BPC data, the average prices of crude and refined oil were USD 109.6 per barrel and USD 125.27 per barrel respectively for the period FY2013-14. If there is no drastic change in demand and administered prices of petroleum products are kept unchanged, CPD estimates indicate that about Tk. 3,000 crore may be saved by lower oil price in FY2015-16. This implies that there will be zero subsidy demand, and BPC may make some profit to recover from its losses incurred in earlier years. Indeed, oil-importing countries around the world now have an opportunity to reduce subsidies associated with oil. For Bangladesh, it is important that in FY2015-16 subsidies are diverted to BPDB keeping the electricity prices unchanged. But at the same time, it is also pertinent to note that the government makes full use of this opportunity and complete the electricity production-related ADP projects according to the planned timeline so that the electricity production dependency on high-cost liquid fuel may be reduced. Indeed, in Section 2.2 of this chapter, nine such ADP projects have been identified which were planned to be completed by FY2015-16 and can add more than 2,500 MW of electricity (to be produced using natural gas as fuel) to the national grid.

In general, the lower commodity prices should result in lower inflationary pressure in domestic market. Hence, the government will have some additional policy space for using expansionary fiscal and monetary policy instruments which can then be used to catalysing private investment and promote economic growth. However, these tools are perhaps less effective at present as demand for private sector credit is low and the commercial banks are flushed with excess liquidity.

No Major Breakthrough in Overseas Employment

As has been mentioned above, the growth outlook in the Middle East countries are stable, but not very encouraging. Overseas employment may remain at the current level of about 4 lakh in near term future. Hence, it will be important to pursue the cause of generating new employment in the domestic market more proactively by promoting private investment in FY2015-16.

Consider Policy Support for Export

A major concern for Bangladesh is the growing competition in both US and EU markets as regards export of RMG products. One may recall that a number of fiscal policy support measures were put in place in favour of exports from Bangladesh during April-October 2014 period (see Annex 2.3). In view of the falling value of Euro, the government is considering a special cash incentive (to the tune of 2-3 per cent on free-on-board (f.o.b) value) for exports to the EU. Fiscal implications of any such measure could be as high as Tk. 2,400-3,000 crore in FY2015-16. It may be noted that BDT is not the only currency which have appreciated against Euro, although it is true that the degree is marginally higher for BDT compared to the currencies of major competitors (e.g. India, Cambodia and Vietnam). Hence, the extent of policy support should be examined carefully.

Prudent Exchange Rate Management will be Called for in FY2015-16

It is important that the central bank monitors BDT exchange rates against other major currencies, beyond the USD. The accumulated foreign exchange reserve should give Bangladesh some cushion in this regard. According to some projections, current trends in the international currency market could be reversed in the coming months (Morgan Stanley, 2015). The dynamics in this regard will need to be monitored more closely and on a regular basis.

Promote Trade Facilitation Measures

The budget should also keep in purview the commitments Bangladesh envisages to make in view of the Trade Facilitation Agreement in the Bali package of the World Trade Organization (WTO). Allocations will have to be made in the budget for the required investments in projects in this regard.

2.5 IMF's ECF AND WORLD BANK's PROPOSED DEVELOPMENT SUPPORT CREDIT (DSC): IMPLICATIONS FOR THE UPCOMING NATIONAL BUDGET

2.5.1 IMF's Extended Credit Facility (ECF)

As part of its commitments under the IMF's three-year long Extended Credit Facility (ECF) (2013-2015), Bangladesh has carried out a wide range of reform measures since FY2012-13. These commitments are related with cash and debt management which include tax and revenue administration reforms, strengthening public financial management and expenditure control, containing subsidy costs, strengthening safety nets and reinforcing priority social spending, ensuring sound debt management, non-concessional borrowing and debt sustainability. Till March 2015, IMF has carried out six reviews and disbursed USD 704 million in five installments out of total approved amount of USD 887.6 million.

The progarmme is to continue over the next fiscal year, and as such, a number of budgetary concerns are linked to its envisaged measures. IMF reviews have highlighted the progress that Bangladesh has made till now in addressing the IMF conditionalities. According to the fourth review report which is the latest, published in June 2014[26], major progress were made in the areas of management of subsidies and state-owned enterprises (SoEs); in terms of bringing down the cost of energy; improvements in internal financial management of BPC; improvements in public debt management through tightened procedures and controls over non-concessional external borrowing; preparation of a draft medium term debt strategy; finalisation of a Debt Management Performance Assessment; maintaining external debt ceiling; better financial supervision in terms of amended Bank Companies Act (BCA); temporary relaxation of loan rescheduling guidelines to help mitigate the impact of political unrest; reforming SCBs through signing of Memorandums of Understanding (MoUs) with Bangladesh Bank to enact new policies for better credit and liquidity risk management and strengthening internal control; completion of action plan for automation of SCBs and moving forward towards gradual liberalisation on exchange regulations on current and capital account transactions. Despite such institutional and operational reforms, financial sector continues to experience challenges and evinces concerns in a number of areas which have put under question the efficacy of IMF-inspired reforms as also the state of governance in the broader banking-financial sector.

A number of initiatives envisaged under the IMF programme are currently at different levels of progress and these are set to continue in the next fiscal year. IMF has put emphasis on implementation of the VAT Act. It has called for further automation of the tax administration, introducing online taxpayer registration and increased staffing levels and training at the NBR. Efforts from the government is recommended to contain the rising fertiliser subsidies through better targeting, stricter monitoring, and price adjustments and rationalising tax benefits and cash subsidies provided to different sectors. In view of concerns raised by key stakeholders with regard to some of the provisions in the new VAT Act and in view of the lack of preparedness to introduce the new act, its implementation has been shifted to July 2016 from the earlier envisaged July 2015. In this backdrop, it is important to examine how the remaining activities under the ECF will be carried out in FY2015-16 and what could be possible implications of undertaking the proposed IMF reform programme concerning cash and debt management.

[26]IMF is yet to make public its fifth and sixth review reports on the performance of the committed activities.

2.5.2 Implementation of Various Activities under IMF's ECF Programme in FY2015-16 and their Implications for the National Budget

Implementation of New VAT Law

Implementation of new VAT law has been pushed back to July 2016 due to strong opposition from the private sector concerning a number of issues. Private sector has contested the proposal of introducing a single VAT rate for all types of economic activities. In cognisance of the diverse nature and level of development in various sectors, private sector has called for introduction of multiple VAT rates pointing out that this is practiced in many other developing countries. The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) has recommended for abolishing provisions as regards Advanced Trade VAT (ATV) and withholding VAT (Khan and Sadique, 2015). However, IMF and World Bank have pressed for a uniform VAT rate (15 per cent) as well as elimination of truncated base and tariff value exemption on the grounds of simplifying the VAT collection process and making the process transparent. While announcing the national budget for FY2015-16, Finance Minister will need to take a stand on these issues. Indeed, earlier the government had set up a committee with FBCCI and NBR representatives to come up with a solution. It is uncertain at this point what the locus standi of this committee is. At a national dialogue organised by CPD on 10 December 2014, major private sector stakeholders had expressed their strong opinion in support of three issues, which include: a) low VAT rate; b) multiple VAT rate; and c) more time for taking preparation.

Deferral of the implementation of the VAT law is also linked with slow pace of progress in setting up necessary infrastructure at relevant government institutions. Initial timeline could not be maintained for a number of activities related to VAT infrastructure. For example, most of the activities envisaged under Phase II of the VAT implementation project (March 2013 to March 2015) could not be started within the stipulated time. These concerned designing and development of the new VAT administrative apparatus including its organisational and staffing arrangements, administrative processes, and information systems. The VAT implementation plan was subsequently reviewed and revised in December 2014. In the revised implementation plan, COTS (Commercial Off-the-Shelf Software) and hardware tenders have been combined as one procurement, and contact and processing centres have been combined as one procurement (NBR, 2014).

A number of projects in support of strengthening the governance and capacity of tax administration as well as establishment of taxpayers' information and service centre are currently being undertaken with a total expenditure of Tk. 709.6 crore. Most of those projects would not be completed within the stipulated timeline (December 2015). Even if 100 per cent allocated fund is disbursed in FY2014-15, only 54 per cent of those projects would be completed. Implementation of the envisaged works and activities including setting up the needed infrastructure will need to be reflected in the FY2015-16 budget with necessary allocations.

Strengthening Financial Management

As part of strengthening financial management, government has decided to amend at least three acts: a) inclusion of the bank resolution and Lender of Last Resort (LOLR), facilities under the Bank Company Act 2013; b) Bangladesh Bank Order 1972; and c) Deposit Insurance Act. The facility of LOLR would provide the central bank to intervene in case any bank or financial institution fails to cope up with the emerging adverse situation. Given a number of large loan scams which made the position of some of the SCBs vulnerable, Bangladesh Bank is considering implementing the LOLR facility.

Although Bangladesh Bank allowed temporary relaxation of loan rescheduling facility in order to help the private sector to mitigate the risk of political unrest during FY2013-14, the facility was not always used with proper justification. Later on, Bangladesh Bank has reintroduced the rescheduling facility for large-scale borrowers (Tk. 500 crore and above) with extended maximum timeline of 12 years for term loans and six years for demand and/or continuous loans (Bangladesh Bank, BRPD Circular 04). Recently Bangladesh Bank has announced a plan to extend special facilities to 'good borrowers' and will also provide other facilities including loan rescheduling and restructuring to 'affected borrowers' to realise loans and keep businesses going (Bangladesh Bank, BRPD Circular 06). It is apprehended that if strict guidelines to identify affected borrowers are not followed, there will be room for discretion, and hence likelihood of lack of discipline in financial management.

Power and Energy Tariff Adjustment

In view of declining global prices of petroleum products there is growing pressure on the government to reduce the administered prices of petroleum products (CPD, 2015b). On the other hand, Bangladesh Energy Regulatory Commission (BERC) has initiated a process to review the electricity tariff (as well as gas tariff) with a view of making adjustments in the backdrop of higher power generation cost. Considering the declining global fuel prices, government and IMF have agreed not to go for upward adjustment of power tariffs at the moment; however, the idea is also to allow space to BPC to make necessary adjustment of its losses. As per the understanding, administered price of petroleum at present, moves within the differential limit (not more than Tk. 10) between local and international prices. IMF has agreed to the provision of budgetary support to BPC, BPDB and Bangladesh Chemical Industries Corporation (BCIC) to cover the subsidy costs. The upcoming budget is likely to come with a comprehensive proposal with regard to adjustment of power, gas and petroleum tariff and allocation of subsidy for the power and energy sector.

As per the fourth review of IMF, rental power plants will have to be put under tighter pricing rules in order to reduce energy costs and to be gradually replaced with base-power plants. The FY2015-16 budget will have to come up with a plan as regards adjustment of power generation by reducing dependency on rental power plants.

2.5.3 Proposed DSC from the World Bank

Bangladesh is seeking DSC from the World Bank with a view to meet its various budgetary requirements.[27] The amount of budgetary support is yet to be fixed although USD 500 million has been sought by the government. The GoB and the World Bank have been discussing relevant issues for over a year now, particularly those concerning various reforms. Both sides have identified as many as nine areas of reform which include public fund management, banking, energy, transport, information and communication technology (ICT), local government, public-private partnership (PPP), financial management, and migrant workers (Table 2.12). Most of these are related to adoption of new laws, rules and action plans, and timely implementation of various projects related to infrastructure and ICT and other sectors. While both sides have common positions with regard to a number of areas including PPP, setting up of special economic zones and infrastructure projects, there are differences of opinion in some of the other areas. These include timebound action plan to strengthen the financial sector and undertaking energy sector reform. As part of reform issues, World Bank is interested to include other tax-related issues including Customs Act and direct tax. World Bank supports IMF's stance on introduction of unified VAT rate instead of the existing multiple VAT rates. IMF's stance as regards automatic adjustment of energy price with international market is also supported by the World Bank.

[27]In 2008, Bangladesh took USD 320 million as budget support under which various reform measures have been undertaken. World Bank approved two budgetary support programmes in June 2008 worth USD 320 million. The support was provided to help the GoB to implement its wide ranging governance and economic policy and energy reforms. Of the fund, USD 200 million had been provided as Transitional Support Credit to help lessen pressure on the budget for FY2007-08 and the rest for the power sector.

Table 2.12

Commitments of Bangladesh for Getting Budgetary Support from World Bank

Sector	Commitments	Timeline
Transport	• The government will form an apex body to coordinate activities of various government agencies in Dhaka to successfully complete the large ongoing projects • Prepare an urban transport policy • The government will finalise and approve a draft action plan to enhance the economy's integration with regional and global markets	• First year
	• The metro rail law will be placed before Parliament • Prepare an action plan to operationalise Dhaka Transport Coordination Authority to effectively implement the strategic transport plan	• Second year • Approved and operationalised in final year
	• The government will start work on dual tracks for the main rail line between Dhaka and Chittagong to increase the movement of containerised cargo • It will set up a rail inland container depot (ICD) in Tongi with a capacity of 150,000 20-feet equivalent units with financial assistance from the Asian Development Bank (ADB) • The government will also work with India and Myanmar to improve efficiency of common border posts • A comprehensive national logistics strategy will be prepared	• Second year
Financial Reforms	• The government will prepare and update a timebound action plan to strengthen the SCBs, particularly improving governance, human resources, risk management capacities and internal control	• First year
	• Will approve the action plan and initiate the reforms as well as prepare a diagnostic report of low-performing private banks	• Second year
	• Authorities will prepare a draft guideline on banking norms for commercial banks	• Third year
Public Fund Management (PFM)	• The government will prepare a revised PFM strategy • The government will prepare a strategy paper to pave the way for devising a revenue sharing formula with local government institutions that are cash-strapped, and have little revenue raising authority and limited control on government departments at local levels • It will promote institutional change in external statutory audit, increase transparency of the budget and design new modalities to support strengthening of PFM	• First year
ICT	• It will develop an integrated ICT solution for PFM, foster budget integration and strengthen the Medium Term Budgetary Framework (MTBF)	• Second year
	• The National Telecommunication Policy 1998 and Bangladesh Telecommunication Regulatory Act 2001 will be updated	• First year
	• The government will formulate a spectrum roadmap as well as draft licensing guidelines	• Second year
	• The policies, laws, roadmaps and guidelines will be approved to help the sector leap forward	• Third year
Local Government	• The government will prepare a roadmap based on the recommendations of the strategy paper, and approve and initiate implementation of the roadmap • It will also work to transform local bodies into effective institutions	• In the following two fiscal years

(Table 2.12 contd.)

(Table 2.12 contd.)

Sector	Commitments	Timeline
Energy	• The government will revise the Power Sector Master Plan and prepare an Energy Efficiency and Conservation Master Plan	• Revise in first year • Will be approved in the following year
	• It will prepare a strategy aimed at increasing efficiency of existing thermal generation plants, diversifying generation of fuel mix to enhance energy security and taking initiatives to implement market-based pricing	• First year
	• The government will form the Bangladesh Energy Research Council to conduct research and development work in the power and energy sector	• Second year
	• It will also revise and approve the energy policy	• Final year
PPP	• The government will place the draft law on the PPP framework at Parliament	• First year
	• It will formulate rules to operationalise the PPP law. The reforms are aimed at encouraging the private sector to undertake more PPP projects	• Second year
Migrant Workers	• It will prepare a strategy to reduce the cost of sending remittances at home	• First year
	• It will be followed by new measures to do the same	• Second year

Source: The Daily Star (2015).

If Bangladesh government and the World Bank reach an agreement in the coming months, FY2015-16 budget will need to address a number of reforms-related issues. Issues which are included in the first year in the proposed activity list include formation of an apex body to coordinate activities of different government agencies functioning in the Dhaka city, preparation of urban transport policy, finalisation of an action plan to integrate with regional and global markets, timebound action plan to strengthen the SCBs, preparation of a public fund management strategy, devising of a formula for revenue sharing with the local government, updating of telecom policy, design of a strategy for increasing efficiency of existing thermal plants, revising of the energy policy, and preparation strategy for reducing cost of remitting funds from abroad. This is a long list and the needed activities will need to be reflected in FY2015-16 budget if the DSC is approved in the coming months. The government will need to carefully examine the proposals before these are finalised.

The need for budgetary support from the World Bank remains unclear. National budget during FY2013-14 and FY2014-15 did not face major resource constraints. Moreover the amount of support that is sought (USD 500 million) is also not significant. CPD has always maintained that reforms, whilst much-needed, must be domestically-owned and nationally-designed. If there is any shortfall in resources, funds may be mobilised from development partners including the World Bank. Regrettably, both in case of IMF-ECF and World Bank's DSC, reform agendas are being imposed as conditionalities for receiving funds. This undermines both the national cause of policy making independence, and also the prospect of implementation of these reforms.

2.6 CONCLUDING REMARKS

The present review indicates that, notwithstanding the deterioration of the political environment, particularly during the third quarter of the current fiscal year, Bangladesh economy continues to enjoy relative macroeconomic stability in the form of low inflation, manageable fiscal deficit, stable exchange rate and favourable balance of payments position. A loss of almost half a percentage point equivalent of the GDP, as our preliminary estimates show, is a substantial dent on the economic prospects of the country. One feels concerned also because of some of the fault lines appearing in the global economy including a slowdown in remittance flow, falling economic growth in the EU and sluggish demand for Bangladesh RMG products in the US market, significant decrease in export growth, and higher appreciation of the

BDT against the Euro vis-à-vis Bangladesh's export competitiveness. All these make the effort to break out from the six per cent GDP growth trap a more challenging task.

In view of the foregoing analyses, some of the key areas that FY2015-16 budget will need to address more resultative efforts towards domestic resource mobilisation (including non-tax revenue), invigorating and incentivising private investment, smooth functioning of the supply chains and removing the obstacles to higher growth of human resource export. However, reform outlook continues to be dim. Such an assessment impinges upon the delivery and effectiveness of the reform measures envisaged under the IMF programme and upcoming World Bank budgetary support.

There is a heightened need to arrest the downward slide in the current political uncertainties through an inclusive politics. A renewed effort will be needed in terms of institutional strengthening and significant improvements in good governance practices. This is also the time to put into practice the much-awaited result-based management system in budget implementation and strengthening of the institution of local government, as CPD's district budget exercise has suggested.

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ANNEXURE

Annex 2.1

Top 26 Projects that should be Implemented by FY2015-16 (June)

Srl.	Project	Sector	Project Cost (Crore Tk.)	End Date
1	Padma Multipurpose Bridge Project	Transportation	20,507	31 Dec 2015
2	Dhaka-Chittagong 4-Lane		3,190	31 Dec 2014
3	Joydebpur-Mymensingh Road Development		1,815	30 Jun 2015
4	Construction of Third Karnaphuli Bridge (Revised)		651	31 Dec 2015
5	Support to Dhaka Elevated Expressway PPP Project		3,217	30 Jun 2015
6	Dhaka-Chittagong Railway Development Project		2,575	30 Jun 2016
7	Construction of Bypass Road in Satkhira Town Connecting Bhomra Land Port		117	30 Jun 2014
8	Ashuganj 450 MW PP	Power	3,400	30 Jun 2015
9	Construction of Haripur 412 MW Combined Cycle Power Plant and Associated Substation		3,966	30 Jun 2015
10	Construction of Bibiana-3, 400 MW Combined Cycle Power Plant		3,358	31 Dec 2015
11	Construction of Ghorashal 365 MW Combined Cycle Power Plant		2,512	30 Jun 2016
12	Siddhirganj 335 MW PP		4,239	30 Jun 2015
13	Shahjibazar 330 MW Combined Cycle Power Plant		2,844	31 Dec 2015
14	Shikalbaha Dual Fuel 225 MW Combined Cycle Power Plant		2,022	30 Jun 2016
15	Bhola 225 MW Combined Cycle Power Plant		2,001	30 Jun 2015
16	Chapainawabganj 100 MW HFO Based Power Plant		1,113	30 Jun 2015
17	Bheramara Combined Cycle Plant (360 MW) Development		4,140	30 Jun 2015
18	Providing Electricity Connection to 18 Lakh Clients through Rural Electricity Extension		5,413	31 Dec 2015
19	Shahjalal Fertilizer Project	Industry	5,409	30 Jun 2015
20	Power Production and Sugar Refinery Establishment through Co-generation Process in North Bengal Sugar Mill		73	31 Dec 2016
21	Leather Industrial City, Dhaka (Second Revised)		1,079	30 Jun 2016
22	Mubarakpur Oil/Gas Well Exploration Project	Oil, Gas and Mineral Resources	89	30 Jun 2015
23	Augmentation of Gas Production under Fast Track Program (Dredging of 5 Wells and Workover of 1 Well under BGFCL and SGFL)		1,224	30 Jun 2014
24	Establishment of Gas Compressor Station in Ashuganj and Elenga		1,494	30 Sep 2015
25	Construction of 950m long PC Guarder Bridge over Dharla River at Phulbari Upazila of Kurigram District	Rural Development and Institutions	207	30 Jun 2015
26	Construction of 520m long Bridge in Nagarpur-Mirzapur Via Mokna over Dhaleswari River under Nagarpur Upazila of Tangail District		70	30 Jun 2016

Source: Collected from Planning Commission (2014).

Annex 2.2

Reporting of Agro-Items Perish in Different Districts

District	News of Loss
Dinajpur	- Growers of winter vegetables in Dinajpur and Joypurhat are either selling the produces at throwaway prices or leaving those at fields. It has been found that many farmers left their harvested vegetables on the field due to the blockade programme. *http://www.thedailystar.net/unsold-veg-rotting-prices-of-broiler-egg-drop-59460*
Lalmonirhat	- Some vegetable traders at Goshala Bazar, the biggest vegetable market in the district, destroyed huge cauliflowers on 12 January 2015. *http://www.thedailystar.net/unsold-veg-rotting-prices-of-broiler-egg-drop-59460* - Vegetables in the fields are rotting due to the absence of buyers. Many farmers are seen destroying vegetables as the time for farming another crop has arrived. However, some growers in the district are still waiting for buyers with stacks of cauliflowers, who normally come from other districts, including Dhaka. A farmer earlier sold three mounds cauliflower at only Tk. 200. *https://www.google.com.bd/webhp?sourceid=chrome instant&ion=1&espv=2&ie=UTF-8#q=rotting%20of%20vegetable%20due%20to%20blockade*
Magura	- A wholesale trader of Ramanagar area under Magura Sadar upazila said he was incurring a loss of Tk. 5,000 each day and that he would not be able to continue his business. *http://www.dhakatribune.com/bangladesh/2015/jan/20/blockade-cripples-magura-vegetables-growers*
Moulovibazar, Hobiganj and Sunamganj	- Growers of winter vegetables in Moulovibazar, Hobiganj and Sunamganj are either selling the produces at throwaway prices or leaving those at fields. Huge quantities of popular vegetables like cauliflower, cabbage, broccoli, bean, tomato and gourd are getting damaged due to the situation. *http://thedailynewnation.com/news/39360/unsold-vegetables-rotting-prices-of-broiler-egg-drop.html*
Sylhet	- Many farmers left their harvested vegetables on the field due to the ongoing blockades. In many cases, farmers refrained from plucking matured crops. - A grower and some other vegetable traders destroyed huge cauliflowers at noon of 14 January, as the item laid unsold due to lack of transport, told a trader at Subhanighat, the biggest vegetable market in the district. *http://thedailynewnation.com/news/39360/unsold-vegetables-rotting-prices-of-broiler-egg-drop.html*
Natore	- Some vegetable farmers of Boroharishpur area under Sadar upazila, informed that there were profuse supply of vegetables in the market, but not sufficient customers. As a result, vegetables were remaining unsold. Moreover, vegetables have been left in the field to rot. Per piece cauliflower was being sold at Tk. 5 only, price of which would normally be Tk. 15. *http://www.observerbd.com/2015/01/27/68932.php*
Pabna	- According to farmer sources, a large quantity of vegetables had been rotted in the fields due to the political unrest over the last one month. This is the time to harvest new potatoes. The farmers have even begun digging up the potatoes from the ground. - About 20-30 per cent of the potatoes have been harvested. But due to the fear of petrol bomb attacks, about two million tonnes of potatoes had not been transported to reach the consumers. These are rotting in the markets or the fields. *http://www.observerbd.com/2015/02/10/71629.php*
Chittagong (Sitakunda)	- Many growers have stopped marketing their vegetables due to low sales. Therefore the loss amount has tolled to around crore Taka. Where the usual transaction amount is expected to be Tk. 30-40 lakh, it has now reduced to 5-6 lakh. The Mohonter Haat is usually filled with vegetables at this time of year, but it is now reduced to half due to blockade and *hartal*. *http://www.bd24live.com/bangla/article/32115/index.html#sthash.5ipzive8.dpuf*

(Annex 2.2 contd.)

(Annex 2.2 contd.)

District	News of Loss
Nationwide	- About 40 per cent of the vegetables produced round the year in the country, now lie rotting in the field. About 20-30 per cent of the potatoes have been harvested. But due to the fear of petrol bomb attacks, about two million tonnes of potatoes have not been able to reach the consumers. These are rotting in the markets and the fields. *http://en.prothom-alo.com/bangladesh/news/58373/Farmers-face-losses-in-blockade*

Annex 2.3

Policy Support Measures Taken by the Government in 2014 for Exporters

Announcement Period	Fiscal Policy Support Measures
April 2014	NBR **slashed export tax** to compensate the manufacturers for the losses made during the political unrest preceding the election, effective from 1 April 2014 to 30 June 2015: • on RMG products: from 0.3 per cent from 0.8 per cent • on all other products: from 0.6 per cent from 0.8 per cent
June 2014	The import duties on raw materials of pre-fabricated building and fire safety equipment were fully exempted. Bangladesh Bank provided the following **cash incentives**: - Additional cash incentive for export of RMG or Textile (entitled for customs bond/duty drawback): 0.25 per cent (on fob value) - For new products within garments sector/new market expansion (except USA, Canada, EU): 3 per cent (from 1 January 2014 to 30 June 2015)
July 2014	Bangladesh Bank announced export subsidy/cash incentive for FY2014-15: **Export subsidy** • for light engineering products: 10 per cent • for ship export: 5 per cent • for export of agricultural products (vegetables/fruits): 20 per cent • for agro-processed products: 20 per cent • for 100 per cent *halal* meat: 20 per cent • for pet bottle: 10 per cent **Cash incentives** • for frozen shrimp export: 10 per cent • for potato export: 20 per cent • for garments (except duty bond or duty drawback): 5 per cent • additional incentive for SME garments industries: 5 per cent • for leather products: 15 per cent • for export of handmade products from hay, sedge, sugarcane: 15-20 per cent • for bone powder export: 15 per cent • for jute final products: 10 per cent • for jute cotton: 7.5 per cent NBR issued Statutory Regulatory Order (SRO) on **tax rebate for new and existing industries**: • for new and relocating industries starting operation in the first half of 2014: 20 per cent • for the existing industries (up to 30 June 2019): 10 per cent
August 2014	NBR **discontinued the special tax rates** for the FY2014-15 **for the apparel exporters** who used to enjoy 10 per cent special tax rate at the time annual assessment instead of the higher 35 per cent corporate tax rate
September 2014	Bangladesh Bank granted **cash incentive** to the exporters of frozen fish other than shrimp: 5 per cent
October 2014	Bangladesh Bank provided **additional cash incentive** for all RMG exports (including industries which remain outside export processing zone (EPZ) but receiving customs bond/duty drawback): 0.25 per cent (on fob value)

Source: Author's compilation.

Chapter 3

District Budget Experience in Bangladesh

The Case of Tangail

Towfiqul Islam Khan
Mostafa Amir Sabbih

This chapter was prepared as the keynote paper of a local dialogue on *Pre-Budget Dialogue 2015: Tangail District Budget and Relevant Issues*, organised by the Centre for Policy Dialogue (CPD), on 14 March 2015, at the BURO Bangladesh Auditorium, Tangail.

Mr Towfiqul Islam Khan is a Research Fellow at the CPD and *Mr Mostafa Amir Sabbih* is a Research Associate at the CPD.

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3.1 INTRODUCTION

3.1.1 Background

Despite there being an established system of subnational administration in Bangladesh, Bangladesh's fiscal structure is highly centralised. As such, Bangladesh is some way behind many comparable countries (by size and per capita income) when it comes to fiscal decentralisation, both in terms of aggregate expenditure and revenue earnings. Subnational expenditure as a percentage of total consolidated government expenditure is estimated at just 3-4 per cent (World Bank, 2010). In terms of revenue, most tax and non-tax revenue are collected through central government. As such, less than 2 per cent of total government revenue is collected at the subnational level (World Bank, 2010).

Alert to this situation, the concept of district budget in Bangladesh was first advanced by the Finance Minister in the FY2010-11 budget. Subsequently, input was also sought from Members of Parliament (MPs) and civil society representatives (MoF, 2010). The notion of a district budget was developed as part of a wider effort to realise reforms in the existing budget management system, a move welcomed by a number of key stakeholders and analysts. Indeed, decentralisation and district-level implementation of the rural development plan are both in line with the spirit of advancing the aspirations of the wider population at the local level, which it should be noted is itself a national development objective (CPD, 2015). However, this process fell behind schedule, as the district budget had not been finalised by the time of the FY2011-12 budget as had been expected. However, a pilot district budget for the Tangail district was prepared in time for the FY2013-14 budget. In his FY2013-14 speech, the Finance Minister emphasised the contemporary importance of a powerful Zila Parishad (MoF, 2013). In addition to Tangail, district budgets were also prepared for the six districts of Khulna, Chittagong, Barisal, Rajshahi, Rangpur and Sylhet, as announced in the FY2014-15 national budget.

In the South Asian context, Nepal provides an example of the district budget concept in practice. The Nepal National Planning Commission (NPC) sets district level ceilings. In accordance with the budgetary directives of Nepal's Ministry of Finance, Village Development Committees (VDC) (elected bodies at the local level) are responsible for producing lists of desired district-level programmes along with anticipated budgets. These lists are produced during VDC council meetings, which include representation from both political parties and civil society groups. The VDCs approve programmes and forward their demands to the district development committee (DDC) via the area council (an intermediary body created to compile village-centred programme requests). The DDCs submit such requests to the central government for budget allocation. Once implemented, DDC-led projects are audited by the Auditor General, while ministry-led projects are audited by the Financial Comptroller General's Office (World Bank, 2014).

In addition to Nepal, Pakistan has also piloted district level budgets, however, this has been limited to the field of education only. Expenditure associated with the Pakistan District Education Budget is sourced from local government resources as equivalent to the district level, with transfers allocated by provincial and central government (MoF, 2010).

District level budgeting can contribute towards fiscal decentralisation and a strengthening of local government. In Bangladesh, a district is composed of a number of municipalities, upazila parishads and union parishads. Usually, estimates of annual income and expenditure are detailed by district. In 2011, the Ministry of Finance (MoF) outlined four main income-generation avenues for districts, including: local tax, the transfer of money to local government institutions to meet expenditure, grants from central government, and loans. Similarly, four main areas have been identified in regards to expenditure, including: revenue expenditure (including government offices), social welfare programmes, capital expenditure, and district-level development projects (approved by both central and local government). As such, the district budget essentially provides a framework for how much and from which sources a district will earn its revenue, and to which sectors these funds will be allocated. During this process, an account of the funding allocated by central government to each district (should that district face a shortfall in its finances) will be presented.

MoF (2010) has highlighted a number of weaknesses in regards to the traditional budget formulation process in Bangladesh. These include:

a. Unsatisfactory revenue collection (despite such avenues being available);
b. Inadequate consideration of people's needs and expectations in estimating expenditure;
c. Disparity in resource allocation between regions;
d. Poor achievement of targets due to ineffective monitoring of implementation;
e. A lack of scope for the potential self-sufficiency of districts; and
f. Overall dependency on central government.

In view of these identified weaknesses, an independent district budget is necessary to increase the efficiency of resource allocation, as well as to improve accountability and implementation.

3.1.2 Objectives, Methods and Structure

The district budget concept and its implementation in practice remain relatively new in the Bangladesh context. The purpose of this report is to identify current weaknesses in the district level budget-making process, and to explore the potential for a more effective district level budget that is participatory, efficient and able to reflect district level development demands.

To reiterate, the objectives of the district level budget in Bangladesh are to:

a. Investigate whether local level needs and expectations are reflected in the formulation of the national budget;
b. Explore the potential for revenue collection at the district level;
c. Assess the potential scope for district level self-sufficiency;
d. Address regional disparity in resource allocation with a view to improving efficiency; and
e. Strengthen monitoring with a view to improving the realisation of budgetary targets.

Tangail district provides the most appropriate test case for the present study as it was the first district for which a district budget was prepared, and is the only district for which allocations have been presented in two consecutive district budgets.

The analysis in this report is based on statistical data from secondary government sources. This includes data on a range of socio-economic indicators for Tangail that has been sourced primarily from the Bangladesh Bureau of Statistics (BBS), as well as budget data from the MoF. In addition, interviews were conducted with a number of government officials and non-government actors, and a focus group discussion (FGD) was held with civil society members, academics and representatives of the business community.

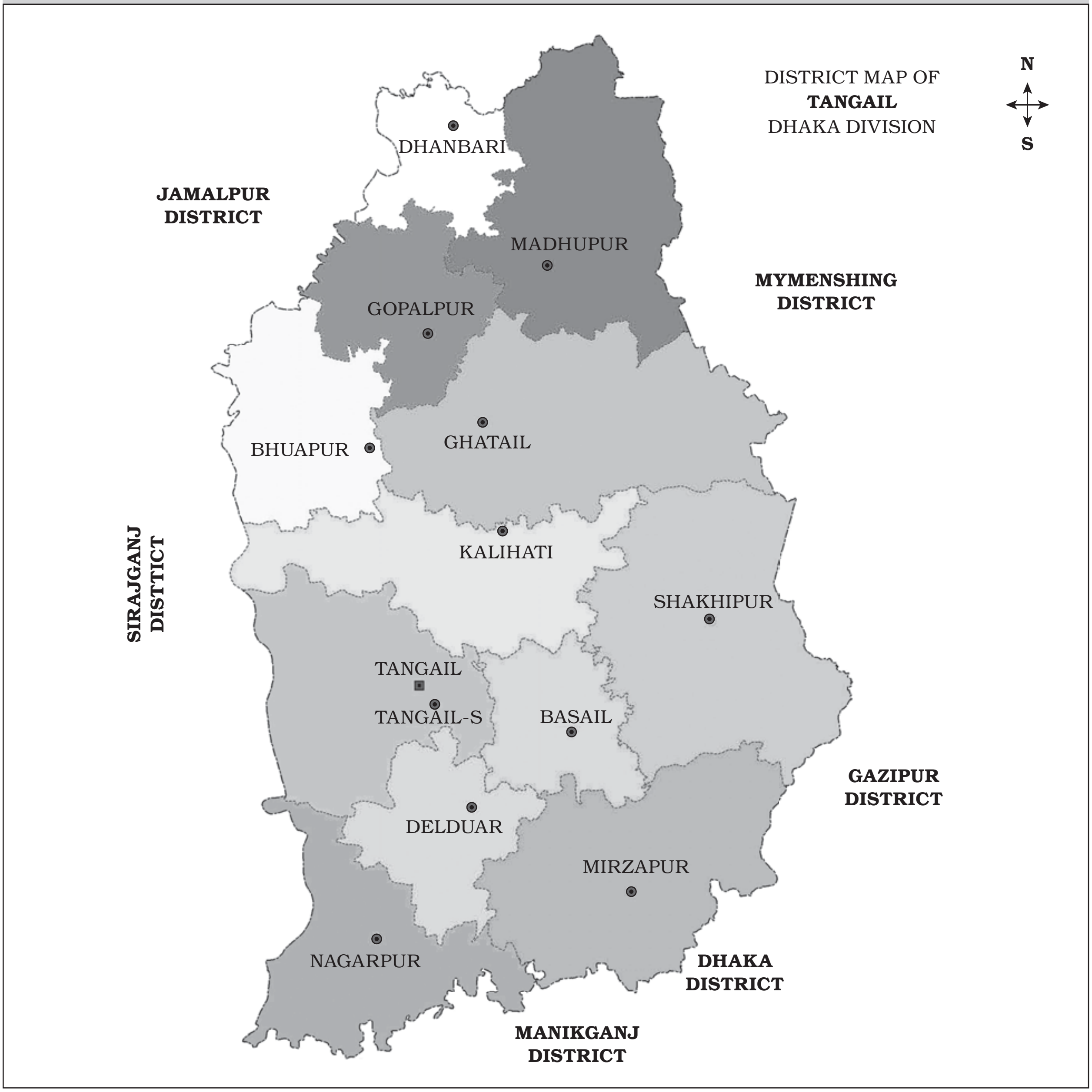
This chapter is structured in three sections. Following this introduction (Section 3.1), Section 3.2 provides an overview of the demographic and socio-economic situation in the Tangail district. Section 3.3 then reviews the Tangail district budget formulation method and examines key trends. Section 3.4 aims to identify and trace any changes in the Tangail district budgetary processes as a result of district budget practice, and presents key developmental needs for the district that should be taken into consideration in the preparation and implementation of upcoming budget(s). Section 3.5 then concludes with a series of final remarks.

3.2 THE SOCIO-ECONOMIC STATE OF THE TANGAIL DISTRICT

3.2.1 Geographic Area, Location and Population

Located in central Bangladesh, the Tangail district lies adjacent to Jamalpur district to the north, Dhaka and Manikganj districts to the south, Mymensingh and Gazipur districts to the east, and Sirajganj district to the west (Map 3.1). Tangail district lies between 24° 01′ and 24° 47′ north latitudes and between 89° 44′ and 90° 18′ east longitudes (BBS, 2013a). The total geographic area of the district is 3,414.35 sq. km (1,318.09 sq. mile), which comprises 2,811 sq. km of land area, 510 sq. km of reserve forest, and just under 93 sq. km of waterways. Tangail town itself has a total area of 35.22 sq. km.

Map 3.1
Tangail District



Source: Local Government Engineering Department (LGED). Available at: http://www.lged.gov.bd/UploadedDocument/District Map/tangail/tangail.jpg

Table 3.1
Key Indicators for the Tangail District (2011)

Area and Population	
Total area (sq. km)	3,413.7
Total population (lakh)	37.5
Population density (population/sq. km)	1,056
Population growth rate (%)	1.42
Administrative Structure	
City corporation	0
Upazila	12
Municipalities	11
Thana	14
Union	110
Villages	2,439

Source: Compiled by the authors based on data from BBS (2013a).

As Table 3.1 shows, the total population of the Tangail district is approximately 37.5 lakh, which makes it the fifth largest district in Bangladesh in terms of population. The population growth rate is 1.42 per cent, which compares to a national average growth rate of 1.37 per cent. The district's population density (1,056 per sq. km, 24th in Bangladesh) is also higher than that of the national average (1,021 per sq. km).

During the British reign, Tangail was a sub-division within the Mymensingh district, established in 1870; afterwords Tangail municipality was established in 1887. Tangail was established as a separate district in December 1969, as part of the Dhaka division.

Tangail district consists of 12 upazilas, 110 unions, 1,855 mauzas (inhabited), 2,439 villages (inhabited), 11 municipalities, 108 wards and 245 mahallas (BBS 2013a). The 12 upazilas are: Tangail Sadar, Basail, Bhuapur, Delduar, Dhanbari, Ghatail, Gopalpur, Kalihati, Madhupur, Mirzapur, Nagarpur, and

Table 3.2
Size of Different Upazilas within the Tangail District (2011)

(Sq. Km)

Upazila	Land	Reserve Forest	River	Total Area
Basail	157.1	0.0	0.7	157.2
Bhuapur	206.5	0.0	18.5	225.0
Delduar	179.0	0.0	5.5	184.5
Dhanbari	133.5	0.0	0.3	133.8
Ghatail	344.2	101.0	6.1	451.3
Gopalpur	191.8	0.0	1.6	193.4
Kalihati	262.7	4.2	28.2	295.6
Madhupur	181.8	184.4	0.7	366.9
Mirzapur	341.5	29.0	3.4	373.9
Nagarpur	249.3	0.0	13.5	262.7
Sakhipur	243.2	191.2	0.8	435.2
Tangail Sadar	320.7	0.0	13.6	334.3
Total	**2811.3**	**509.8**	**92.9**	**3413.8**

Source: Compiled by the authors based on data from BBS (2013a).
Note: The Table has been presented here as it has been reported in the source mentioned above. Some anomalies are recognised in the 'Total Area' column when summing the respective figures for 'Land', 'Reserve Forest' and 'River'.

Sakhipur. In terms of total area, Ghatail is the largest upazila and Dhanbari is the smallest upazila (Table 3.2).

3.2.2 Household Characteristics

As of 2009-2011, approximately 85-90 per cent of all houses in the Tangail district were constructed of either tin or wood. This compares to yearly averages for each construction material of less than 70 per cent throughout the wider Dhaka division (Table 3.3). In contrast, very few houses were 'building's in Tangail district (1.6 per cent in 2011).

Table 3.3

House Structure by Construction Material (% of Total Number of Households)

Material	National			Tangail District			Dhaka Division		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Building	8.6	9.9	9.6	8.3	1.4	1.6	8.5	9.0	8.4
Semi pacca	16.0	18.2	19.3	3.9	4.5	4.8	13.2	14.8	16.8
Tin/wooden	55.3	54.3	53.9	84.9	90.3	91.2	69.1	68.2	67.6
Mud	13.7	11.5	12.2	1.8	1.7	1.6	5.2	5.3	5.2
Bamboo	6.0	5.4	4.7	1.2	2.1	0.8	3.3	2.4	1.9
Others	0.5	0.8	0.4	0.0	0.0	0.0	0.7	0.4	0.2

Source: Compiled by the authors based on data from BBS (2011a, 2011b, 2013b).

3.2.3 Economic Characteristics

In 2011, only 24.4 per cent of households in the Tangail district were solvent. This figure is marginally higher than both the average figures at the national level (21.3 per cent) and in the Dhaka division (22.3 per cent) (Table 3.4). Curiously, the share of Tangail households with savings declined from 16.6 per cent in 2009 to 12.7 per cent in 2011. This 2009 figure was lower than both the national (12.9 per cent) and Dhaka division (13.5 per cent) figures. Further, in 2011, a significant proportion of Tangail district households were either in permanent insolvency (10.8 per cent) or temporary insolvency (19.8 per cent).

In early 2005, the percentages of the poor (40.4 per cent) and the extreme poor (27 per cent) in Tangail district were higher than both the national and Dhaka division averages (Figures 3.1 and 3.2). However, this situation improved significantly in the subsequent five years, as both the percentages of the poor and the extreme poor dropped by 9-10 percentage points, to 29.8 per cent and 18 per cent respectively. These figures are now below both the national and divisional figures. At the upazila level, Basail experienced the greatest decline, with the poverty rate declining from 33.6 per cent in 2005 to 19.7 per cent in 2010,

Table 3.4

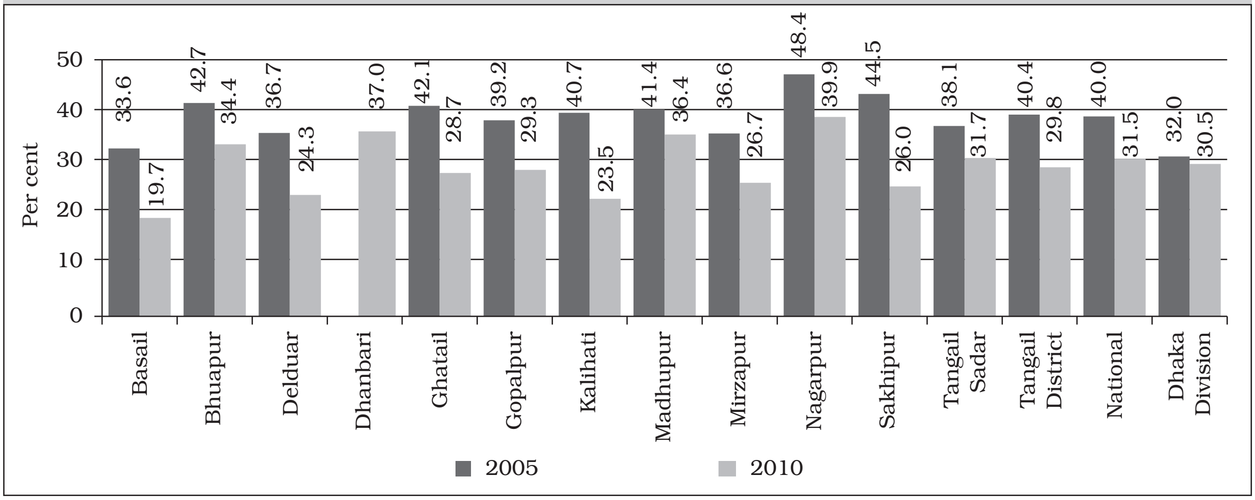
Share of Households by Economic Classification (% of Total Number of Households)

Classification	National			Tangail District			Dhaka Division		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Permanent insolvency	14.2	16.9	14.1	11.2	11.7	10.8	10.6	12.7	9.9
Temporary insolvency	19.5	12.5	17.7	21.8	24.8	19.8	18.6	11.5	17.2
Equal income & expenditure	29.1	33.5	33.9	28.7	28.3	32.4	31.3	37.5	37.1
Solvent	21.2	22.7	21.3	21.7	22.9	24.4	22.1	23.7	22.3
Savings	16.0	14.4	12.9	16.6	12.3	12.7	17.4	14.7	13.5

Source: Compiled by the authors based on data from BBS (2011a, 2011b, 2013b).

Figure 3.1

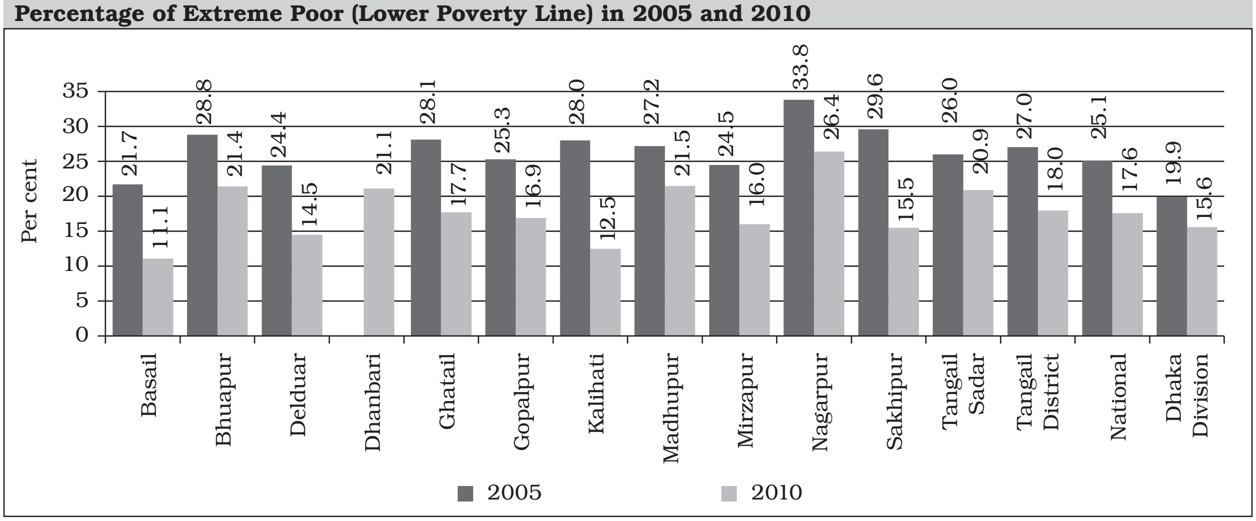
Percentage of Poor People (Upper Poverty Line) in 2005 and 2010



Source: Compiled by the authors from BBS (2005, 2010).

Figure 3.2

Percentage of Extreme Poor (Lower Poverty Line) in 2005 and 2010



Source: Compiled by the authors from BBS (2005, 2010).

and the extreme poverty rate declining from 21.7 per cent in 2005 to 11.1 per cent in 2010. Conversely, in Nagarpur, the percentage of the poor and the extreme poor remained above 39 per cent and 26 per cent respectively, in 2010.

3.2.4 Labour Force Participation

In 2003, the labour force in the Tangail district totalled 54.6 per cent of the total district population, which was below the national average of 57.3 per cent (Table 3.5). However, in subsequent years, Tangail district has recorded a higher rate of growth than at the national level. As a result, by 2010, the labour force as a percentage of the total population in Tangail district reached 63.1 per cent, surpassing the national figure of 59.3 per cent, and remained higher than the average of 55.2 per cent in the wider Dhaka division. This was largely a result of greater female participation in the labour force, with their participation doubling between 2003 and 2010.

Table 3.5
Labour Force Participation Rate

(in Per cent)

Region	2003			2006			2010		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
National	87.4	26.1	57.3	86.8	29.2	58.5	82.5	36.0	59.3
Dhaka division	85.8	23.6	54.2	81.8	22.2	52.1	78.4	31.7	55.2
Tangail district	***87.2***	***21.0***	***54.6***	***89.8***	***25.4***	***57.5***	***83.7***	***43.4***	***63.1***

Source: Compiled by the authors from BBS (2004, 2008, 2011c).

3.2.5 Industry

Tangail is renowned for its small and cottage industries. With its long tradition in the handloom industry, a significant number of handloom units operate in Tangail district – 6,021 in total. Tangail is the home of the weavers of the world famous 'Tangail Saree', a handloom saree made of both cotton and silk thread, which is mainly produced in Kalihati, Tangail Sadar, Bhuapur and Basail upazilas.

Among the major industries, in 2011, there were five textile mills, four garment factories, 1,081 rice mills, and one jute mill in Tangail. However, these numbers are relatively low when compared to those in Dhaka district (Table 3.6). In recent years, a number of industries have been established in Mirzapur upazila.

Table 3.6
Number of Industries by Type and Upazila (2011)

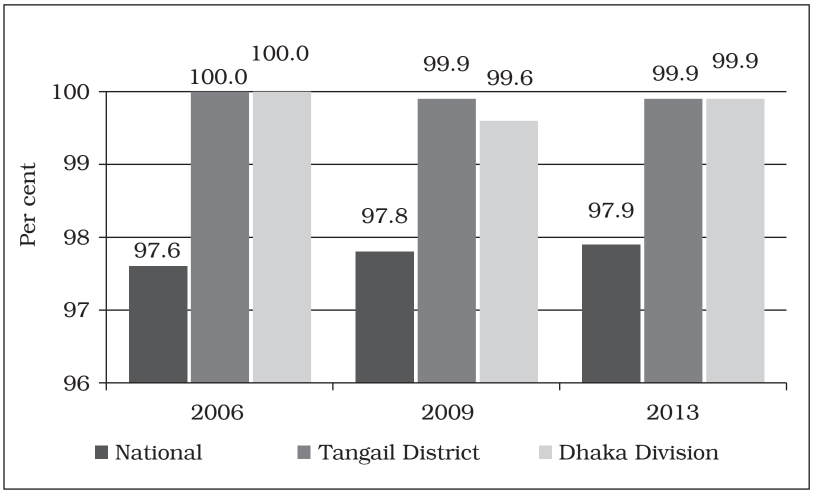
Upazila	Textile Mill	Garment Factory	Rice Mill	Jute Mill	Handloom Unit (Factory)	Others
Basail	0	0	7	0	522	0
Bhuapur	0	0	106	0	15	0
Delduar	1	0	88	0	1,134	43
Dhanbari	0	0	47	0	0	0
Ghatail	0	0	133	0	0	0
Gopalpur	0	0	34	0	0	0
Kalihati	0	1	105	0	2,228	12
Madhupur	0	0	22	0	2	0
Mirzapur	2	2	260	1	0	38
Nagarpur	0	0	203	0	206	0
Sakhipur	0	0	22	0	0	0
Tangail Sadar	2	1	54	0	1914	0
Total	**5**	**4**	**1,081**	**1**	**6,021**	**93**
Dhaka district	***32***	***1,483***	***492***	***8***	***923***	***516***

Source: Compiled by the authors based on data from BBS (2013a).

3.2.6 Water and Sanitation

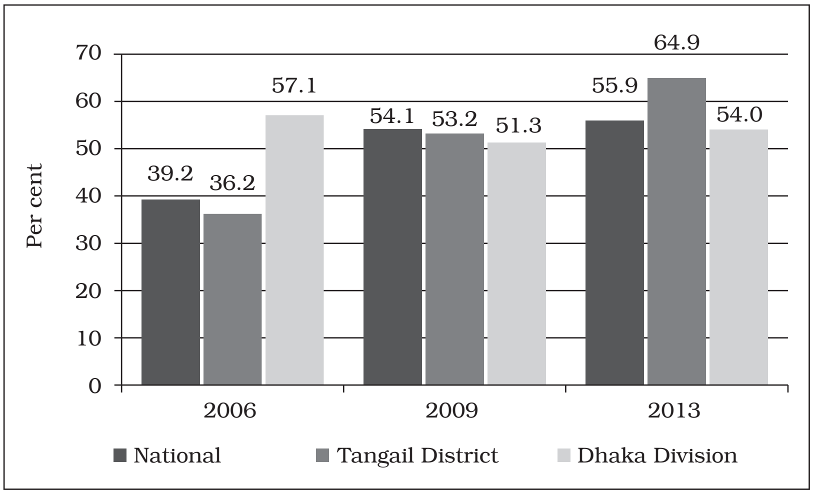
Figure 3.3 shows that 99.9 per cent households in the Tangail district have access to improved drinking water sources.

Figure 3.3
Access to Improved Drinking Water Sources (% of Total Population)



Source: Compiled by the authors based on data from BBS and UNICEF (2008, 2010, 2014).

Figure 3.4
Access to Improved Sanitation (% of Total Population)



Source: Compiled by the authors based on data from BBS and UNICEF (2008, 2010, 2014).

Tangail district has experienced notable improvements in regards to sanitation. In 2006, only 36.2 per cent of Tangail inhabitants had access to improved sanitation, which compared to 39.2 per cent nationally. However, by 2013, this figure for Tangail district was 64.9 per cent, above the national average of 55.9 per cent (Figure 3.4).

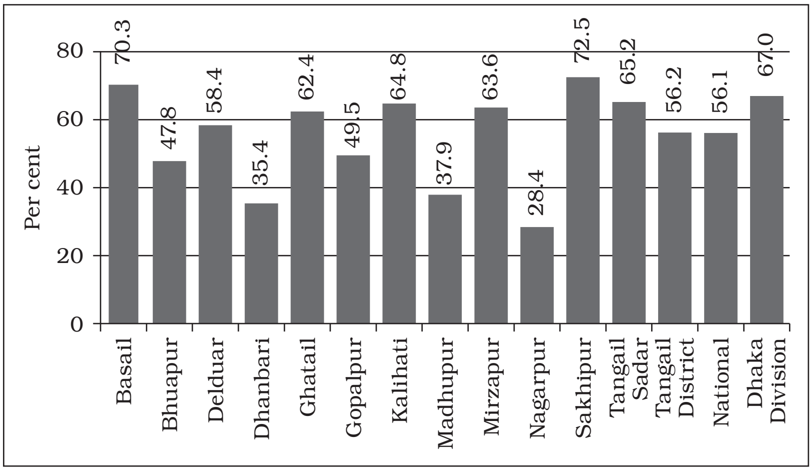
3.2.7 Energy

A total of 56.2 per cent of households in the Tangail district have an electricity connection, which is below the 67 per cent average for the wider Dhaka division (Figure 3.5). Significant differences can be seen between upazilas – in Basail and Sakhipur more than 70 per cent households have electricity connection; while in Nagarpur, Dhanbari and Madhupur this figure remains below 38 per cent.

Dependence on straw and wood/bamboo as major fuel source was much higher in Tangail than the national average and the wider Dhaka division (91 per cent in 2011) (Table 3.7). While the share of gas as a source of fuel has been increasing both nationally and in the Dhaka division, reaching 11 per cent and 20.6 per cent respectively in 2011, the corresponding figure for Tangail district remained stagnant, at between 3-4 per cent during the 2009-2011 period.

Figure 3.5

Households with Electricity Connection by Upazila (% of Total Number of Households)



Source: Generated using Geographic Information System (GIS) application, Bangladesh Bureau of Statistics (BBS).

Table 3.7

Household Fuel Sources (% of Total Number of Households)

Source	National			Tangail District			Dhaka Division		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Straw	37.5	38.6	39.3	56.7	63.0	66.5	37.0	39.5	39.1
Husk	5.8	5.3	4.0	6.3	8.0	4.4	5.8	4.4	4.2
Wood/bamboo	42.7	43.7	43.1	29.6	24.5	24.5	33.4	34.2	33.9
Kerosene	0.4	0.5	0.3	0.4	0.1	0.1	0.4	0.3	0.1
Electricity	0.6	1.1	0.4	0.9	0.3	0.1	0.7	1.0	0.4
Gas	9.8	9.1	11.0	3.0	4.0	3.7	18.8	17.3	20.6
Others	3.2	1.8	2.0	3.1	0.1	0.8	3.8	3.3	1.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Compiled by the authors based on data from BBS (2011a, 2011b, 2013b).

3.2.8 Infrastructure

According to the BBS, in 2011, the Tangail district had a total of 2,034 bridges, 16 bailey bridges, 1,711 culverts, 217 *pools*, 602 *shankos* and 5,640 other structures designed to enable movement of persons throughout the region (Table 3.8).

Table 3.8

Infrastructure by Type (2011)

Upazila	Bridge	Bailey Bridge	Culvert	Pool	Shanko	Others
Basail	71	0	161	0	12	298
Bhuapur	110	0	127	15	20	272
Delduar	135	0	74	13	275	285
Dhanbari	20	0	213	0	10	226
Ghatail	509	0	120	0	99	652
Gopalpur	415	3	351	61	0	670
Kalihati	200	4	99	0	15	421
Madhupur	11	0	165	0	0	499

(Table 3.8 contd.)

(Table 3.8 contd.)

Upazila	Bridge	Bailey Bridge	Culvert	Pool	Shako	Other
Mirzapur	80	0	185	0	0	620
Nagarpur	158	8	69	82	146	530
Sakhipur	10	1	54	46	25	590
Tangail Sadar	315	0	93	0	0	577
Total	**2,034**	**16**	**1,711**	**217**	**602**	**5,640**
Dhaka District	***437***	***61***	***987***	***82***	***75***	***10***

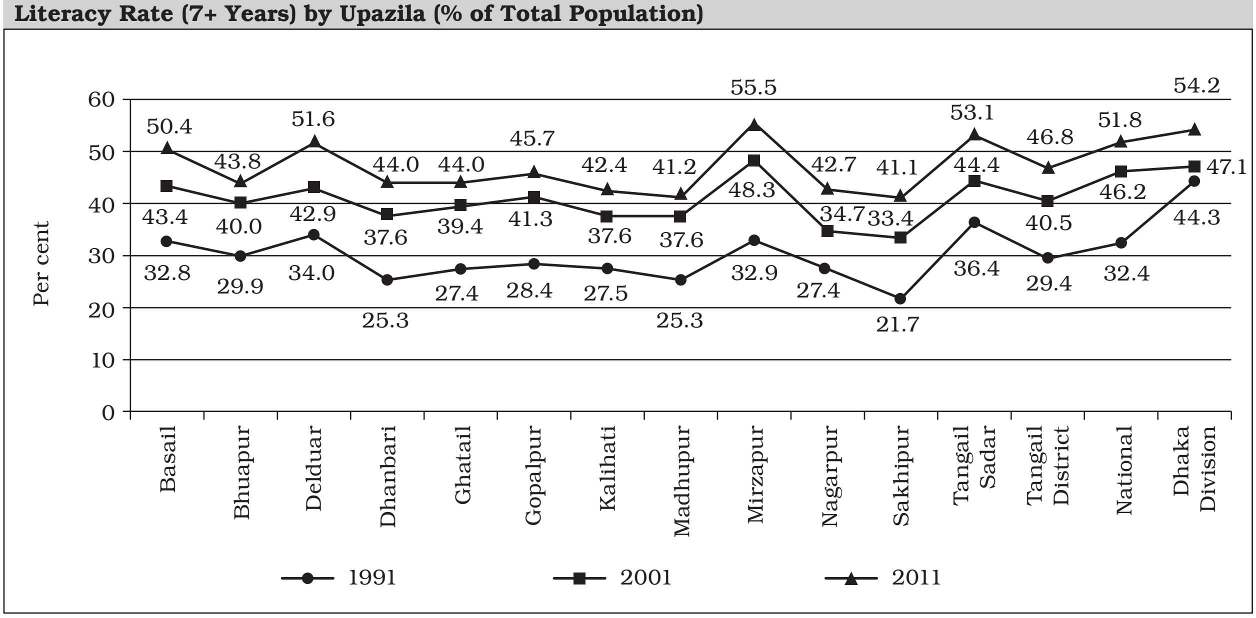
Source: Compiled by the authors based on data from BBS (2013a).

3.2.9 Education

The literacy rate in Tangail district (among the population aged seven years and above) has increased over the last 20 years, reaching 46.8 per cent of the total population in 2011 (Figure 3.6); in 1991, the corresponding figure was 29.4 per cent. However, this figure remains lower than both the national average and that of the wider Dhaka division, at 51.8 per cent and 54.2 per cent respectively. At the upazila level, Mirzapur has the highest literacy rate, at 55.5 per cent, and Sakhipur has the lowest literacy rate, at 41.1 per cent.

Figure 3.6

Literacy Rate (7+ Years) by Upazila (% of Total Population)



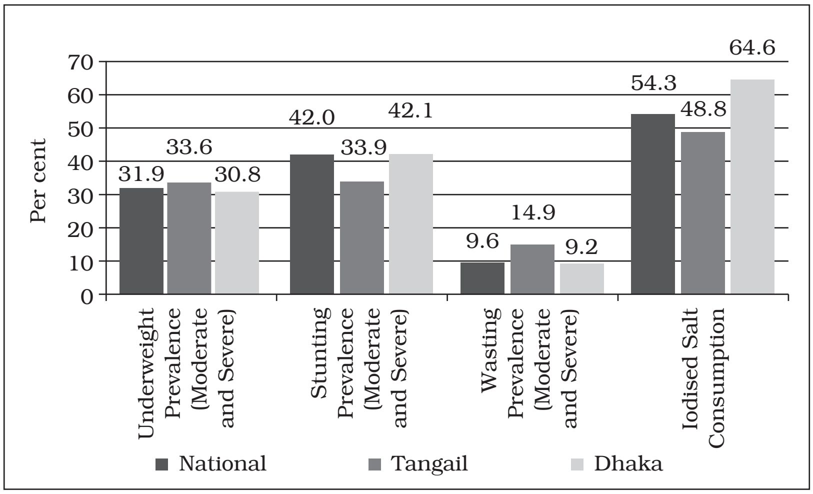
Source: Compiled by the authors based on data from BBS (1991, 2001, 2011d).

3.2.10 Health, Nutrition and Family Planning

Standards of nutrition in Tangail district remain poor overall. District figures in all but one of the main health and nutrition-related indicators (including underweight prevalence, wasting prevalence, and consumption of iodised salt) are worse than those at the national and Dhaka division levels (Figure 3.7). The only exception is prevalence of stunting, which, at 33.9 per cent for the district, is lower than the corresponding average figures at both the national and Dhaka division levels, which are 42 per cent and 42.1 per cent respectively.

Figure 3.7

Nutritional Status (2012-2013)
(% of Total Population)



Source: Compiled by the authors based on data from BBS and UNICEF (2014).

Table 3.9

Infant Mortality Rate (Per 1,000 Live Births)

Region	2009			2010			2011		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
National	41.6	36.5	39.1	38.0	35.0	36.0	43.0	31.6	34.5
Dhaka division	40.4	35.4	38.0	35.2	31.9	33.6	40.4	36.2	38.3
Tangail district	**36.7**	**37.4**	**37.0**	**33.8**	**29.7**	**31.9**	**27.9**	**47.8**	**37.9**

Source: Compiled by the authors based on data from BBS (2011a, 2011b, 2013b).

Table 3.10

Rate of Contraception Use

(in Per cent)

Region	2009			2010			2011		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
National	57.9	54.4	55.7	60.9	55.3	56.7	62.3	56.0	58.4
Dhaka division	58.7	54.6	56.5	60.7	56.4	58.1	62.4	57.6	59.6
Tangail district	**60.7**	**54.2**	**56.2**	**65.2**	**56.9**	**59.5**	**66.3**	**57.2**	**60.2**

Source: Compiled by the authors based on data from BBS (2011a, 2011b, 2013b).

It is particularly worrying that the infant mortality rate in the Tangail district increased between 2009 and 2011, from 37 per 1,000 live births to 37.9 per 1,000 live births. This contrasts with the decreasing rate at the national level. However, the figure for the Tangail district remained marginally lower than the wider Dhaka division (Table 3.9).

Contraception use has increased in the Tangail district, from 56.2 per cent in 2009 to 60.2 per cent in 2011, the 2011 figure being higher than both the national and Dhaka division figures (Table 3.10). Notably, improvements have been seen in both rural and urban areas.

Government medical facilities in the Tangail district remain at a very poor standard. Only 17 beds are available per 100,000 people, which compares to 72 beds per 100,000 people in Dhaka district (Table 3.11). Further, the number of medical staff remains inadequate for a population of nearly four million. As of 2011, per 100,000 people, there were eight doctors, six nurses, four technicians and 34 ancillary staff (all figures rounded to the nearest whole number).

Table 3.11

Number of Available Beds and Medical Staff by Upazila (Per 100,000 Population)

Upazila	Beds	Doctors	Nurses	Technicians	Ancillary Staff
Basail	18.7	15.7	10.2	10.2	45.2
Bhuapur	25.3	10.6	9.1	6.1	32.8
Delduar	14.4	7.9	5.6	3.7	55.8
Dhanbari	0.0	5.5	4.4	2.7	8.7
Ghatail	7.1	6.9	3.9	3.2	36.2
Gopalpur	11.8	3.0	4.6	3.0	36.1
Kalihati	11.7	7.7	4.0	1.4	33.6
Madhupur	16.2	8.1	5.8	7.8	24.9
Mirzapur	7.3	5.2	2.4	1.7	32.8
Nagarpur	10.4	3.0	3.3	1.3	37.1
Sakhipur	17.3	8.7	6.9	8.3	26.6
Tangail Sadar	46.0	10.1	12.5	2.4	33.7
Total	**17.0**	**7.5**	**6.1**	**3.8**	**33.6**
Dhaka District	***72.1***	***32.7***	***25.8***	***6.1***	***67.9***

Source: Complied by the authors based on data from BBS (2013a).

3.3 REVISITING THE DISTRICT BUDGET EXPERIENCE IN TANGAIL: METHOD AND ESTIMATION

Preparing a comprehensive district budget required large-scale administrative reform. Indeed, district budget making would not have been possible within the existing administrative arrangements (MoF, 2013). The district budget presented by the MoF was in effect a budget allocation accounting exercise organised by district. These district-specific budget allocations were presented in the central budget according to allocations assigned to all government offices, local government institutions and private organisations. In order to achieve this, further adjustments, of the existing budget classifications was required. Accordingly, a separate module was created in the Finance Division's central database (Integrated Budget and Accounting System – iBAS) to allow for entry by item. Items were included in the module depending on the possibility of funding being allocated, analysing each item of each ministry/division. In this process, ministries/divisions (or the departments within them) were allocated an iBAS entry by assessing item-by-item allocation in the seven named districts. As such, the district budget was presented in accordance with allocations made for each government office, local government institution and private organisation situated in the Tangail district from the central budget. Funds for both development and non-development purposes were included.

This process involved a number of adjustments:

- **Allocation to divisional and local offices:** As of FY2014-15, divisional headquarters were located in six of the seven districts selected for the district budget programme. As such, in addition to their respective district offices, these towns also hold divisional and local offices that work under each ministry/division (for example, the Divisional Commissioner's Office or the Office of the Deputy Inspector General of Police). Such offices do not deliver services directly to a particular district, rather they oversee the activities of the district/upazila offices within these divisions/areas. However, despite this role, allocations to divisional and local offices were not included in the district budget-making process.
- **Merging of district/upazila offices with central departmental allocations:** For those departments whose allocations were merged with their central office, instead of first presenting district/upazila level allocations separately, central departmental allocations for these departments were separated

from their district/upazila allocations. Allocations for district/upazila offices of these seven selected districts were then determined.

- **Allocations presented in the central ministry budget:** For programmes or projects for which central ministry budgetary allocations were first presented before allocations were then made at the district/upazila level from this central allocation (for example, elderly person's allowance, Vulnerable Group Feeding (VGF), Vulnerable Group Development (VGD), Food for Work (FFW), Test Relief (TR), etc.), scheduled allocations were presented for these programmes or projects for all the upazilas in the seven selected districts.
- **Process followed at upazila/union level offices:** All upazila office allocations for each of the seven districts were presented together. For those offices for which there were separate allocations made in the budget at the union level (for example, the Union Land Office), official allocations at all union levels for all upazilas in the seven districts were presented together.
- **Allocation for development:** Scheduled allocations from the development budget in the FY2013-14 (original and revised) and FY2014-15 (original) budgets for projects implemented under the Annual Development Programme (ADP) in the seven districts were presented separately. Spending was presented as a development expenditure only when there were approved allocations for these development projects that could be spent in any of these districts.

However, despite these adjustments in regards to district budget allocation estimation, it was not possible to overcome the following limitations (MoF, 2014):

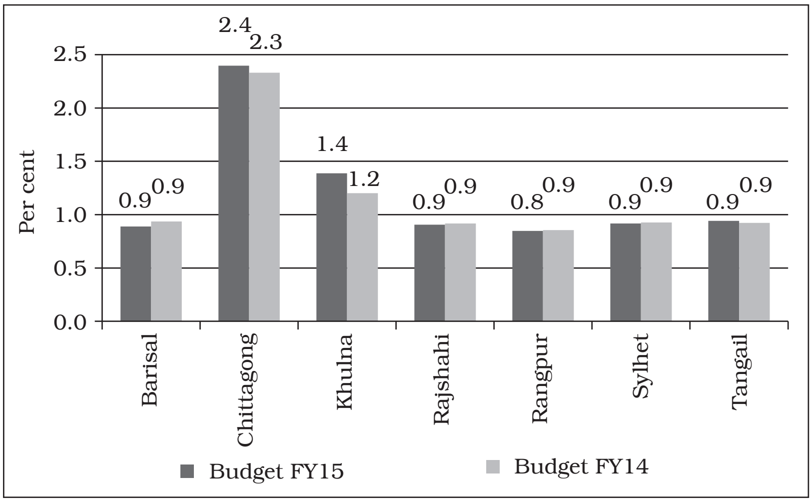
- **Missing sectors:** Allocations were not made for a number of sectors. First, government agencies that were not operational in these districts were not included. Second, funding was not distributed at the district level for a number of sectors, including central government loan and interest payments, defence, allocations to the Ministry of Foreign Affairs, and large-scale public investment projects (for example, Padma Bridge).
- **Non-development revenue expenditure estimates:** For a number of government agencies, non-development revenue expenditures were not distributed at the district level despite such estimates having been included in the district budget. As such, a large part of the non-development allocation shown in the district budget may differ from actual allocation/expenditure.
- **Development programmes from the revenue budget:** Similar to non-development revenue expenditure, development programmes financed from the revenue budget allocations at the district level were not realised, despite estimates having been given.
- **Development budget estimates:** In the case of a number of district level development programmes, while an estimate for a particular district may have been included in the budget for that district, actual expenditure often differed from that allocation.
- **Exclusion of large-scale development projects from the district budget:** The MoF intentionally excluded large-scale development projects (particularly those being undertaken by the Ministry of Power, Energy and Mineral Resources; and the Ministry of Industry) from the district budget.
- **Exclusion of block allocation:** All block allocations remained out of scope.

The allocated share of total public expenditure for the Tangail district remained almost stagnant during FY2013-14 and FY2014-15, at around 0.9 per cent (Figure 3.8). While Barisal, Rajshahi, Rangpur and Sylhet districts each received a similar share to Tangail, the budgets for Chittagong and Khulna were significantly higher.

Table 3.12 shows that, of the seven districts with district budgets, per capita allocation from the national budget was the lowest for the Tangail district, in both FY2013-14 and FY2014-15.[1]

[1]Per capita expenditure (non-development and development) can be seen in Annex 3.1 and Annex 3.2.

Figure 3.8
District Share in Total Budget, by District



Source: Authors' calculations based on MoF (2013, 2014).

Table 3.12
Per Capita Allocation and Growth Rate, with Poverty Rates, by District

District	Per Capita Allocation ('000 Tk.)		Growth (%)	Tangail=100		Poverty Rate (%)	Extreme Poverty Rate (%)
	FY15 Budget	FY14 Budget	FY15 Budget over FY14 Budget	FY15 Budget	FY14 Budget	2010	2010
Barisal	9,063	8,202	10.5	146.2	157.3	54.8	39.9
Chittagong	7,461	6,235	19.7	120.4	119.6	11.5	4.0
Khulna	14,203	10,564	34.4	229.1	202.6	38.8	21.2
Rajshahi	8,284	7,194	15.1	133.6	138.0	31.4	16.5
Rangpur	6,971	6,040	15.4	112.4	115.8	46.2	30.1
Sylhet	6,333	5,500	15.1	102.1	105.5	24.1	19.5
Tangail	6,199	5,214	18.9	100.0	100.0	29.7	18.0

Source: Authors' calculations based on MoF (2013, 2014) and BBS (2010).

Just ten government ministries/divisions constituted 82 per cent of the total funding allocation in the FY2014-15 Tangail district budget, compared to approximately 80 per cent in FY2013-14 (Table 3.13). Among these, the Road Transport and Highways Division (RTHD) received the highest district budgetary allocation of 13 per cent, which compares to just 3 per cent in the FY2014-15 national budget. This high share for the RTHD reflects substantial allocations for a number of the agency's projects within the ADP.[2] All of the top ten ministries/divisions, except for the Power Division, received higher allocation shares in the Tangail district budget than in the national budget.

Table 3.14 shows that the total funding allocated to Tangail in its district budgets has been increasing year-on-year. Although the rate of growth has slowed in the most recent budget, in both FY2013-14 and FY2014-15 this rate of growth was higher than that of the national budget.

[2]The top ten projects by allocation in the FY2014-15 Tangail district budget can be seen in Annex 3.3.

Table 3.13

Top Ten Ministries/Divisions in Tangail District, by Funding Allocated

(in Per cent)

Ministry/Division	FY13 Budget		FY14 Budget		FY15 Budget	
	Tangail	National	Tangail	National	Tangail	National
Ministry of Home Affairs	3.9	5.0	7.2	4.7	6.6	4.8
Ministry of Primary & Mass Education	10.9	5.8	13.2	5.9	11.5	5.8
Ministry of Education	13.6	6.8	10.4	6.5	12.2	6.6
Ministry of Health & Family Welfare	8.0	5.5	7.2	4.6	6.9	4.7
Local Government Division	7.8	7.3	8.5	6.4	9.7	6.5
Ministry of Land	0.6	0.4	4.2	0.4	4.1	0.4
Ministry of Food	7.9	0.6	8.1	0.7	7.6	0.7
Ministry of Disaster Management & Relief	10.1	3.4	7.9	3.2	6.6	3.1
Road Transport and Highways Division	8.2	2.5	9.0	2.7	13.0	2.9
Power Division	1.8	4.7	3.8	4.4	3.7	3.9
Others	27.2	57.8	20.4	60.5	18.0	60.7

Source: Authors' calculations based on MoF (2013, 2014).

Table 3.14

Growth Rates in Funding in Tangail District: FY2013-14 and FY2014-15

(in Per cent)

Ministry/Division	FY14 Budget		FY15 Budget	
	Tangail	National	Tangail	National
Ministry of Home Affairs	143.7	13.1	9.0	18.6
Ministry of Primary & Mass Education	59.7	21.4	3.8	14.6
Ministry of Education	1.8	13.6	38.7	18.1
Ministry of Health & Family Welfare	19.8	1.5	12.5	17.7
Local Government Division	45.0	4.2	35.8	19.3
Ministry of Land	869.1	2.3	16.0	10.8
Ministry of Food	35.6	31.2	11.3	18.9
Ministry of Disaster Management & Relief	3.0	11.9	-0.1	11.7
Road Transport and Highways Division	44.2	30.7	72.9	23.7
Power Division	174.6	14.7	16.9	2.5
Total	**32.1**	**20.3**	**18.9**	**16.4**

Source: Authors' calculations based on MoF (2013, 2014).

3.4 TRACING THE CHANGES... HAVE THERE BEEN ANY?

District budgets were expected to contribute to ensuring that needs and expectations at the local level be reflected in the national budget, as well as encouraging revenue collection at the district level and helping to address regional disparities in resource allocation, all with a view to improving efficiency and the monitoring of budgetary targets. As a result, it was hoped that the district budget exercise would empower district administrations and promote some level of self-sufficiency. Regrettably, however, despite recent efforts made towards preparing district budgets, little improvement, if any, has been seen in any of these areas. This CPD review of the relevant literature and data has led to a number of findings:

1. The Tangail district budgets (as well as the budgets in the six other districts) are not district budgets per se. The district budgets merely reflect an attempt to distribute a part of government expenditure at the district level. The resource (revenue and loan/grant) elements of the budget remain distinctly missing.
2. District administrations were not involved in the budget-making process, and the district budget concept remains unclear to relevant stakeholders at both the district and sub-district levels. In effect, it has become an accounting exercise that has very little or no policy influence. Similarly, it has had no impact on budget implementation and monitoring.
3. The district budget exercise appears to have had no impact on addressing disparity in resource distribution. Indeed, regional inequality has not been addressed. There has been no initiative established to understand regional development demands beyond the traditional mechanism that involves government bureaucratic organs only. It is true that MPs can, from time to time, send a request to a government agency through a demi-official letter. While some may consider this an attempt to reflect the demands of the wider population, in reality people have little opportunity to be involved in the budget-making process.
4. District offices lack the capacity to prepare district budgets. The present organisational structures and human resources available at the district level are inadequate, meaning that district offices remain ill-equipped to undertake such tasks. Under such circumstances, it is unlikely that a bottom-up approach will be pursued for budget formulation.

As part of the present study, consultations have been held with relevant stakeholders in order to identify key development needs for the Tangail district. These needs, which should be considered in the preparation and implementation of forthcoming budget(s), include:

1. Timely completion of the Joydebpur-Chandra-Tangail-Elenga Road (N-4), a four-lane highway equipped with dividers as required
2. Dredging of the Dhaleswari River in order to improve navigability
3. Introducing commuter train services from Dhaka to Tangail
4. Constructing the second Jamuna Bridge/disassembling the railway track from the existing Jamuna Bridge and constructing a new, separate bridge
5. Enhancing sub-regional connectivity
6. Constructing a 600m long bridge in Tangail city over the Dhaleswari river (the feasibility study and morphological study for which have already been completed)
7. Constructing flyovers in Tangail city
8. Declaring Mirzapur an industrial city (where a number of industries, including garments, textiles, spinning, cycling, rice and jute mills, are currently operating)
9. Completing the proposed high-tech park in Ghatail (the proposal has already been submitted for land acquisition)
10. Establishing an export processing zone (EPZ) in the Jamuna *char* land
11. More comprehensive implementation of the 500 seats at Tangail Medical College
12. Conserving Tangail heritage and declaring it as a tourist area
13. Enhancing urban facilities (including parks, drainage, water supply, etc.)
14. Expanding the availability of sports facilities for girls
15. Establishing a cultural institute for the indigenous people of Madhupur
16. Distributing heat machines to support the operation of handloom factories
17. Establishing a regular market for the Bangladesh handloom industry by:

  a. Reducing the import duty on yarn and dye
  b. Establishing an information handloom point at the district level
  c. Implementing the necessary measures to promote the export of Tangail sarees
18. Developing a pineapple processing industry
19. Providing incentives to the private sector to build cold storage for preserving chicken and eggs of Tangail poultry farms (which contribute 15-18 per cent of total chicken and egg production in the country)
20. Establishing 'Shishu Park' for children
21. Protecting Jamuna river from erosion by creating an embankment using large concrete blocks
22. Taking budgetary measures to reduce violence against women
23. Building a railway station in Elenga
24. Building a literature and cultural practice centre on almost extinct culture
25. Removing the Louhajang River sluice gate
26. Facilitating health service delivery in rural areas (for example in Bhuapur) by increasing waterway transport during the rainy season
27. Establishing a large market in Tangail Sadar
28. Increasing budgetary allocation to the Tangail health sector, with an emphasis on drainage and sewerage
29. Building a trauma centre in Tangail near to accident-prone roads
30. Increasing the service quality of Tangail hospital by employing additional doctors and purchasing equipment for treating complex diseases (e.g. cardiac condition)
31. Building a safe custody
32. Establishing a teachers training centre
33. Increasing budgetary allocation transparency in the area of women's and children's health
34. Building a support/victim centre for women who have been affected by violence
35. Building a driving training centre where minimum SSC passed drivers will be trained free of charge
36. Providing health and education facilities for sex workers, and supporting their rehabilitation
37. Establishing a drugs rehabilitation centre
38. Building a community centre for the indigenous people of Tangail
39. Strengthening Tangail district council
40. Creating a separate parking zone in Tangail Sadar
41. Increasing the use of environment-friendly agriculture
42. Establishing mobile hospital services in Mirzapur-Jamuna Road
43. Leasing waterways to Tangail fishermen

3.5 CONCLUDING REMARKS

While it is appreciated that the ongoing district budget exercise in Bangladesh is in its early, developmental stage, and as such limitations are to be expected, it is regrettable that it remains less than clear whether or not this process will evolve into the realisation of a comprehensive district budget. It is worth recalling that in the preface to the FY2014-15 district budget, the Finance Minister stated that "I dreamt of that day when the district budget will no longer be a centrally prepared budget, rather it will be a formal reflection of the demands of the people living in remote areas of the country" (MoF, 2014). As this report has demonstrated however, the experience of the previous two Tangail district budgets has been less than inspiring.

In order for district budgets to be a success in reality requires a decentralised approach to development. First, the MoF must ensure that district budgets are designed in a way that responds to the needs of each particular district. Second, the government must ensure transparency and accountability in the budget-making process. This requires not only ensuring that all budget documents/reports/statements are readily available, but that all information are complete, comprehensive and clear, and supplied in a timely manner. Further, audit and performance assessments should be conducted, there should be scope for legislative scrutiny, and budgeting for disadvantaged sections and fiscal decentralisation should follow best practice. Third, the government should explore ways of promoting district level revenue generation. Fourth, greater focus should be given to district level capacity development programmes as without strong local government implementation of district budget will remain incomplete.

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ANNEXURE

Annex 3.1

Per Capita Expenditure (Development), with Poverty Rates, by District

District	Per Capita Allocation ('000 Tk.)		Growth (%)	Tangail=100		Poverty Rate (%)	Extreme Poverty Rate (%)
	FY14 Budget	FY15 Budget	FY15 Budget over FY14 Budget	FY14 Budget	FY15 Budget	2010	2010
Barisal	3,349	3,351	0.0	168.8	133.4	54.8	39.9
Chittagong	3,112	3,387	8.8	156.9	134.8	11.5	4.0
Khulna	5,554	8,504	53.1	280.0	338.5	38.8	21.2
Rajshahi	2,079	2,293	10.3	104.8	91.3	31.4	16.5
Rangpur	2,185	2,517	15.2	110.1	100.2	46.2	30.1
Sylhet	2,358	2,542	7.8	118.9	101.2	24.1	19.5
Tangail	1,984	2,512	26.6	100.0	100.0	29.7	18.0

Source: Authors' calculations based on MoF (2013, 2014) and BBS (2010).

Annex 3.2

Per Capita Expenditure (Non-Development), with Poverty Rates, by District

District	Per Capita Allocation ('000 Tk.)		Growth (%)	Tangail=100		Poverty Rate (%)	Extreme Poverty Rate (%)
	FY14 Budget	FY15 Budget	FY15 Budget over FY14 Budget	FY14 Budget	FY15 Budget	2010	FY14 Budget
Barisal	4,853	5,712	17.7	150.2	154.9	54.8	39.9
Chittagong	3,124	4,074	30.4	96.7	110.5	11.5	4.0
Khulna	5,010	5,699	13.8	155.1	154.6	38.8	21.2
Rajshahi	5,115	5,991	17.1	158.4	162.5	31.4	16.5
Rangpur	3,856	4,454	15.5	119.4	120.8	46.2	30.1
Sylhet	3,142	3,791	20.7	97.3	102.8	24.1	19.5
Tangail	3,230	3,687	14.1	100.0	100.0	29.7	18.0

Source: Authors' calculations based on MoF (2013, 2014) and BBS (2010).

Annex 3.3

Top Ten Projects in Tangail District in the FY2014-15 Budget, by Allocated Funding

Srl.	Project Name	Ministry/ Division	Allocation (Lakh Tk.)		Start Date	End Date
			FY15	FY14		
1	SASEC Road Connectivity: Improvement of the Joydebpur-Chandra-Tangail-Elenga Road (N-4)	Road Transport and Highways Division	22,000	7,000	1 Apr 2013	31 Dec 2018
2	PEDP-3	Ministry of Primary & Mass Education	7,604	8,729	1 Jul 2011	30 Jun 2016
3	Bangladesh Central Zone Power Distribution Project	Power Division	4,500	4,000	1 Dec 2009	30 Jun 2015
4	Construction of the Union Link Road and Infrastructure Development Project: Greater Mymensingh District	Local Government Division	3,400	1,150	1 May 2009	30 Apr 2014
5	Development of the National ICT Infra-Network for the Government of Bangladesh	Information & Communication Technology Division	2,284	8,464	1 Apr 2010	30 Jun 2014
6	Enhancing Quality Seed Distribution Project (2nd Revised)	Ministry of Agriculture	2,160	0	1 Jul 2011	30 Jun 2016
7	LGSP-2	Local Government Division	2,080	1,699	1 Jul 2011	30 Jun 2016
8	*Ekti Bari Ekti Khamar* (2nd Revised)	Rural Development & Co-operative Division	1,957	1,270	1 Jul 2009	30 Jun 2016
9	Development of Public Universities	Ministry of Education	1,500	400	1 Jan 2009	30 Jun 2013
10	Community-based Healthcare	Ministry of Health & Family Welfare	1,183	1,183	1 Jul 2011	30 Jun 2016

Source: Compiled by the authors based on MoF (2014).

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Centre for Policy Dialogue (CPD)
House - 6/2 (7th & 8th floors), Block - F
Kazi Nazrul Islam Road, Lalmatia Housing Estate
Dhaka - 1207, Bangladesh
Telephone: (+88 02) 9141734, 9141703, 9126402, 9143326 & 8124770
Fax: (+88 02) 8130951
E-mail: info@cpd.org.bd
Website: www.cpd.org.bd

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