



State of the Bangladesh Economy in FY2015 and the Closure of Sixth Five Year Plan

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As part of the CPD IRBD tradition, CPD organised an Expert Group Consultation on 10 May 2015. The working document prepared by the CPD IRBD 2015 Team was shared at this meeting with a distinguished group of policymakers, 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):

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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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SECTION 1. INTRODUCTION

Notwithstanding continued prevalence of an atmosphere of “democratic discomfort,” Bangladesh’s fiscal year 2014-15 (FY2015) is closing with a number of macroeconomic advantages including lower inflation, declining interest rate, stable exchange rate, manageable fiscal deficit, positive balance of payment 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 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, countries in the European Union, 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 (2015).

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, failure to ensure incentive price to the rice farmers. Acceleration in private investment remained an illusive 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 FY2016.

The upcoming fiscal year is also unique as it will coincide with the period when the member states of the United Nations will finalise the Sustainable Development Goals (SDGs) which are likely to inform the global development policies over the next one and half decade. 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 FY2016 has to signal the linkages between post-2015 international agendas and the country’s Seventh Five Year Plan, particularly through a focus on mobilising adequate domestic public finance to underwrite the implementation of the SDGs in the BD context.

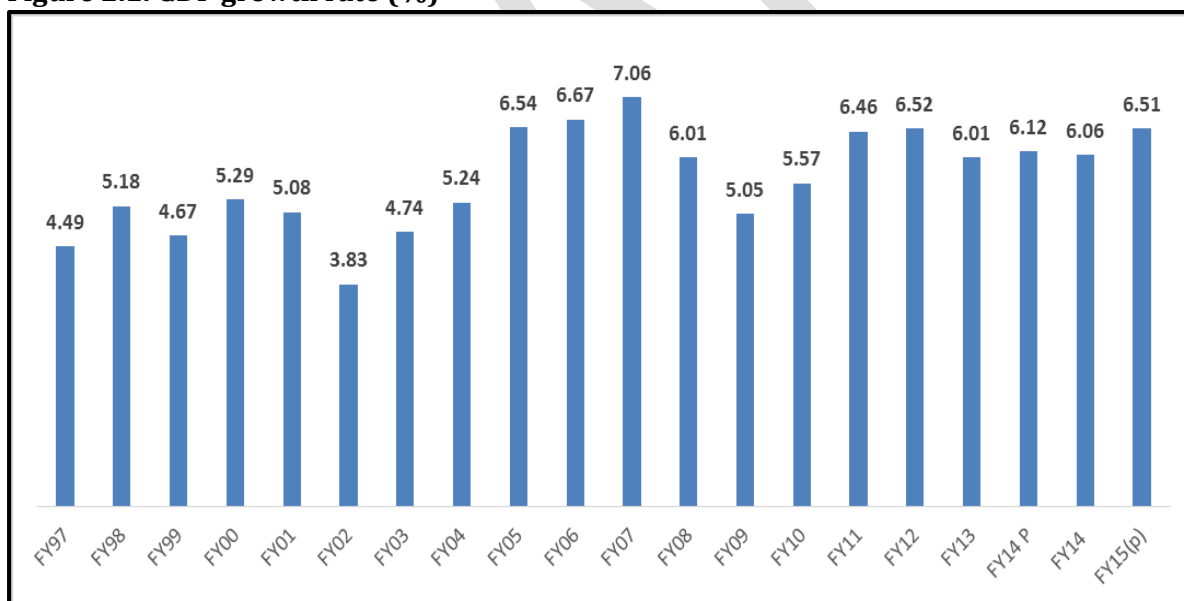
The present document is the third interim report regarding the performance of the Bangladesh economy in FY2014 prepared under CPD’s flagship Independent Review of the Bangladesh’s Development (IRBD) programme. It may be recalled here that the two earlier reports were released on 3 January 2015 and 5 April 2015. The document provides, based on the latest available data and information, CPD’s assessment of the key indicators of macroeconomic development in Bangladesh in FY2015. The document 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 FY2015.

SECTION 2. MACROECONOMIC MANAGEMENT IN FY2015 AND OUTLOOK FOR FY2016

2.1 Quest for momentum in private investment to continue

The Bangladesh Bureau of Statistics (BBS) recently established a provisional estimate of 6.5 per cent for gross domestic product (GDP) growth in fiscal year 2015 (Figure 2.1). This was 0.8 of a percentage point lower than the target of 7.3 per cent in the FY2015 budget.¹ It may be recalled that, according to SFYP, the GDP growth rate for FY2015 was set at 8.0 per cent. Many analysts, including those from the World Bank and Asian Development Bank, expected economic growth in FY2015 to be between 5.6 and 6.1 per cent due to political turmoil in the third quarter of the fiscal year and trends of associated macroeconomic correlates (see World Bank [2015] and ADB [2015]). CPD (2015) 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 FY2015 if the 6.5 GDP growth projection for FY2015 by the Bangladesh Bank is taken as a reference point. Indeed, the provisional GDP growth estimate was found to be higher than expectations.²

Figure 2.1: GDP growth rate (%)



Source: BBS.

Note: p denotes provisional estimate.

Of the 6.5 per cent overall provisional growth estimate for FY2015 – agriculture contributed 0.5 per cent (compared to 0.7 per cent in FY2014 and 0.4 per cent in FY2013), industry's contribution is estimated to be 2.7 per cent (compared to 2.3 per cent in FY2014 and 2.6 per cent in FY2013), and the contribution of the services sector is estimated to be 3.0 per cent (compared to 2.9 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.

² World Bank (2015) also opined that the limitation within the national accounting system might fail to capture the actual economic growth performance in FY2015.

cent in FY2014 but 3.4 per cent in FY2012) (Table 2.1). Over the past five years, the average increase in the GDP growth rate was 0.01 of a percentage point per year.

Table 2.1: Contribution to GDP growth over the period FY2011-FY2015

Sectors	FY11	FY12	FY13	FY14	FY15(p)
Agriculture sector	0.78	0.52	0.41	0.70	0.48
<i>Crop Sector</i>	0.40	0.18	0.06	0.34	0.12
<i>Other agriculture sector</i>	0.39	0.34	0.35	0.36	0.37
Industry sector	2.31	2.47	2.59	2.27	2.72
<i>Manufacturing sector</i>	1.64	1.69	1.80	1.60	1.93
<i>Other industry sector</i>	0.66	0.78	0.79	0.67	0.80
Services sector	3.25	3.43	2.88	2.92	3.02
Tax less 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 BBS.

Note: p denotes provisional estimate.

For FY2015, 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 FY2015 from USD 1,110 in FY2014, 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. However, Bangladesh will have to wait more for being eligible to be graduate from the least developed (LDC) status.

Box 2.1: Bangladesh – the next country in the lower-middle-income country list!

Steady economic growth, strong inflow of remittances, controlled population growth, 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 method³). It is expected that for the fiscal year 2016, 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) for FY2014. 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 to be considered for graduation from the LDC status.⁴ As can be seen from Table 2.2, Bangladesh did meet EVI, but could not be meet the other two.

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 \$ 2,484, independent of its HAI and EVI scores.

Table 2.2: 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: 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 between 2012 and 2015 reviews 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 to prepare for facing a new set of development challenges in the coming years.

Manufacturing is estimated to have achieved a significantly high growth of 10.3 per cent in FY2015 in real terms despite the severe disruption of the supply chain during the aforementioned political turmoil (Table 2.3). The services sector's estimated growth rate of 5.8 per cent in FY2015 is a surprise. The industry sector, mainly driven by manufacturing growth, is estimated to have largely contributed to the additional growth of 0.45 of a percentage point in FY2015. 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 Indexes of Industrial 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.

Table 2.3: Sector-wise GDP growth (%)

Sectors	FY2012	FY2013	FY2014	FY2015 (p)
Agriculture	3.01	2.46	4.37	3.04
Industry	9.44	9.64	8.16	9.60
<i>Manufacturing</i>	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: BBS.

Note: p denotes provisional estimate.

During the first six months of FY2015, production estimates based on the QIP of large- and medium-scale manufacturing industries recorded impressive growth of 10.3 per cent. Within the general index, food products, pharmaceuticals and medical chemicals, non-metallic mineral products - which have a combined weight of 26.1 per cent - mainly contributed to improved growth in July-December of FY2015 compared to growth in FY2014 (see Annex Table A-2.1 for detail). 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

⁵ It needs to be mention 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.

less than 1 per cent (growth was 10.5 per cent in FY2014), respectively, in the first six months of FY2015. The production performance of this particular group is reflected by the low export growth achieved during the initial months of FY2015.

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 FY2014) and 14.8 per cent (compared to 6.4 per cent in FY2014), respectively, in the first half of FY2015. However, food, beverage and tobacco products, which are export-oriented products, saw moderate growth of 9.9 per cent in July-December of FY2015.

From the expenditure side, both public and private consumption declined in the FY2011-FY2015 period (Table 2.4). However, both domestic and national saving increased during this period.

Table 2.4: Share of GDP components by expenditure method

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

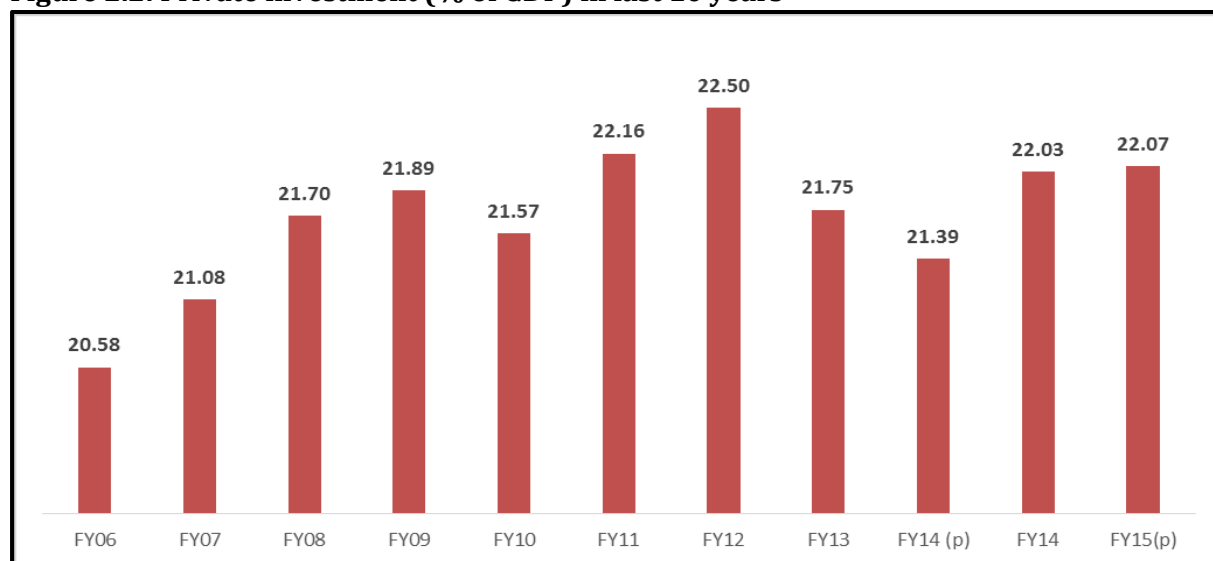
Source: Calculated from BBS.

Note: p denotes provisional estimate.

Since FY2012, private sector investment growth has stagnated (Figure 2.2). The provisional GDP figure for FY2015 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 FY2015. The growth of credit to private sector could only 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 FY2015. However, there is a growing concern over the quality of term loan data as loans against trust receipts (LTR) were also often accounted under the term loan. The utilisation of bank loans also need to be monitored closely. Total investment in export processing zones (EPZs) achieved a growth rate of 13.1 per cent (worth USD 3.4 billion) in July-April of FY2015 over the corresponding period of FY2014. The corresponding growth figures were 14.5 per cent in FY2014 and 31.5 per cent in FY2013.⁶

⁶ Mainly investment in garments (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 FY2015. Among export processing zones, the highest investment during this period was in the Chittagong Export Processing Zone (worth USD 1.3 billion) followed by the Dhaka Export Processing Zone (worth USD 1.1 billion).

Figure 2.2: Private investment (% of GDP) in last 10 years



Source: Calculated from BBS.

Note: p denotes provisional estimate.

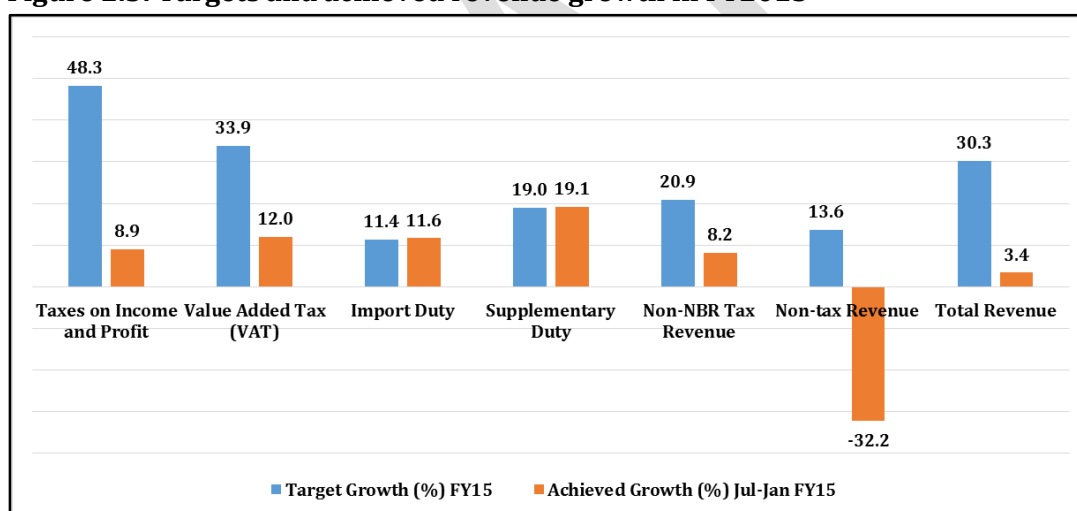
Growth of payments against capital machinery import was also impressive – 23.0 per cent during the first nine months of FY2015. To investigate at a more disaggregated level the sources of the recent rise in imports of capital machinery while private investment is still perceived to be stagnating, CPD examined detailed import shipment data for July-March of FY2015. 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, and 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 FY2015, which is abnormal within the period of a single year. With regard to price growth in July-March of FY2015 over the corresponding months of FY2013, apart from the effluent treatment plant that saw 557 per cent growth, all other items show either lower or negative growth. Imports of such a large amount of capital machinery at this price level during this period warrants 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, (somewhat, largely and strongly) agreed that money laundering was taking place through formal banking system in Bangladesh extensively.

The aforementioned survey of also indicated a rather unimpressive private investment outlook. About 60.7 per cent survey respondent apprehended that investment environment could deteriorate further in coming days. During the survey, the respondents also mentioned the major impediments towards private investment; which were 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).

2.2 Anticipated revenue shortfall is a reality in FY2015, but will the lesson be learnt for FY2016? Collection of both tax and non-tax revenue have continued to fall below expectations throughout the fiscal year, while attempts have been made to attain ambitious targets for FY2015. According to integrated budget and accounting system (iBAS) data, during the first eight months of FY2015 (July-February), tax revenue collection by the NBR registered 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 FY2014 (MoF, 2015). Only import duty and supplementary duty collections are on track to achieve their respective targets (Figure 2.3).⁷ In contrast, collection from non-tax revenue sources was 32.2 per cent less (worth Tk. 5,619 crore) in July-February of FY2015 compared to the corresponding months of FY2014. At the end of FY2015, it appears that overall revenue collection may fall short by Tk. 30,000 crore, well below the target set in the budget for FY2015.⁸ In its previous two reviews of Bangladesh's economy in FY2015 (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 FY2016, a realistic revision of the revenue targets for the ongoing fiscal year is warranted.

Figure 2.3: Targets and achieved revenue growth in FY2015



Source: Calculated from MoF data.

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.

⁸ The target set for total revenue collection in the budget for FY2015 was Tk. 182,954 crore. iBAS data show that total collection during July-February of FY2015 was Tk. 90,457 crore, or 49.4 per cent of the target amount. The shortfall estimation was undertaken based on iBAS data.

Box 2.2: Data paradox: NBR vs. MoF

In recent years, discrepancy between 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 (Table 2.5). 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.

Table 2.5: Growing discrepancy between MoF and NBR data as regards revenue collection

FY	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 NBR and MoF data.

Notes: Figures are in crore Tk. and MRFP refers to the *Monthly Report on the Fiscal Position*, which is published on the MoF website.

2.3 Several policy decisions will determine the public expenditure outlay in FY2016

The plan for public expenditure for FY2016 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 FY2015, non-development expenditure comprised only 46.9 per cent of total expenditure planned for the FY2015 budget, which is only 1.1 per cent higher than that for the corresponding period of FY2014. All of the sub-components registered below-target growth except for "Pay and Allowances", which recorded 13.4 per cent growth in July-February of FY2015 against the annual target of 9 per cent. Two major sources of non-development expenditure, interest payments as well as subsidies and current transfers, remained well below their respective targets during the same period. The growth of overall capital expenditure⁹ was negative, although Tk. 1,716 crore was disbursed for the recapitalisation of state-owned enterprises (SoEs).

Additional expenditure will be required during FY2016 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 FY2016 in view

⁹ Includes "Acquisition of Assets and Works" and "Investments in Shares and Equities" sub-components.

of the buoyant sale of national savings instruments during FY2015. Subsidy requirements are expected to remain as a downside in FY2016 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 FY2015 (CPD, 2015). During FY2015, the Bangladesh Petroleum Corporation 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 planned demand of Tk. 7,500 crore in FY2015. CPD suggested that, rather than a price rationalisation, adjustments of administered prices should be considered as part of a single package. For FY2016, 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 Bangladesh Petroleum Corporation uses its profit to repay its long-standing loans to the SCBs.

2.4 Raising efficacy of subsidy management call for design a comprehensive national subsidy policy.

Since her 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, supporting state-owned enterprises (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, recapitalization and by 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 have been significant, reaching 33.5 thousand crore taka or 2.8 per cent of GDP in FY2013, albeit coming down somewhat in recent years in the backdrop of falling global prices, particularly for fuel, fertilizer and food. In the budget for FY2015 total allocation for loans, subsidies and fiscal incentives was to the tune of 26.0 thousand 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, and (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 and other issues 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 emphasized 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, 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) will have 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) be tuned to reactive needs in view of subsidy and other support policies pursued by import-source and export-competing countries (with provisions of imposing counter-veiling duties);
- (e) take cognizance of WTO subsidy discipline and rules to ensure compatibility;
- (f) take into account positive and negative externalities of subsidies and take cognizance of environmental consequences and second round effects;
- (g) where feasible, to propose subsidy-specific time line and phase-out period;

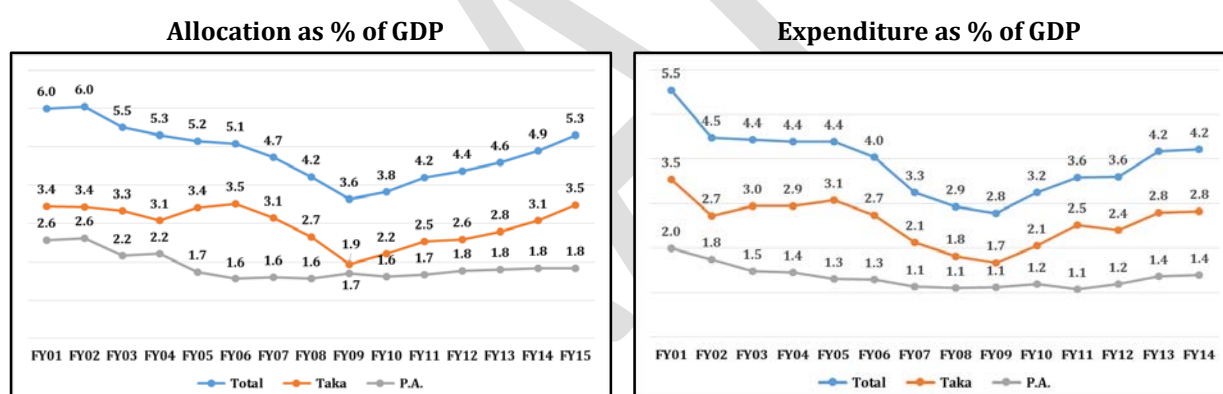
(h) will be informed by advantage of ICT in selection, targeting and monitoring in the context of subsidy management;

(i) maintain a reliable and comprehensive database on subsidy which would help with transparency and accountability and strengthen monitoring of subsidy management.

2.5 Implementation of the Annual Development Programme (ADP) remained business as usual in FY2015, hence there is a need for a breakthrough in FY2016

Expenditure for the ADP in FY2015 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 size of the ADP is considered as a share of GDP, both allocation and actual spending increased gradually since FY2009, reaching the levels of the early 2000s (Figure 2.4). 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 FY2003.

Figure 2.4: Component-wise ADP allocation and expenditure (as % of GDP)



Source: Estimated from IMED and BBS data.

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 (2015a) revealed that in FY2013, only 22.8 per cent of completed projects were completed within stipulated timelines and with initially planned allocations.

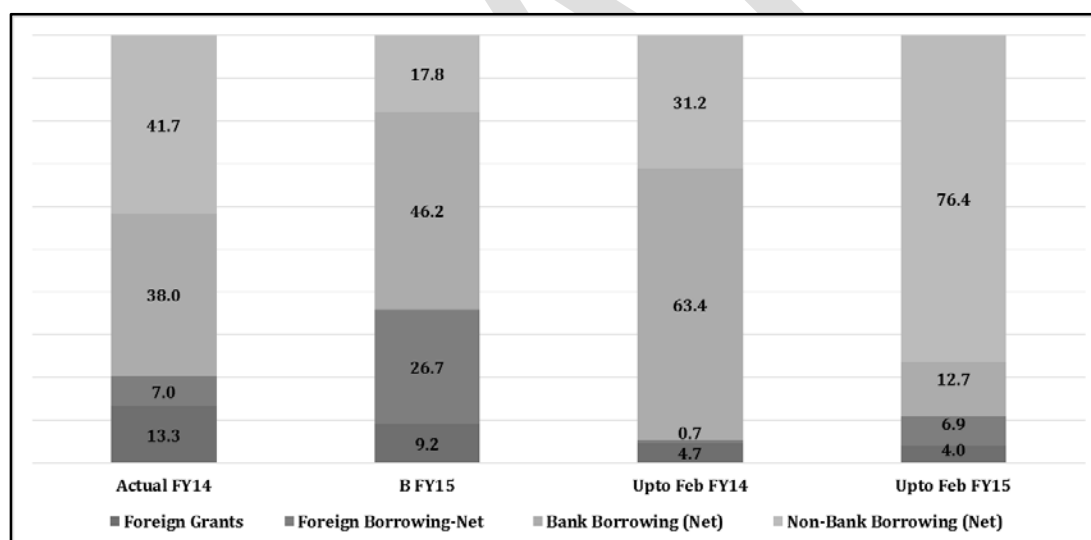
CPD (2015) selected a set of 26 projects under the ADP for FY2015 that were supposed to help boost growth and employment. The projects were listed in CPD's second review of Bangladesh's economy in FY2015, which called for tracking their progress. Fourteen of the 26 projects were supposed to be completed in FY2015. At the time of writing, project-wise ADP spending data are available up to November of FY2015. 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 FY2015 was averaged to be 13 per cent of the total allocation during the same

period (Annex Table A-2.2). In the case of the 14 projects that were supposed to be completed in FY2015, 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 Annual Development Programme for FY2015. Combined financial progress on these projects until November of FY2015 was 41.8 per cent. It appears to be widely acknowledged that almost all of these projects will not be completed according to their timelines and will be carried forward to the ADP for FY2016.

2.6 The financing mix for the budget deficit will be a challenge in FY2016

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 FY2015. 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 FY2015 (Figure 2.5). One of the major challenges for the FY2016 budget is to balance the overall structure of public financing. Since a large proportion of financing has already been secured from sales of National Savings Directorate (NSD) certificates, bank borrowing may be very limited. Notably, the lack of utilisation capacity for foreign resources remained a weak area.

Figure 2.5: Share of budget deficit financing sources (%)



Source: Estimated from MoF data.

2.7 Fiscal planning for FY2016 may require significant mid-term corrections

Under the current resource mobilisation scenario, it is evident that the revenue-GDP ratio will decline in FY2015 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 FY2015 may fall below the 10 per cent threshold. Since the FY2013 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 2.6, 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 FY2016. According to CPD estimates, the national budget for FY2016 may seek an additional Tk. 59,000 crore over the actual in-take of revenue in FY2015, which would require revenue growth of about 38.5 per cent.

Table 2.6: Changes in revenue growth (%) targets and collection

FY	Budget target over revised budget of previous fiscal year	Budget target over revenue collected during previous fiscal year	Revenue collection over revenue collection previous fiscal year
FY09	14.7	16.7	8.6
FY10	14.9	23.1	17.6
FY11	16.8	22.3	22.5
FY12	24.4	27.3	23.3
FY13	21.6	21.8	11.7
FY14	19.9	30.7	9.6
FY15	16.8	30.3	3.2 (up to February)

Source: Calculated from budget documents and MoF data.

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 FY2016. 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 supplementary duty on tobacco and luxury products, and raised advanced income tax on readymade garment (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 supplementary duty 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 2).

Box 2.3: 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 FY2016. 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, while 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 FY2015 (Pope and Roantree, 2014).

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 Value Added Tax and Supplementary Duty Act of 2012, etc.), economy-wide 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. The operationalisation of an alternative dispute 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 development expenditure also requires drastic improvement. In its review of the national budget for FY2015, CPD identified that 36 projects were allocated Tk. 1 crore or less to keep them alive. Such 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 Sustainable Development Goals. 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 2.7). The weakest link among all the indicators is net foreign borrowing. The early figures as regards the fiscal framework of FY2016, 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 2.7: Fiscal gap as percentage of budget (%)

Indicators	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

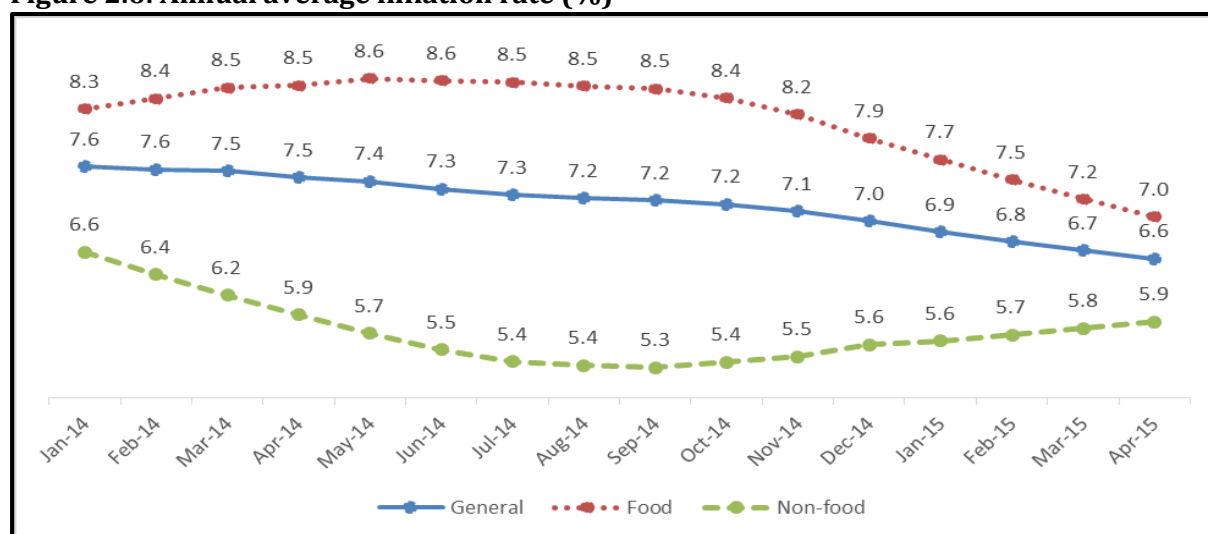
Source: Estimated from MoF Data.

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

2.8 Risk from inflation is unlikely, but will the additional policy space be used?

Annual average inflation gradually declined throughout FY2015 from 7.3 per cent in June 2014 to reach 6.6 per cent in April 2015 (Figure 2.6). 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.

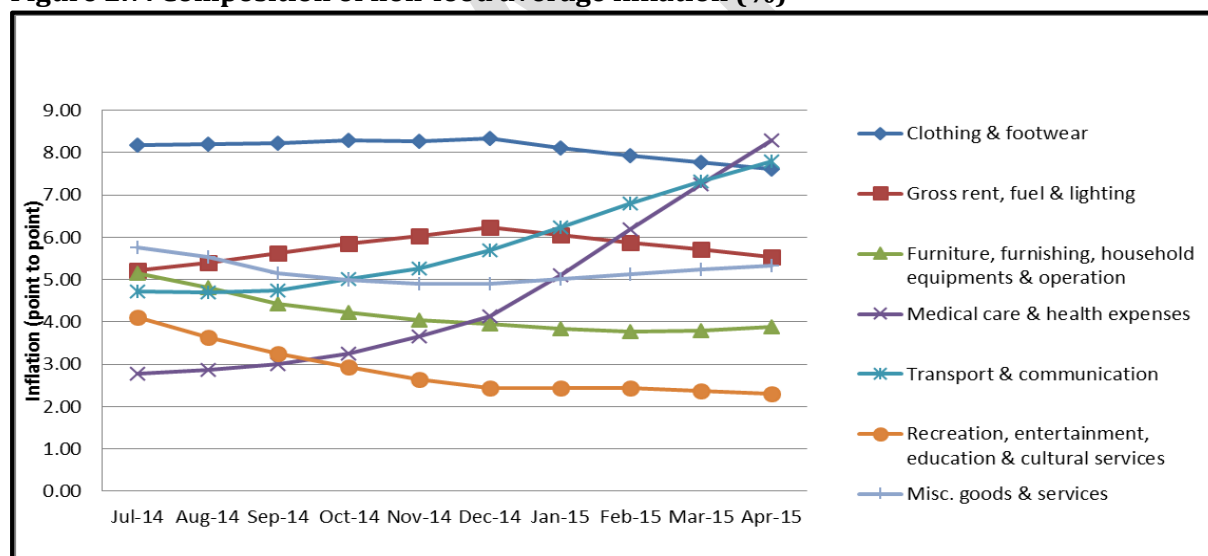
Figure 2.6: Annual average inflation rate (%)



Source: Calculated from 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 transport and communication, which led to an overall increase in non-food inflation (Figure 2.7).

Figure 2.7: Composition of non-food average inflation (%)



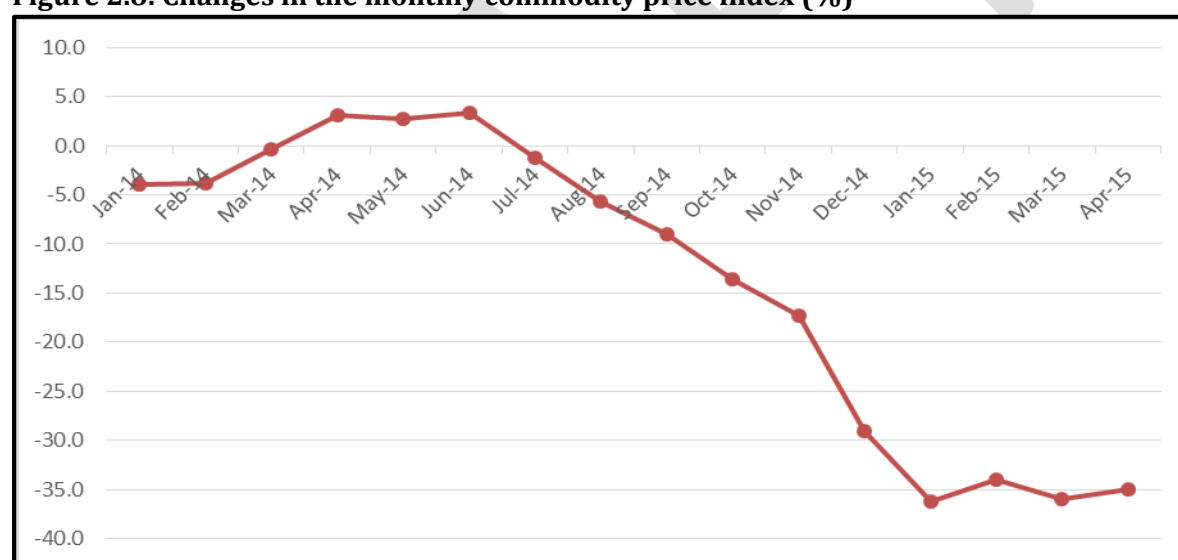
Source: Calculated from BBS data.

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, 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 III). On a positive note, in April 2015, annual average growth rate of wage index was steady at 10.0 per cent while among the sectors wages for agriculture and manufacturing increased by 11.9 per cent and 10.0 per cent respectively.

The global prices of almost all commodities, including food and fuel, declined sharply throughout FY2015. In April 2015, the International Monetary Fund's global commodity price index was 35

per cent lower than it was in April 2014 (Figure 2.8).¹⁰ The world commodity price outlook is currently stable. Agricultural prices continued their broad-based declines in the first quarter (January-March) of 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, 2015). 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 key 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 tonne 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, 2015).

Figure 2.8: Changes in the monthly commodity price index (%)



Source: Calculated from IMF index mundi 2015 data.

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 FY2015. 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 2.8). 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.

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.

Table 2.8: Growth of monetary indicators (outstanding as of March 2014)

Indicators	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 the public sector	6.7	25.3	-7.4
Credit to the 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 FY2016 appears to be stable. A major challenge in FY2016 will be to take advantage of the declining trend in commodity prices, particularly food prices, and opt for more growth-friendly expansionary economic policy.

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 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 2.9). 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 points), PCBs (0.3 percentage points) and FCBs (0.1 percentage points). 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 of a 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

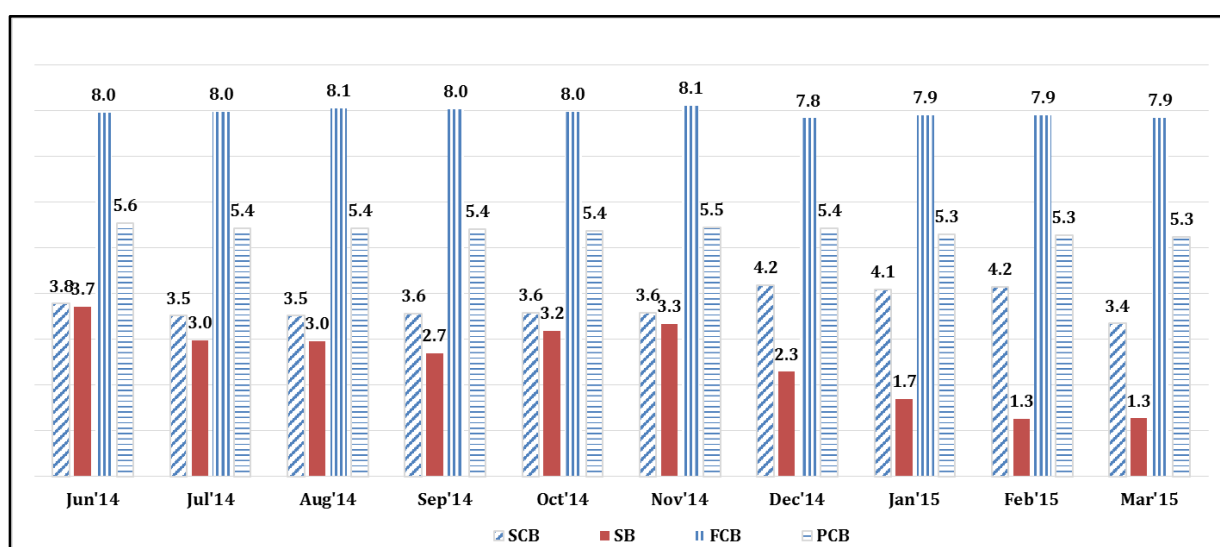
¹¹ The share of PCBs and FCBs in total bank deposits increased to 69 per cent at the end of March 2013 from 32 per cent in 1990, whereas their share in advances increased to 72.1 per cent from 35.4 per cent over the same period (Islam & Rahman, 2014).

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 A-2.3.

in terms of spreads – the variation increased between June 2014 and March 2015, but the average interest rate spread decreased.¹⁴

Figure 2.9: Interest rate spread by type of bank



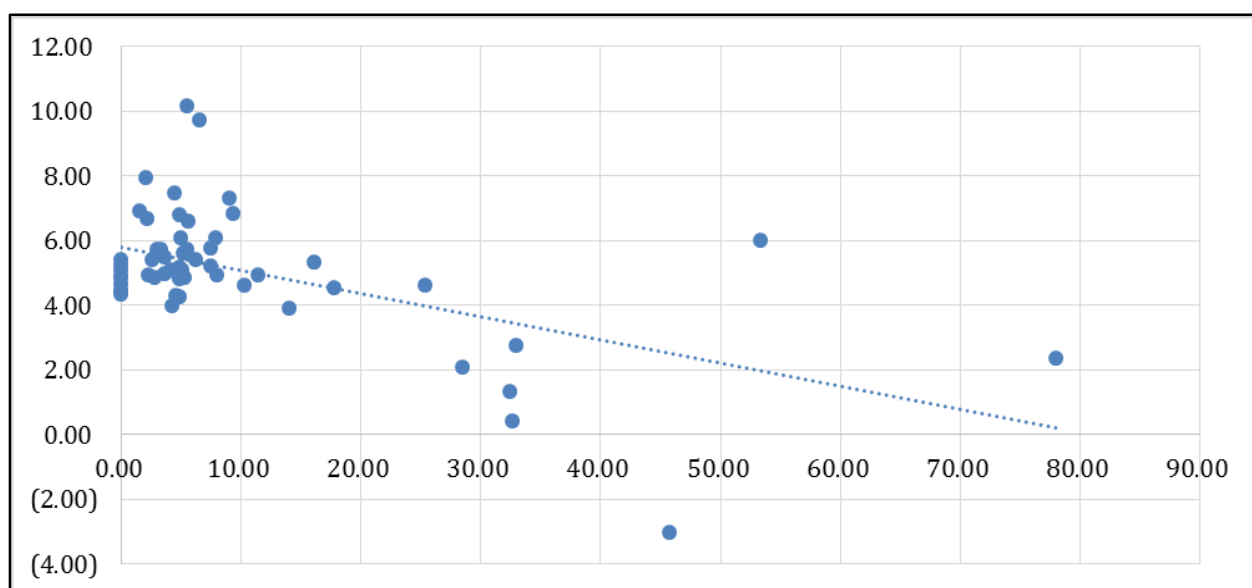
Source: Bangladesh Bank.

Policy debates in Bangladesh often relate the high incidence of NPLs to high interest rates. Multiple previous studies indicate an inconclusive relationship (Ahmed & Islam, 2006; Mujeri & 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 2.10).¹⁵ In fact, the figure below 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, the deposit rate, the NSD certificate rate, the inflation rate, and taxes, among others.

¹⁴ The standard deviation of the interest rate spreads of all commercial banks increased from 2.0 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.

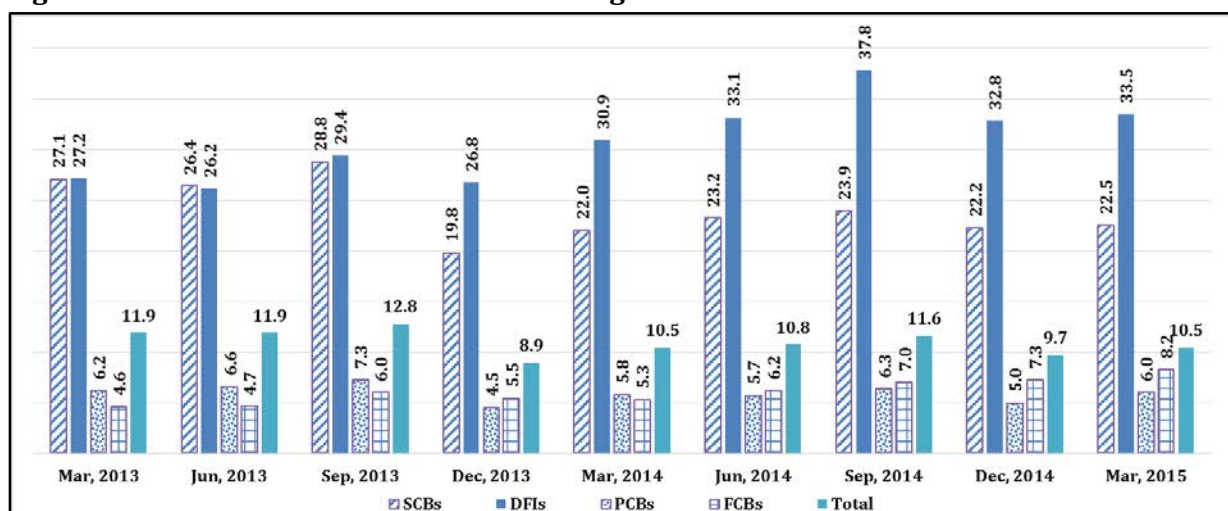
Figure 2.10: NPLs and interest rate spreads across all banks, December 2014



Source: Estimated from 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 2.11). 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 instalments. This provision helped make banks' financial conditions look better (see Annex Table A-2.4 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 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.

Figure 2.11: Ratio of NPLs to total outstanding loans



Source: Selected indicators, Bangladesh Bank.

2.10 Export earnings, against formidable odds, had held their ground but competition is rising in major markets.

In the first 10 months of FY2015, 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, 2015). An annual target of 10 per cent growth in total export earnings (USD 33.2 billion¹⁶) 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 FY2015. Within this broader trend, several important trends in the export sector's performance can be observed.

First, between the two major markets, the United States and European Union (EU), during the July-April period of FY2015, 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 2.9).

Table 2.9: Growth of Bangladesh's RMG and non-RMG exports in major markets, July-April of FY2015

Type of Exports	United States	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 EPB data.

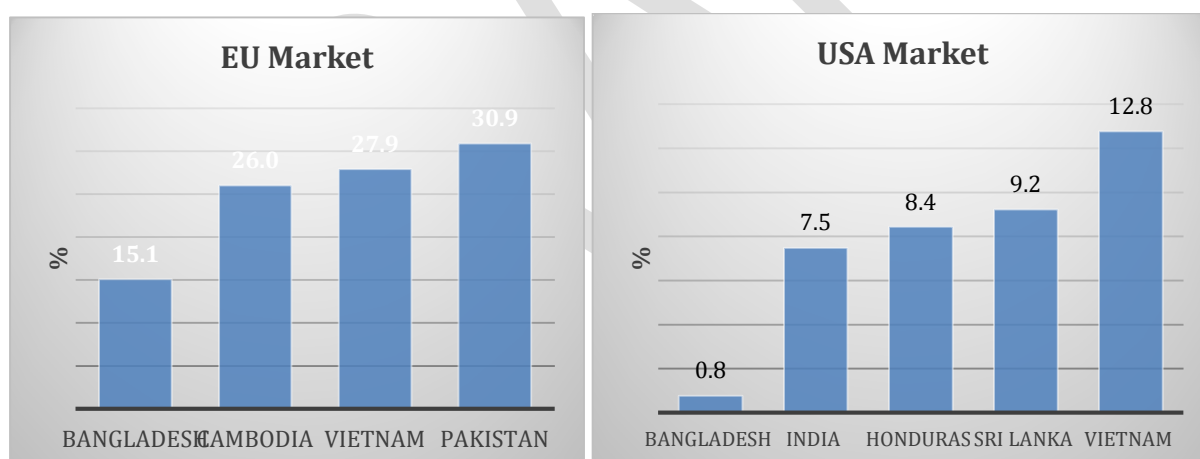
¹⁶ According to the Sixth Five Year Plan (2011-2015), the corresponding target for FY2015 was USD 38.8 billion.

Second, little progress was made in the areas of product and market diversification since export performance in non-traditional markets¹⁷ and as regards non-RMG products during July-April of FY2015 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 market to the EU market. During the first 10 months of FY2015, exports of woven products to the United States declined by 1.6 per cent, while a relatively a 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

Fourth, in both the US and EU markets, several of Bangladesh's export competitors as regards RMG exports 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 2.12). Even when Bangladesh's major RMG exports to these markets are considered, the trend was found to be true.¹⁹

FIGURE 2.12: GROWTH OF BANGLADESH'S AND EXPORT COMPETITORS' RMG EXPORTS TO THE EU AND US MARKETS, JULY-MARCH OF FY2015



Source: Estimated from EUROSTAT and USITC data.

Regarding the forthcoming Seventh Five Year Plan, the proposed target for export earnings in FY2016 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

¹⁷ The major countries include those of the EU, the United States, Canada, Australia and Japan.

¹⁸ Since the relaxation of the rules of origin requirement in the Generalised System of Preferences (GSP) of the EU, exports of woven products has been on the rise to the European Union market. It should be noted that the United States 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.

¹⁹ Bangladesh's export competitors attained higher export growth rates for Bangladesh's top five knit and woven products in FY2015. See Annex Tables A-2.5 and A-2.6 for details.

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 2.4). Bangladesh may need to focus more on the EU market, which does not impose duty 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.

Box 2.4: What would the TPP mean for Bangladesh?

After five years of negotiations, the proposed TPP 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. The United States may push for signing the much-debated TPP deal, which would create more competition for Bangladeshi exports to the country. The deal would bring the United States 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 the United States during July-March of FY2015, Vietnam exported USD 2,753 million worth of the same products to that country.²⁰ Currently, Bangladesh and Vietnam face 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.

2.11 Will the balance of payments surplus be sustained in FY2016?

In July-March of FY2015, 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 FY2015, 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

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.

²¹ Both exports and imports are in free on board value.

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 FY2015 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 (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 FY2015 (USD 10.4 billion to USD 11.1 billion).²⁴ Foreign employment also increased in FY2015 – 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 FY2014 was lower (33,359) and in FY2013 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 2.5). 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 FY2015 compared to the same period in FY2014. But foreign employment in one of the biggest traditional markets for Bangladesh, the United Arab Emirates, has ground to a near halt since the last quarter of 2012. The government-to-government (G2G) arrangement for sending Bangladeshi workers to Malaysia has not been successful either. It is perhaps time for the Bangladeshi government to rethink its strategy.

Box 2.5: 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 United Arab Emirates, 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 Bangladeshi 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

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 FY2013, remittance inflow increased by only 1.2 per cent in the first three quarters of FY2015. Remittance inflow increased by 7 per cent during the first 10 months of FY2015.

taken advantage of the situation. They are sending thousands of fortune seekers on life-threatening 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 Bangladeshi 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.

Despite growth in remittance inflow, the current account was negative (by USD 1,149 million) during July-March of FY2014. 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 FY2015, which has caused foreign exchange reserves to rise, evidently heavily relies on the capital account surplus. Without attracting significant amounts of foreign direct investment 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 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.

2.12 Reform initiatives need to be prioritised.

The macroeconomic management in FY2016 including the national budget needs to be informed by the developments in FY2015. The performance of macroeconomic correlates in FY2015 involved both strengths and weaknesses, as has been mentioned in the introduction section. The

proposed budget for FY2016 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 FY2016. 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 for approval about six months ago by the parliamentary committee. The public-private partnership (PPP) act is also yet to be finalized although 42 projects have been listed in the ADP for FY2016. Privatization Commission has been inactive for long. 19 state owned enterprises are currently listed which were supposed to be privatized. These SoEs also hold significant amount of land can be used for new investment for manufacturing. In view of improving efficacy of budgetary planning and implementation, finalization of Financial Reporting Act needs to be expedited. The implementation of the forthcoming VAT and SD Act will be implemented in FY2017 for which the disputed issues need to be settled without further delay. It is important that the government consider 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 Seventh Five Year Plan (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.

SECTION 3. RECENT DYNAMICS OF RICE ECONOMY IN BANGLADESH

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 food grains 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 incentivize 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, the study 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 policy makers?
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 FY1990 to about 25 per cent in FY2000, and further to about 19 per cent in FY2013. 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 provide 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 FY2013. 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

FY2001 and FY2010) 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 FY2010 and FY2013). 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 FY2006 and FY2010), 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).

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, and 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 are 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 PFDS planning in Bangladesh to resolve the paradox. In this study 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 FY2008 and FY2016 is reported in Annex Table A-3.1. The first panel of the table shows the gross production of rice by seasons and wheat as reported by the Bangladesh Bureau of Statistics (BBS). It is observed that gross production of rice increased from 28.93 million metric tons in FY2008 to 34.41 million metric tons in FY2012 and was projected to increase to 38.96 million metric tons in FY2016, if the historical trend in growth is maintained. The gross production of wheat stagnated around one million metric ton during the same period. Thus the gross production of food grains increased from 29.78 million metric tons

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.

in FY2008 to 35.41 million metric tons in FY2012 and was expected to reach 39.29 million metric tons in FY2016.

Under the existing practice, acreage and yield of food grain 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 food grain production is deduction of 10 per cent for seed, feed and wastage. In contrast, the review by BIDS study reveals that acreage, yield and hence production is 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 A-3.1. The estimates of net food grain production range from 22.98 million metric tons in FY2008 to 29.32 million metric tons in FY2012 and is projected to increase to 30.31 million metric tons in FY2016. Once corrected/adjusted, the estimated net production of food grains would provide a better approximation to the actual magnitude.

The other issue relate to the estimate of per capita consumption of food grains. 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 A-3.1. It is readily observed that the estimates of total consumption requirement of foodgrains under the existing practice is substantially lower than that estimated by the study. The consumption requirement increase from 27.05 million metric tons in FY2008 to 28.40 million metric tons in FY2012 and is projected to increase to 29.88 million metric tons in FY2016.

Thus the series of adjustments as recommended in the study in both the demand and supply side (production and consumption of foodgrains, to be more precise) indicates that the country was deficit in rice, ranging from 2.05 million metric tons in FY2008 to 0.13 million metric ton in FY2010. It may be noted that the total imports of rice were 2.05, 0.6 and 0.08 million metric ton in FY2008, FY2009 and FY2010 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 metric tons in FY2016 if the current trend in rice production prevails.²⁶ In contrast, the country is in deficit in wheat by about 2 million metric tons every year. The country imported 2.4, 3.4 and 3.8 million metric tons during FY2009 to FY2011 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.

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 surplus of 1-2 million metric tons annually, since the private sector holds about 2.3 million metric tons 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).

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.

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 recognized 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 program, therefore, has an important role to play in providing price support and providing incentives to the farmers for rice production. However, setting a procurement price that sends adequate and proper production signal to the farmers while minimizing cost to the public exchequer is a real challenge.

Unsatisfactory performance of the domestic procurement program 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 centers 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 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 program 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 minimizing 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.

²⁷ Other limitations include: too few procurement centers 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.

²⁸ The survey showed that only 10 per cent of the sample farmers participated in the 1998 boro procurement program, 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 centers and lack of effective functioning of the local committee are among the major factors contributing to such sorry state of affairs.

The status of rice procurement in the last five years is shown in Table 3.1. 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 12.89 lakh tons in FY2014 to as low as 5.63 lakh tons in FY2011.

Table 3.1: Domestic procurement of rice: 2010-11 to 2014-15 ('000 ton)

Year	Rice		Paddy Converted into Rice		Total Rice
	Boro	Aman	Boro	Aman	
2010-2011	557.18	0.00	5.57	0.00	562.75
2011-2012	818.00	349.66	65.03	0.00	1,232.69
2012-2013	949.81	275.56	3.58	0.00	1,228.95
2013-2014	838.15	320.00	85.05	0.00	1,289.00
2014-2015 (target)	935.00	300.00	65.00	0.00	1,300.00

Source: DGOF.

Table 3.2: Amount of paddy procured: 2010-11 to 2014-15 ('000 ton)

Year	Total Rice	Total Paddy	Paddy in terms of rice	Total Procurement in terms of rice	Percentage of paddy in total procurement
2010-2011	557.18	8.57	5.57	562.75	0.99
2011-2012	1167.66	100.05	65.03	1232.69	5.28
2012-2013	1225.37	5.51	3.58	1228.95	0.29
2013-2014	1158.15	130.85	85.05	1243.20	6.84
2014-2015	1235.00	100.00	65.00	1300.00	5.00

Source: DGOF.

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 3.2. 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.

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 A-3.2. 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 season. 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 program 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 program. 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 has emerged as a major player in the rice market. To develop a suitable institutional mechanism so that farmers

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.

can contribute to and benefit from the procurement program remains a major challenge to the government.

The impact of domestic procurement program as providing price support to farmers may be assessed in terms of providing direct support and indirect support. It is difficult to claim that the procurement program 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 program.³⁰ However, empirical evidence suggests that procurement program provide indirect price support to farmers. This indirect effect may work through procurement program raising the overall market price of paddy and thus benefiting the farmers who sell most of their paddy in the market. Thus the procurement program may not provide farmers with procurement price announced by the government but it can be argued that had there been no procurement program, 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 \$416 million was imported by the private sector during July 2014-March 2015 period, as compared to only \$71 million in FY2014. Rice imports, which until now were not subject to any duty, have increased three-fold year-on-year to 13.64 lakh tons between July and May of the current fiscal year, according to Food Ministry data.³²

However, NBR has recently (effective from May 11, 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 domestic market. The traders had to pay 6 per cent duty to import rice in FY2006 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-Tk. 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% duty by the government on imported Indian rice in the second week of May, price of newly harvested boro paddy saw gradual rise in

³⁰ There are many factors/reasons preventing farmers from participating in the procurement program. 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 centers 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 centers plus the informal payments required at the procurement centers (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. 650-700 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 tons of Indian rice daily through land ports, causing drastic fall in rice production (even closure) of about 100 automatic rice mills and 2500 husking mills in the region (The Daily Star May 15, 2015).

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 FY1992 to 13.5 per cent in FY2002. The import duty on rice import was zero during FY2008 and thereafter till FY2015 when 10.0 per cent duty was imposed on rice import (Raihan and Khan, 2013).

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.

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. We reproduce below the major findings of the two most recent studies.

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 is 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), mostly 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.

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 analyze 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 utilizing 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 subsidized 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 co-ordination 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 favor 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.

3.5 Policy Measures/Initiatives

The following policy measures and/or initiatives can be undertaken to address the concerns highlighted in Sections 1 to 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 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 DAE which will save not only scarce resources but will also contribute to capacity building of these organizations.
- 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 prerequisite in its own right, a rigorous study needs to be undertaken to assess the strategic stock holding behavior of the private sector agents and their reaction and adjustment behavior 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 policy makers can take informed decision with regard to timely intervention in the markets for food grains.
- There is a need to improve the modalities of domestic procurement program 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 pre-requisite for early planning of procurement of food grains from the global market, especially for coping in times of natural disasters.
- The domestic procurement program should have provisions for educating the farmers about the quality, especially level of moisture content (14%) required for selling paddy to the procurement centers. 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 program.
- If the procurement operations can be further decentralized at the local level, the transaction costs that are involved can be minimized and thus provide incentive for farmers to participate in the public procurement program.
- There are numerous allegations of irregularities in the system. The presence of any irregularity in such a large and costly government intervention program is bound to cause misuse of scarce public resources on the one hand and prevent the program 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 cooperative, private-public partnership 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.

SECTION 4. ASSESSMENT OF PROGRESS OF FAST TRACK PROJECTS

4.1 Introduction and Objectives

Faced with limited progress in the development of physical infrastructure and a clear need for improvements, the concept of a 'fast track project' was first introduced at the governmental level in 2013. After taking office in January 2014, the incumbent government identified six construction projects to be seen as 'fast track projects', and provided the necessary directives that would promote faster implementation of these projects. In January 2015, another two projects were added to the list. The projects identified included

- a) Padma Multipurpose Bridge Project,
- b) Dhaka Mass Rapid Transit Development Project (Metro Rail),
- c) Rooppur Nuclear Power Plant,
- d) 2x660 MW Moitree Super Thermal Power Project (Rampal),
- e) LNG terminal project,
- f) Deep Sea Port at Sonadia,
- g) Matarbari 2x600 MW ultra-super critical coal-fired power project and
- h) Paira Port Project.

Given the growing demand for improved infrastructure, fast track projects are expected to have a broad impact towards minimising the current infrastructure deficit. As such, these projects should be implemented on a priority basis so that completion will result in incremental contributions to existing infrastructural facilities over time.

From a project management perspective, the success of fast track projects depends both on success of implementation as well as success in operation following project completion (Baccaarini, 1999). The present study assesses the progress of implementation of the fast track projects from this dual perspective. Project management 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 include being on time (in terms of meeting the schedule), within cost (in terms of meeting budget) and achieving quality objectives (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 goal), satisfaction of users' needs (in terms of satisfying real needs) and satisfaction of stakeholders' needs (Baccaarini, 1999).

Figure 4.1: Project Management Success



Source: Baccaarini, 1999.

4.2 Methodology

The present study analyses the fast track projects from this project management success perspective. Using the logical framework method (LFM), different aspects of the fast track projects will be critically reviewed (Figure 4.2). Since most of the projects are at different 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 (Lavagnon et al, 2011). In the process of implementation of a large project, different kinds of challenges need to be handled. These include engineering challenges, human development challenges, managerial and political challenges, and sustainability challenges. The present analysis will, as appropriate, address all of these areas.

4.3 Institutional Structure and Monitoring Mechanism of Fast Track Projects

4.3.1 Institutional Structure

The fast track project concept 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 objectives of this initiative are 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 IMED, the fast track projects create a direct link between the implementing agencies and the Prime Ministers' Office. 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 Prime Minister's Office is established with a view to ensuring faster project completion by allocating necessary resources as required and without delay.

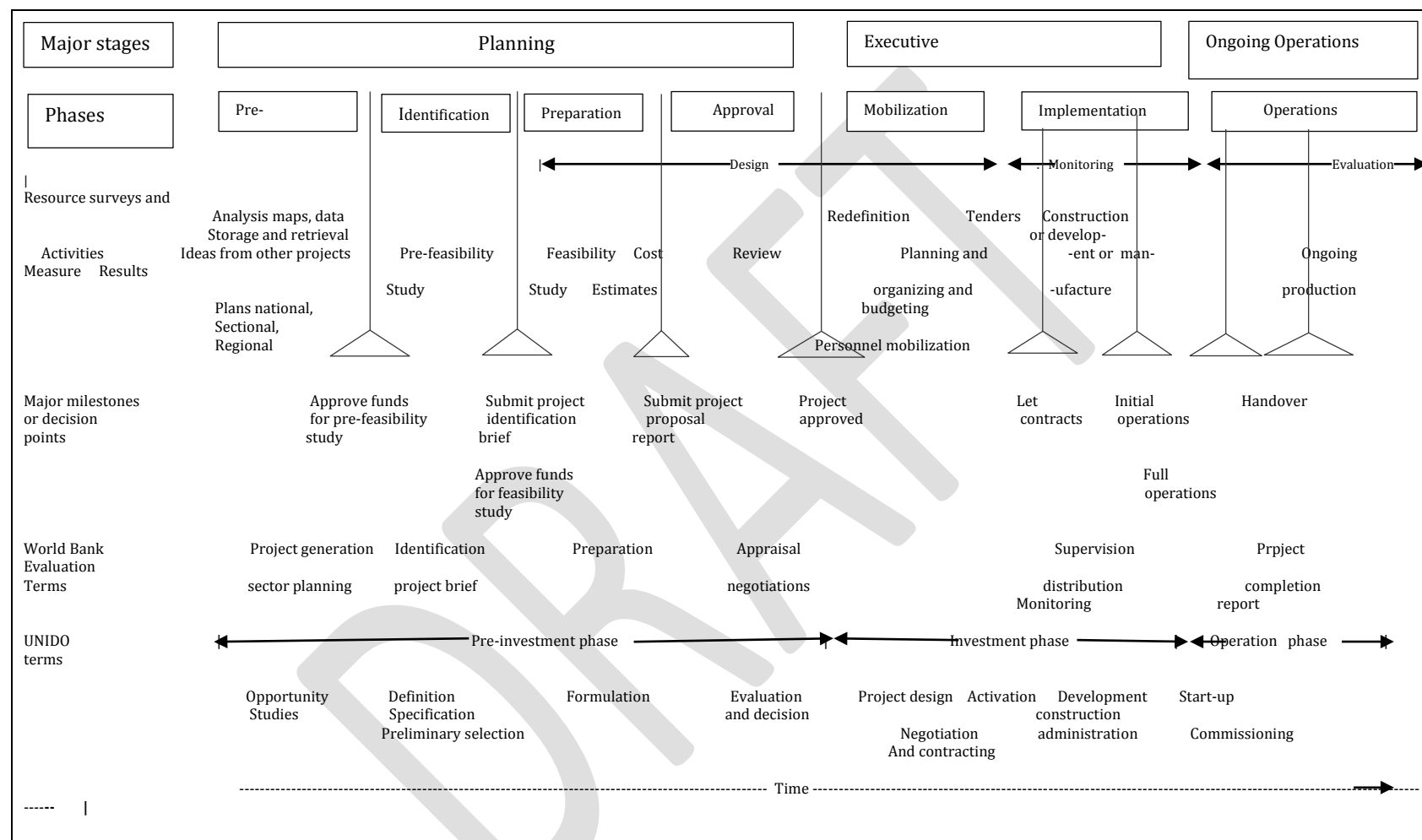
4.3.2 Monitoring Mechanism

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 forest, transport, energy, shipping, and secretaries of ERD and IMED (Figure 5.3). A Taskforce has also been formed under the FTPMC. Membership of the Taskforce includes the secretaries of the relevant ministries. The Taskforce facilitates the activities of the FTPMC by reviewing progress of each of the projects on a regular basis, and prepares discussion notes for the FTPMC on key issues and concerns.

The Monitoring Committee is expected to sit every month to discuss progress made on the projects. However, since January, 2014, the Committee were only able to meet on three occasions (The Daily Star, 15 Jan 2015). 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 need to be taken and/or emergency issues are raised regarding any of the projects.

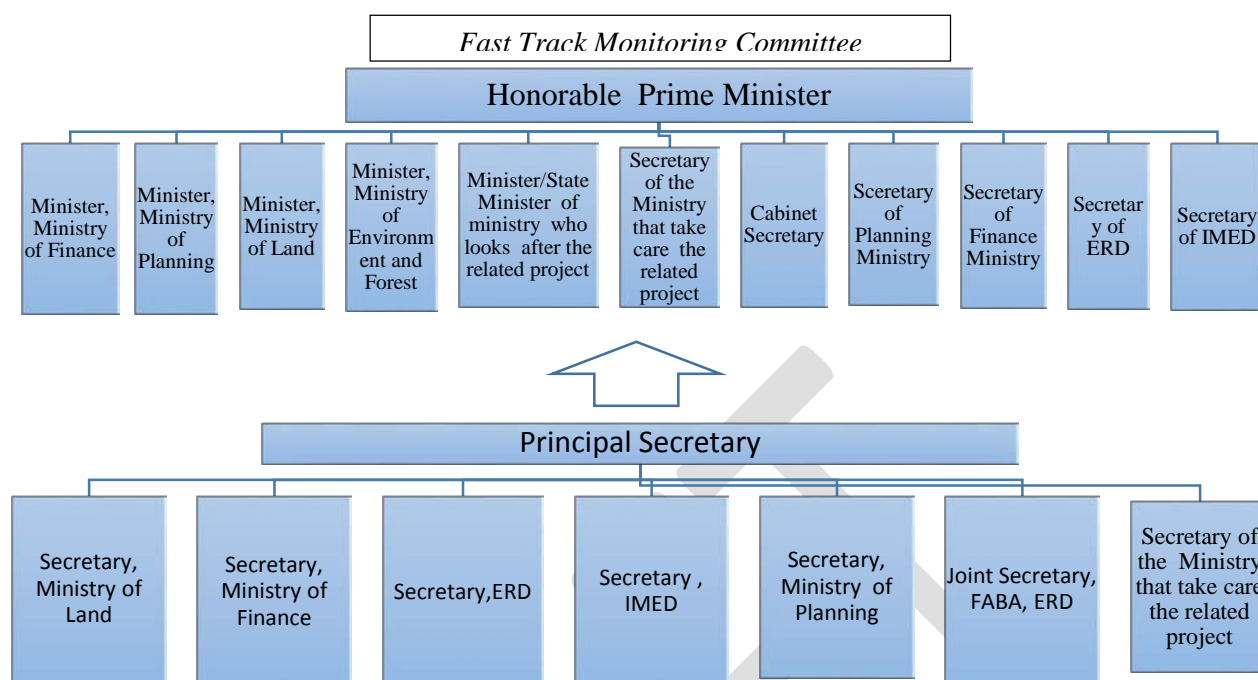
The aforementioned direct link between implementing agencies and the Prime Ministers' Office is supposed to ensure accountability in the process of implementation. The secretaries of the respective implementing agencies are expected to report positive and negative developments regarding project progress to the Taskforce. 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.

Figure 4.2: Project Management - Logical Framework Method



Source: Youker (1989).

Figure 4.3: Institutional Structure for Monitoring Fast Track Projects



Source: Prepared by authors.

4.4 Description and Analysis of Fast Track Projects

4.4.1 The Padma Multipurpose Bridge

Project highlights: The Padma Bridge is a multipurpose road-rail bridge, crossing the Padma River at a total length of 6.15km. The bridge will be located between Munshigonj and Shariatpur, creating 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 built during 2008-2015. After commissioning, this bridge will make 1.2 per cent incremental contribution to 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 (WB) (41 per cent), the Asian Development Bank (ADB) (21 per cent), JICA (10.3 per cent), and IDB (4.8 per cent). After 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 withdrew their promises. With aspirations of implementing the project using local resources, the project was revised with a new timeline and cost. According to the RDPP, the new timeline set for implementation was 2013-2018 and revised costs were estimated at Tk. 20,000 crore, of which 92 per cent will 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 to Tk. 28,793 crore.

Project cycle analysis: Figure 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 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.

Figure 4.4: Progress of work



Source: Prepared by author.

Note: Green means completed; blue means ongoing; red means yet to be initiated.

Procurement issues: Selection of various consultants 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 had been pre-qualified for monitoring and supervision of the project. However, the World Bank made allegations against SNC Lavalin and high government officials for intended to indulge in corruption. After the government withdrew its request to seek support from the World Bank, other development partners withdrew their support.³⁵ The decision to implement the project with local funds has affected overall project viability. The pre-selected companies have been invited to participate in the tendering process for construction of the main bridge, with three companies having expressed their interest but only one having submitted its technical and financial proposals (China Major Bridge Engineering Corporation). As such, this company has been selected.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 are provided to the Bangladesh Army, while Abdul Monem Limited were 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. Moreover, the timeline for completion of some of the components has been further extended (Figure 4.5). 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 Maowa approach road extended from 33 months to 42 months and that of Janjira extended from 34 months to 36 months. Other

³⁴Earlier in July 2011, five pre-qualified bidders were selected. These included Samsung C&T Corporation of South Korea, China Major BridgeEngineering Co 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.

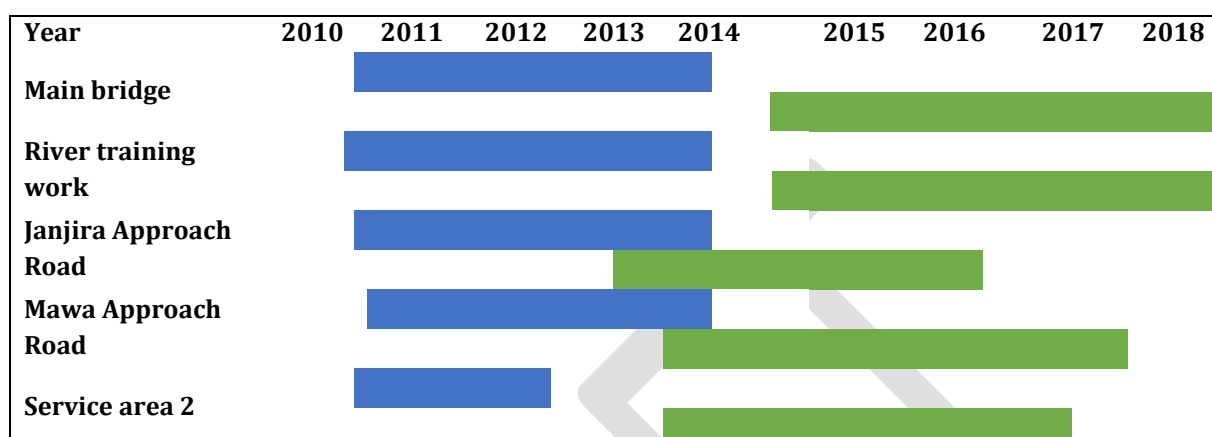
³⁵ADB withdrew its proposal on 1 February 2013, and the JICA on 2 February 2013.

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

than facing unwarranted situations (such as prolonged political unrest and natural shocks/changes), such time extensions for most of the components are difficult to explain.

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

Figure 4.5: Time Lag for Different Activities of the Padma Bridge Project



Source: Prepared by author.

Revision of project costs: Over the last nine years, the project budget has been revised three times. As a result, the project cost has increased significantly, by 98 per cent in dollar terms and by 180 per cent in taka terms (Table 4.1). 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 commission to the local contractors. In the second revision, costs have further escalated for components which are currently at different phases of implementation. Such overrun of costs of different components need to be revisited. However, a number of the recent budget revisions 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 the river bank.

Table 4.1: Project Budget Revisions (million US\$)

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
Other (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	2,915.0	4,131.5	98.1	41.7

Source: Prepared by authors based on RDPP and Website of BBA.

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 to follow the usual 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 USD. Given the fluctuating exchange rate, particularly against the USD, 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 of workers and professionals, about 15,000 workers have so far been employed, out of which a large 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.

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.

4.4.2. 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 20.1km, beginning in Uttara and ending in Motijheel. The project was initiated in 2012 and will be completed in 2024. However, the project implementing agency have emphasised 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 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 in the National Parliament, under which the Dhaka Mass Rapid Transit Company Limited (DMRTCL) has been formed.

Project cycle: Figure 4.6 shows the project cycle for the Metro rail project. The project is now at the executive 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 has not yet begun on 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 right of way (ROW) survey, and the utility survey are underway. It is expected that the work of detail designing for MRT line-6 will be completed by July 2015.

Figure 4.6: Progress of work



Source: Prepared by the author.

Note: Green means completed; blue means ongoing; red means 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. General consultant (GC) started working in February 2014 and finalised the basic design by December 2014.

A number of agreements were 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 (IDC), and another contract with CCDB for resettlement assistant consultant (RAC) services. Both the consultant firms have recently began work. There are a total of eight contract packages for the project. Preliminary quotations (PQ) 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 various surveys. The geotechnical survey revealed an underground electricity line that goes from Agargoan to Mirpur-10 needs to be abandoned 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 undoubtedly extending 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 DMTCL 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 noticeable progress to date, no contractor has been appointed. It will take a year to appoint all necessary 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 in regards to the procurement process. Given the huge demand for mass traffic transit, timely completion will also ensure product success.

4.4.3 Deep Sea Port at Sonadia

Project highlights: Construction of the Deep Sea Port is greatly 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 for completion in 2055. The Government of Bangladesh formed 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 first stage. After the completion of the project, the port will have the capacity to handle 30 lakh TEUS containers and acquittal of 10 crore ton of bulk cargo.

Project cycle: Figure 4.7 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 have yet to be initiated. Although allocation has been made to complete the first phase of the project, very little progress has been made so far. The consulting company was supposed to complete a series of works, including two harbour protection dams (at a length of 1.95km and 2.25km) and construction of a deep sea channel (at a width of 400 meters and a depth of 14 meters.) The whole development will be within range of 25km of where there will be nine berths, along with other facilities, that can manage a ship of 300 metres in length and draft of 14 metres.

Figure 4.7: Progress of work



Source: Prepared by author.

Note: Green means completed; blue means ongoing; red means 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 public-private partnership (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. A number of countries

have expressed their interest in financing construction of the project, including China, India, the USA, the UAE, the Netherlands, Denmark and Germany.

Recently, the government decided to establish a port at Paira, which is relatively close to Sonadia. Given this situation, the government needs to decide which of the two ports to prioritise as Bangladesh need not require to establish two deep sea ports at this moment. As such, the future construction of the Deep Sea Port at Sonadia is in jeopardy.

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 such a large amount of time to prepare the project, this project can soon be regarded as non-tracked.

4.4.4 Paira Sea Port

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 being 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 eleven specific components, which include construction of ten 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; 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. Limited scale port operation is expected to commence by the end of 2015. The government formed Paira Port Authority in August 2013.

Project cycle: The project is at an early planning stage, with only pre-qualification related activities having been carried out. A feasibility study is ongoing. 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, these are not as yet comprehensive. Figure 4.8 shows the current state of progress of the Paira project.

Figure 4.8: Progress of work



Source: Prepared by author.

Note: Green means completed; blue means ongoing; red means 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. So far, other related progress includes procurement of 16 acres of land on the west bank of the Andermanik River of

Kalaparaupazilla (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 a IALA (International Association of Light House Authorities) navigation system, a published admiralty chart of Paira navigable water and channel marking 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 arranging of 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 their interest in financing the project, including India, China, Denmark and New Zealand. A total of nine Chinese companies have expressed their 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 yet to be passed in 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 34km 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 Project depends on a number of conditions. First, project success depends on how efficiently the government signs contract with countries interested in the project. Second, project success will depend on whether the government will fully concentrate on Paira project by sidelining the Sonadia Deep Sea Port project or not.

4.4.5 2x660MW Moitree Super Thermal Power Project (Rampal)

Project highlights: The Rampal power project is officially named the Moitree Super Thermal Power Project. It is a 1320 (2*660) MW imported coal based power plant. The project is being implemented under a joint venture initiative between two public entities, *PDB Bangladesh and NTPC India*. In addition, a company has been formed, India-Bangladesh Friendship Company, with an equal stake to *PDB and NTPC*. The project is estimated to cost around USD 1.80 billion, of which 30 per cent will be borne by PDB and 70 per cent by NTPC, to be generated through commercial borrowing (Table 4.2). The project was initiated in 2010 and is targeted to begin 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.

Project cycle analysis: The project is currently at the executive phase (Figure 4.9). All the necessary activities related to the planning phase have been completed, including *pre-identification, identification, preparation, project approval and mobilisation*.

Figure 4.9: Progress of work



Source: Prepared by author.

Note: Green means completed; blue means ongoing; red means 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 Centre for Environmental and Geographical Information Services (CEGIS). Based on these studies, the project gained approval from the Ministry of Environment (MoE). The power plant will use super-critical technology, which is safe for the environment. This technology has about 6% more efficiency and requires less coal to be burnt per unit of electricity generated, resulting in lower greenhouse gases (CO₂) emissions than conventional, sub-critical technologies. Currently, this technology is being used in the USA, the UK, China, India and Australia, all with positive experiences. Water for the plant will be used from the Pasur River. Water is required approximately 2.5m³/sec and the volume of the water will be 0.05% 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 to be of new harm to local biodiversity. As a result of using high-quality coal (high GCV (6000 kcal/kg)), there will be low sulphur (max. 0.6%) and low ash (Max,15%), 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.

Table 4.2: Rampal Power Plant Project Overview

Issues	Features	Issues	Features
Production Capacity (MW)	1,320 (2*660)	Implementing body	India-Bangladesh Friendship Company
Land acquisition (acres)	1,834	Financial investors	30% India-Bangladesh equal partnership, 70% loan
Budget (approx.)(Tk. billion)	145.1	Location	Sapmari, Rampal, Bagerhat
Allocation for compensation (Tk. Million)	.625	Technology	Super-critical
Year of production	June 2019	EIA implementation	Centre for Environmental and Geographical Information Services

Source: BIFPC, various newspapers, TIB report.

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, there have been no steps taken to raise these funds. The WB and the ADB have decided not to finance this project as officially both of the organisations have decided not to finance coal based power plants in developing countries. Without having a well renowned

guarantor, as usually associated with the fund from WB 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 expect a severe threat to the mangrove forest of Sundarbans, which is a UNESCO heritage site, and its nearby area, as the plant is located just 14km 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 critical area, with such approval usually being given by the Department of Forests, which was not the case in this project³⁸. Further, earth filling at the site appears to happen contrary to law. The implementing agency should 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 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 Sundarbans and the nearby area.

4.4.6 Matarbari 2x600MW Ultra-Super Critical Coal-Fired Power Project

Project highlights: The project involves construction of a 1,200MW coal-fired power plant in Matarbari, Cox's Bazar. It will include two 600MW 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 Government of Bangladesh (Table 4.3). 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

³⁷In a study conducted in 2012, the Zoological Society of London (ZSL) 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.

³⁸http://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

electricity generated will be used locally, mainly by industries that are to be established in a nearby special economic zone. 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: Figure 4.10 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 executive phase. Except for acquisition of land, none of the other project components have yet been initiated.

Figure 4.10: Progress of work



Source: Prepared by author.

Note: Green means completed; blue means ongoing; red means 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 ten years will be considered a ‘grace period’, and the subsequent thirty 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, the 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 environmentally-safe, but expensive compared to that of super critical technology, according to experts.

Table 4.3: Matarbari Power Plant Project Overview

Description	Features	Description	Features
Production Capacity (MW)	1,200 (2*600)	Implementing body	Tokyo Electric Services Co. Limited
Land acquisition (acres)	1,414	Financial investors	JICA (loan), CPGCBL, GoB
Budget (approx.)	Tk. 360 billion	Location	Matarbari, Moheshkhali, Cox’s Bazar
Allocation for compensation	Tk. 2.37 billion	Technology	Ultra-super-critical
Year of production	June 2021	EIA implementation	Centre for Environmental and Geographical Information Services

Source: CPGCBL, various newspapers, TIB report.

Major issues and concerns in the implementation process: The project site has been found to be unsuitable for constructing heavy infrastructure as it is at a low sea level. As such, the entire site needs to be elevated by eight to ten meters in order to make it suitable for construction, which will be a challenging task for the developer. This additional task requires more time to complete the project, with JICA having already extended the original timeline by nineteen months. This work requires around USD 1 billion, funds that will need to be found by the government from local resources.

There have been a few allegations of corruption in the land acquisition process, however, this issue has been properly managed (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 is also likely.

4.4.7 Construction of the LNG Terminal

Project highlights: The government decided to construct the first liquefied natural gas (LNG) terminal at 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 and transfer (BOOT) basis, for 20-25 years (Table 4.4). While the project was initially set for completion in 2013, the timeline was later extended until 2016. In January 2015, Petrobangla signed a contract with 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, Excelerate Energy-Astra Consortium (US JV) was shortlisted. The feasibility study is currently ongoing.

Table 4.4: LNG Terminal Project Overview

Description	LNG Terminal
Capacity	138,000-260,000 cubic metres
Expected Supply	500 million metres standard cubic feet per day (mmscfd)
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.

Project cycle: Figure 4.11 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.

Figure 4.11: Progress of work



Source: Prepared by author.

Note: Green means completed; blue means ongoing; red means yet to be initiated.

Procurement issues: In January 2015, Petrobangla signed a primary contract with USJV to appoint them as 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 in regards to the first component, construction of the FSRU, which is being carried out by US JV. The second component is being carried out by GTCL along with a foreign contractor. The GTCL has claimed that the study has been completed. Regarding the third component, a 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 AEC, if four million tonnes of LNG is imported from Qatar every year, the price of per mmcf LNG would be USD 14, including delivery and shipping costs. With duty, tax and other expenses, the cost would be USD 17 per mmcf at the delivery point. Based on those figures, total annual government spend 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.

4.4.8 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, under which the project will be completed. According to the agreement, Russia will provide 90 per cent of the total cost of the project as a loan (Table 5). 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 advancing at an extremely slow pace.

Table 4.5: Rooppur Nuclear Power Plant - Project Overview

Description	Rooppur Nuclear Power Plant
Capacity (MW)	2000MW (2*1000MW)
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: BAEC, various newspapers.

Project cycle: The project is at the planning phase, with pre-selection, identification, preparation and approval works having been completed (Figure 4.12). 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, who will then use this information for draft drawing and designing of the plant.

Figure 4.12: Progress of work

Source: Prepared by author.

Note: Green means completed; blue means ongoing; red means 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 erection works. The Government of Bangladesh has signed a further agreement with Russia under which a USD 500 million loan will be provided for conducting onsite 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 MWe. 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 expected to be USD 7-8 billion, whereas for VVER1200 it would be expected to 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 expect 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.

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.

4.5 Major Issues and Concerns with regards to Implementation of Fast Track Projects

Overall progress of the supposed “fast track” projects is unsatisfactory (Table 4.6). Although two of the eight projects (Padma Bridge and Metro Rail projects) have made visible progress over the period of operation of the FTMC, most of the projects are behind schedule, with some being effectively stalled (i.e. Sonadia Deep 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 observed in case of implementation of other projects. As such, it is clear that the FTMC’s performance in facilitating implementation has been weak. It is now of critical importance to focus on timely completion of these projects.

Table 4. 6: Status of Fast Track Projects

Project Name	Procurement	Implementation Process		Project Success	Product Success
		Time	Cost		
1.The Padma Multipurpose Bridge	Concerns raised	Thoroughly revised	Thoroughly revised	Conditional	
2. Dhaka Mass Rapid Transit Development Project(Metro Rail)	No concerns	Not revised	Not revised	Can be ensured	
3.Deep Sea Port at Sonadia Project	N/A	Not revised	N/A	Difficult to ensure	Difficult to ensure
4. Paira Sea Port	No concerns	Not revised	N/A	Can be ensured	
5. 2*660 MW Moitree Super Thermal Power Project (Rampal)	Concerns raised	Revised	Revised	Conditional	
6. Matarbari 2*600 MW Ultra Super Critical Coal-Fired Power Project	No concerns	Not revised	Not revised	Can be ensured	
7. Construction of LNG Terminal Project	No concerns	Thoroughly revised	Revised	Can be ensured	
8. Construction of Rooppur Nuclear Power Plant	Concerns raised	Revised	Not revised	Conditional	

Source: Prepared by authors.

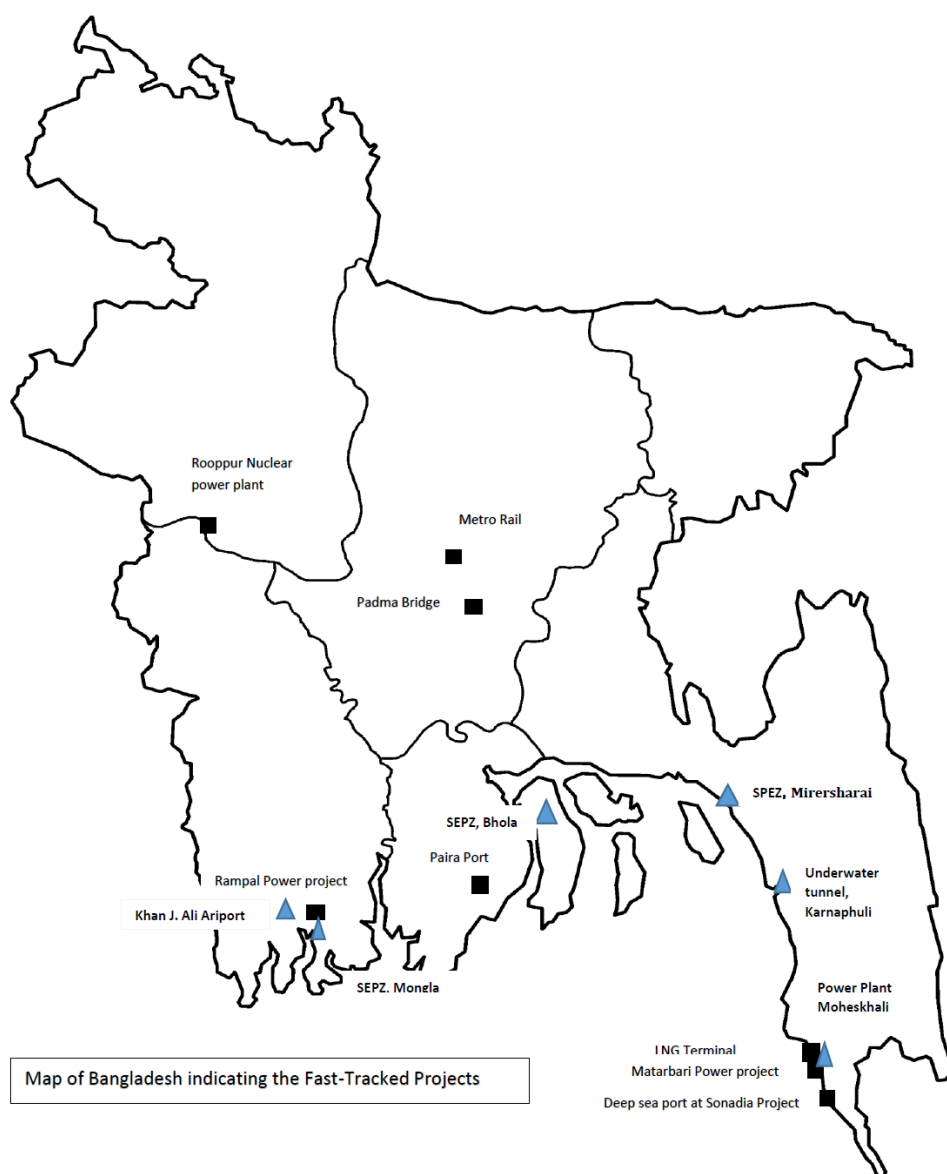
Although most of the projects are important, and from a project management perspective are viable, project and product success will depend on various kinds of complexities which have reduced a part of success. According to Table 5, a number of the projects have concerns related to overrun of both cost 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. Further, a number of the projects are being implemented without adequate competition in the bidding process which would contribute to cost estimation (e.g. Rooppur Nuclear Power Plant). In addition, there are concerns regarding environmental safety and security for a number of the projects (e.g. Rampal Power Plant), concerns that will need to be handled properly. 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 A-4.1 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 taken as fast track projects instead of some of the existing one which lack sufficient progress. A timely implementation of those 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 in regions nearby to the fast track projects (Annex Figure 1). Examples include the establishment of special economic zones in Mongla, Mirersharai and Bhola, construction of power plants at Moheshkhali, development of an underwater tunnel at Karnafully River, and construction of Khan Jahan Ali Airport at Bagerhat. Such projects, located across the southern belt of the Bay of Bengal, will make the region important as well as more critically sensitive. With these infrastructural facilities comes that need for developments in transport routes in inland waterways and seaways. It is of vital importance to identify and understand all

positives and negatives associated with developing such infrastructural facilities in the southern part of Bangladesh, with the support of a range of development partners.

Figure 4.13: Location map of fast track projects



SECTION 5. ANALYSIS OF IMPLEMENTATION OF THE SIXTH FIVE YEAR PLAN (SFYP): EXAMINING THE BENCHMARK CONDITION FOR FY2016

5.1 Introduction

The current fiscal year (FY2015) is the final fiscal year under the Sixth Five Year Plan (SFYP). This medium term plan, along with the long term perspective plan (2011-20), are the Government of Bangladesh's key policy instruments towards realizing its political vision of Bangladesh becoming a middle income country by 2021 ("Vision 2021"). Currently, the government is in the process of finalizing the Seventh Five Year Plan (7FYP), which will be implemented from FY2016-2020.

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 progress made in regards to SFYP implementation.

However, while a number of reviews have been published to date, there remains a vacuum in examining the outcomes of SFYP implementation. 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.

5.2 Objectives and Methodology

The present study seeks to analyze the benchmark condition of the 7FYP, with particular regard to the targets and strategies to be set for implementation during FY2016-2020. As part of this, this study will analyse 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 realized. For clarity, the analysis in this report follows the monitoring and evaluation framework suggested in the SFYP.

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

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 5.1 presents the targets, achievements and gaps for major indicators throughout FY2011-14 (full details can be found in Annex 5.1). Since the targets on different indicators are available only for the terminal year (FY2015), the gap measured on the basis of the data up to FY2014 needs to be interpreted cautiously.

Table 5.1: SFYP Targets and Achieved Results

Indicator	Target (FY2015)	Achieved (FY2014)	Gap
A. Production, income generation and poverty			
Headcount poverty (%)	22.5	24.7**	-2.2
Overseas employment of skilled labour (%)	50	35.9 (2010)	-14.1
Govt. spending on social protection (% of GDP)	3.0	2.2*	-0.8
Agricultural GDP growth rate (%)	4.4	3.35**	-1.05
B. Human resource development (education, health and population)			
Net enrolment rate at primary education level (%)	100	97**	-3
Net enrolment rate at secondary education level (%)	75	75*	0
Adult literacy rate (%)	80	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 Rural - 90	Urban - 59.7* Rural - 66.2*	-40.3 and -23.8
Proportion of urban and rural population with access to safe drinking water (%)	Urban - 100 Rural - 96.5	Urban - 99.4* Rural - 98.2	-0.6 and +1.7
D. Energy and infrastructure			
Electricity generation (MW)	15,457	7,681 (2015)	-7,776
Electricity coverage (%)	68	62**	-6
Contribution of road sector to national income (%)	7.5 av. growth rate	6.7*	-0.8
Per capita consumption of electricity	390 KWh	275 kwh**	-115
E. Gender equality and female empowerment			
Ratio of girls to boys in tertiary education (%)	60	73*	+13
Ratio of literate females to males (% of ages 20-24)	100	86 (2012)	-14
F. Environmental sustainability			
CO2 emissions (tonnes per capita)	0.38	0.34*	-0.4
Number of usable cyclone shelters	5,352	3,770*	-1,582
G. ICT			
Internet users (per 100 people)		20.5 (2012)	
H. Governance			
Proportion of directly-elected female representatives (%)	6**	7**	+1
Numbers of bills passed per year	45	54**	+9
Average parliamentary attendance (%)	70**	63**	-7
Income tax (as a % of GDP)	5	3.4*	-1.6

Source: Ministry of Planning (2014) "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: *2013; **2014; +9th National Parliament; **10th National Parliament.

During the Plan period, only a limited number of indicators have demonstrated significant progress. These include reduction in poverty (although still below target), net enrolment in primary education, reduction in the fertility rate, electricity coverage, the proportion of elected female representatives, and the number of bills passed. However, the majority of indicators are somewhat off-track. This includes major indicators such as real income growth, the percentage of individuals reaching grade five, immunizations, the maternal mortality ratio, the 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 five (24.7 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 (1,155 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 A-5.1).

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 1997-02 plan period (Table 5.2). However, the actual SFYP GDP growth rate of 6.3 per cent was not significantly different from the GDP growth rate achieved in the preceding five-year period (2006-10), 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 (MTR, 2014) – this is somewhat of an overstatement. An analysis of average GDP growth rates in all world economies between 2010-13 reveals that Bangladesh ranked 43rd out of the top 45 fastest growing economies in the world (Figure 5.1).³⁹ Among the South Asian economies, Sri Lanka is far ahead of Bangladesh, while India ranks only just behind Bangladesh.

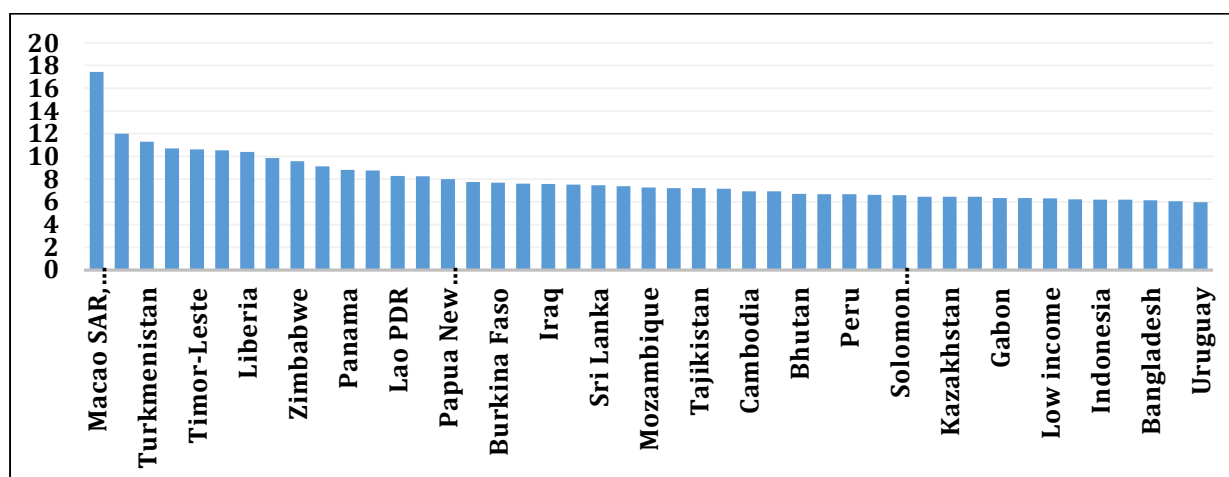
Table 5.2: GDP Growth Performance in Bangladesh's Five Year Plans

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: SFYP and CPD.

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

Figure 5.1: Average GDP Growth Rate of the Top 45 Growing Economies (2010-13)



Source: Based on WDI Database.

Major sectors, including agriculture, industry and services, were unable to achieve target growth levels set in the SFYP (Table 5.3). During FY2011-13, while the industrial sector fell just short of target, the rates of growth in the agricultural and services sectors were significantly below target. Shifts in the nature of the composition of the Bangladesh economy, from agricultural to non-agricultural sectors, has continued during the Plan period, albeit at a pace of change slower than what had been projected in the SFYP.

Table 5.3: Structure of the Economy: Projected and Actual (2011-15)

Sectors	Projected					Actual (1995-96)			Actual (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: SFYP and BBS.

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 FY2014), 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 utilization 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).

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 FY2015, 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.

5.5.1 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. 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 trend during the Plan period, which indicates deceleration of capital-output (Figure 52). In fact, average ICOR in the non-Plan years preceding SFYP (FY2006-10) was lower than that of the Plan period (FY2011-13), at 3.9 and 4.15 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).

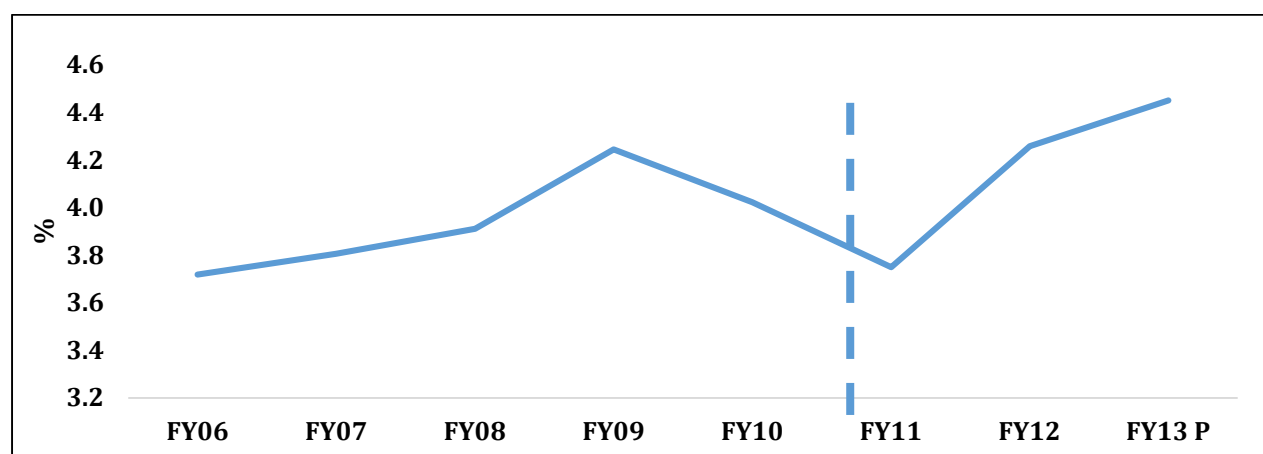
Table 5.4: Performance of Major Macroeconomic Indicators

	Growth rate in FY2010 (actual)	CAGR FY2011-14 (target)	CAGR FY2011-14 (actual)	CAGR FY2011-12 (actual)	CAGR FY2013-14 (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 Monthly Fiscal Report.

Note: CAGR = Compound annual growth rate

Figure 5.2: Trend in the Incremental Capital-Output Ratio (ICOR): Plan vs. Non-Plan Periods



Source: CPD Database.

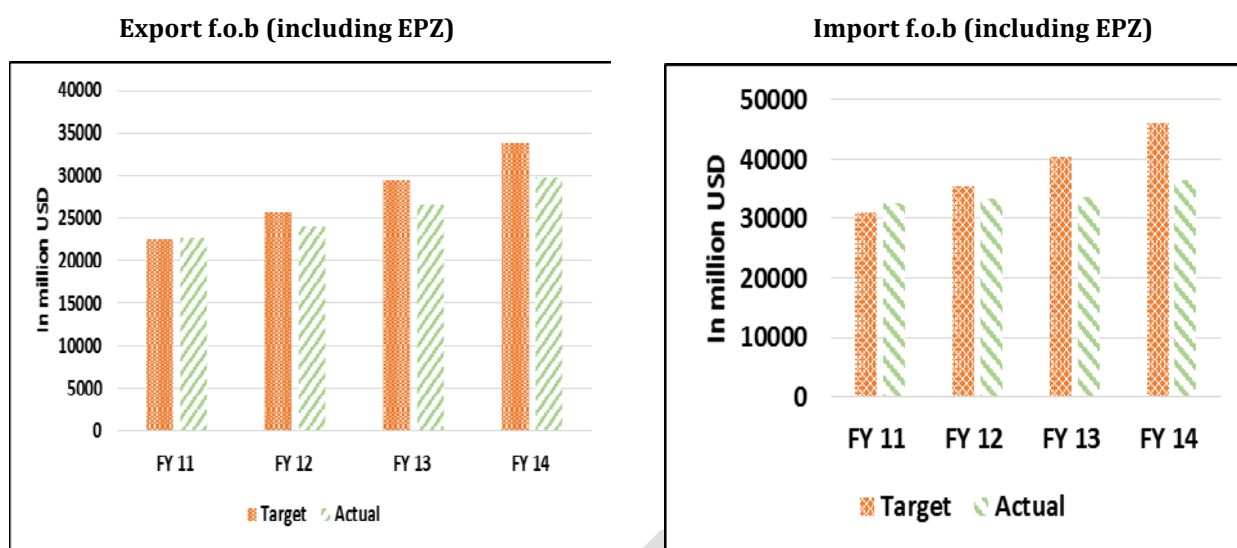
The export sector is one of the major drivers of the Bangladesh economy. However, partly as a result of limited growth in exports, economic growth during the Plan period has been inconsistent and sluggish (Figure 3). During FY2011-14, the average export growth rate hovered around 16.4 per cent, which was significantly below the target of 20.2 per cent. As a result, actual exports at the end of FY2015 are expected to be far below target, falling short of USD 7-8 billion.

This underwhelming performance in the export sector has been influenced by a number of developments at both the domestic and international levels. At the domestic level, prolonged political unrest during FY2013 and the first half of FY2015, lack of an adequate gas and electricity supply, a fire at Tazreen fashions, and the collapse of Rana Plaza, have all had an adverse impact on the level of exports, particularly of major export products such as ready-made garments (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 been further concentrated towards RMG products - the share in RMG of total exports has increased from 77.1 per cent in FY2010 to 81.2 per cent in FY2014. However, the RMG sector has in itself 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.

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

Figure 5.3: Export and Import during the SFYP Period



Source: SFYP and Bangladesh Bank.

5.5.2 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; institutionalizing 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 MTBF has been revised, with the current revision adopted in FY2013 for the FY2013-17 period (Table 5.5). While a number of targets in the 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 regards 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 Monies and Budget Management Act 2009, which establishes budget and planning branches in the ministries/divisions, initiated an economic code based mapping of development and non-development budget, and an analysis of audit performance on a pilot basis.

Table 5.5: Comparison between SFYP, MTBF FY11-15 and MTBF FY13-17

	FY2012-13			FY2013-14			FY2014-15		
	SFYP (target)	MTBF FY11- 15 (proje cted)	MTBF FY13- 17 (proje cted)	SFYP (target)	MTBF FY11- 15 (proje cted)	MTBF FY13- 17 (proje cted)	SFYP target	MTBF FY11- 15 (proje cted)	MTBF FY13- 17 (proje cted)
	<i>(in billion taka)</i>								
Total revenue	1,373	1,313.9	1,396.7	1,636	1,551.3	1,667.3	1,953	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	1,745.2	1,917.4	2,217	2,030.4	2,227.8	2,617	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: SFYP and Medium-Term Budgetary Framework

Revenue Mobilization

Performance in revenue mobilization was impressive during the first two years of the Plan period. However, overall performance over the entire period did not achieve target, with average growth in total revenue during FY2011-14 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 National Board of Revenue (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 FY2012 and FY2014, 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 at a decreasing rate from Tk. 23,420 crore in FY2011 to Tk. 20,512 crore in FY2014. In the SFYP, the revenue structure of NBR was designed in such a way that custom 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 FY2010 to 12 per cent in FY2014. In FY2015, SD on 770 product lines has been changed with the expectation that the share of custom 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 is 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% to -56%, 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 reforms 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 ongoing

online taxpayer registration, and increased staffing levels and training at the National Board of Revenue (NBR). Some of the reforms have led to concerns by businessmen, for example, in regards to the enactment of the VAT Act, which stipulates a universal single rate of 15 per cent. Considering the adverse impact on small and medium enterprises, multiple and reduced VAT rates were suggested.

Table 5.6: Analysis of Public Revenue and Expenditure: Target and Actual

	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 (including grants)	24.8	17.9	21.5	14.4
Overall balance (excluding 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: SFYP and Ministry of Finance Monthly Fiscal Report .

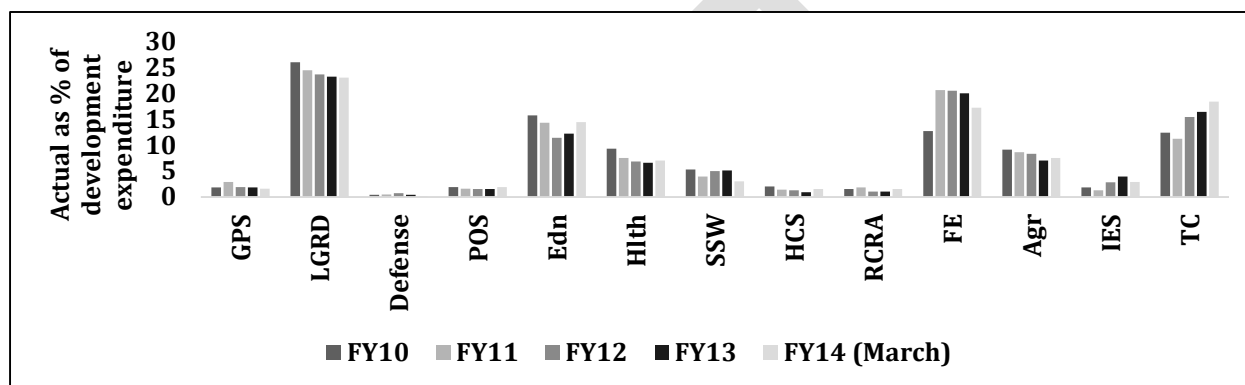
Public Expenditure

Public expenditure during the Plan period was in general below target. Growth of public expenditure was much slower in FY2014 compared to FY2012 (Table 5.6). Expenditure on interest payments has exceeded target mainly due to high levels of domestic borrowing used to finance the budget deficit.

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 FY2009 to 77 per cent in FY2014 (Figure 5.4). Changes in priorities, with movement away from local government and toward 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 from development projects. Further, the Government of Bangladesh made little effort towards reforming state-owned enterprises. For instance, instead of working towards increasing the efficacy of the Privatisation Commission, the government closed this institution and merged its functions with the Board of Investment. The overall debt of state-owned enterprises (SOEs) has soared against the projection made in the SFYP.⁴¹

Figure 5. 4: Actual Public Investment as a % of Total Public Investment, by Sector



Source: Ministry of Finance (MoF).

In regards 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 of total non-development expenditure to 66 per cent during the same period. The top five priority sectors in terms of allocation are interest payment, 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 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 DSL by different public sector organizations, 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 Industry and 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 debt-service liabilities 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 BPC (11 per cent) and Petro Bangla (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 ‘recapitalization’ under the category of investment in shares and equities has raised concerns in recent times. The government’s initiative to recapitalize the SoCBs 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 SoCBs, including bad governance, insider lending, undue interference of the Board, political pressure, and corruption, lack of transparency and accountability, and low productivity, mere injection of capital will have little impact.

In regards to financing, while foreign finance management has been in line with the SFYP target, domestic financing has slightly exceeded its target. In FY2015, 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 debt servicing liability (CPD, 2014).⁴⁴

5.5.3 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 5.7). 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 placed particular emphasis on controlling inflation. The contractionary monetary policy undertaken in the second half of FY2012 and the first half of FY2013 due to high inflation has reduced the growth of credit to the public sectors. In FY2013, both public and private sector credit declined. The slow growth of credit to the private sector in FY2013 and FY2014 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 FY2014, 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 FY2015 indicates that industrial activities and investment still need to pick up in the economy. In addition, the opportunity to

⁴³The new pay scale for public sector employees to be implemented in FY2016 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 IMF’s 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 (NCEB), 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 SOCBs 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 SOCBs and moving forward towards gradual liberalization on exchange regulations on current and capital account transactions.

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

Table 5.7: Monetary Management: Targets and Achievement

Monetary aggregates	CAGR between FY11 to 14 (Targeted)	CAGR between FY2011-14 (Actual)	CAGR between FY11 and FY12 (Actual)	CAGR between FY13 and 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: SFYP and Bangladesh Bank.

The rise in the number of non-performing loans (NPL) 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 5.8). 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 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 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

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 BDT 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)

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 Deposit Insurance Act. The facility of LOLR would provide the Central bank to intervene in case any bank or financial institution fail to cope up with emerging adverse situation. Given a number of large loan scams which made the position of some of the state-owned banks vulnerable, Bangladesh Bank is considering implementing the LOLR facility.

Table 5. 8: State of Non-Performing Loans (NPL): FY2011 – FY2015

Institution 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	100	7.1	100	100	10.5	100	100	10.5

Source: Bangladesh Bank.

5.6 Sector Issues

5.6.1 Sector 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 5.9). 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 5.9: SFYP Public Investment Allocation by Sector (Tk. crore, current price)

Sector (SFYP classification)	FY11	FY12	FY13	FY14	FY15	Total period (target)		Total period (actual/budgeted)	
	Difference between target and actual (Tk. crore)					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	254,473	100.0

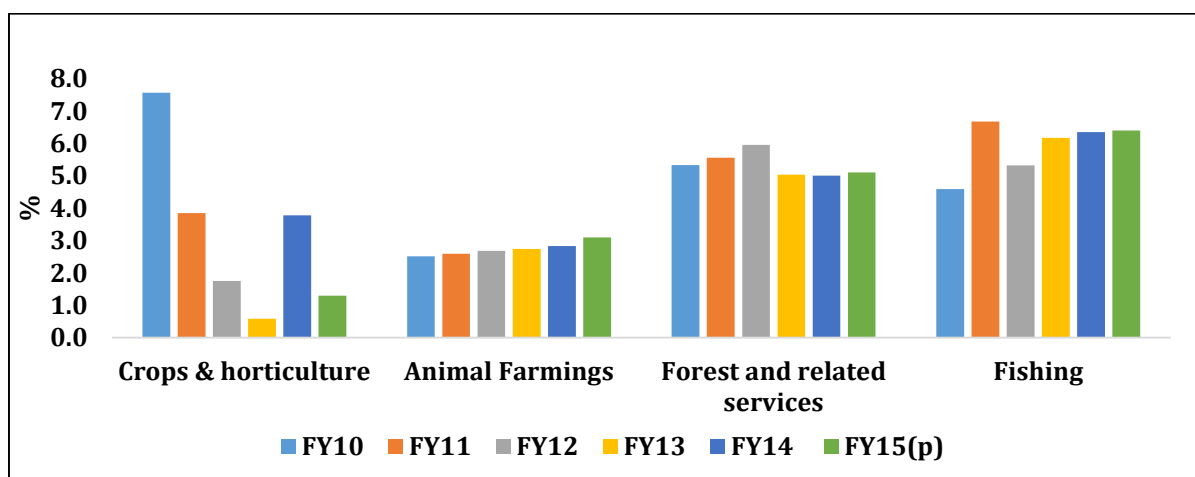
Source: SFYP and CPD Database.

5.6.2 Agricultural Sector

Although the agricultural sector achieved growth of 5.1 per cent in FY2011, this level of growth was not sustained, falling sharply in subsequent years, to 3.1 per cent in FY2012 and 2.1 per cent in FY2013. A breakdown of GDP growth rates reveals that the agricultural sector makes only a small contribution to overall growth, just 0.5 per cent of a total 6.3 per cent in FY2012, which is half of the figure in FY2011. 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.

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 points) in FY2012.

Figure 5.5: Agricultural Sector Growth



Source: BBS.

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

A number of strategies are outlined in the SFYP for the purposes 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 upazillas. 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.

5.6.3 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 FY2011-13. 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 FY2014 and FY2015. 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. Despite various efforts over the Plan period, the performance of small scale enterprises has been

⁵⁰These projects include Training to the farmer 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 & Technology development and dissemination, Development and expansion of research and research infrastructure of BARI, Establishment of fertilizer testing laboratory and research center, Marketing of agricultural products through development of rural communication project.

⁵¹These include formulation of the 'National Agriculture Policy 2013', formulation of Master Plan for Agricultural Development, construction of Agricultural Policy Support Unit (APSU), implementation of the Integrated Agricultural Productivity Project (IAPP), granting Online Fertilizer Recommendation Software and Bangladesh Rice Knowledge Bank, enactment of Fish Feed and Animal Feed Act, 2010, Fish Hatchery Act, 2010, and Fish Food Rules, 2011 and Animal Slaughter and Meat Quality Control Act, 2011 and issued Fish Hatchery Rules 2011 Cattle Grazing Land Policy for the Cooperatives, 2011, enacted.

underwhelming, raising doubts over the efficacy of various initiatives and incentives that have been provided to small enterprises. Due to political unrest in FY2014 and the first half of FY2015, production in industries oriented towards the domestic market has suffered more compared to export-oriented industries. According to CPD (2015), the disruption of January-March 2015 resulted in a total economic loss of approximately 0.4 per cent of GDP.

Table 5.10: Industrial Growth (Projected and Actual)

Sectors	FY10	FY11(E)	FY12	FY13	FY14	FY15(P)
<i>Projected</i>						
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
<i>Actual</i>						
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: SFYP and 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 SFYP⁵². Further, a number of policies and reform initiatives have been undertaken during the period⁵³. 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.

5.6.4 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

⁵² These include establishment of 10 textile Vocational Institute (2nd Revised), establishment of 4 Textiles Vocational Institute, HYV Jute and Jute Seed production & Improved Jute retting Project etc.

⁵³ Including, reorganisation of the Securities and Exchange Commission 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 and National Skill Development Policy, 2012, National Tourism Policy, 2010 issued and passed Strategy for Public-Private-Partnership (PPP), 2010 and Bangladesh Rubber Policy, 2010, Labour Welfare Association and Industrial Relations Act, 2010, Bangladesh Tourism Board Act, 2010. And Bangladesh Tourism Reserved Area and Special Tourism Zone Act, 2010 and Trademarks Act, 2009 and Consumer Rights Protection Act, 2009.

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 5.11).

Table 5.11: Annual Growth Rate (Actual)

	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.

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, mobilization 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, finalizing 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 occurred mainly as a result of a low level of capacity utilization of quick rental (QRRs) power plants. This huge unrealized 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.

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 eleven public sector low-cost projects (generation capacity of 1,700 MW) are likely to be delayed by two years.

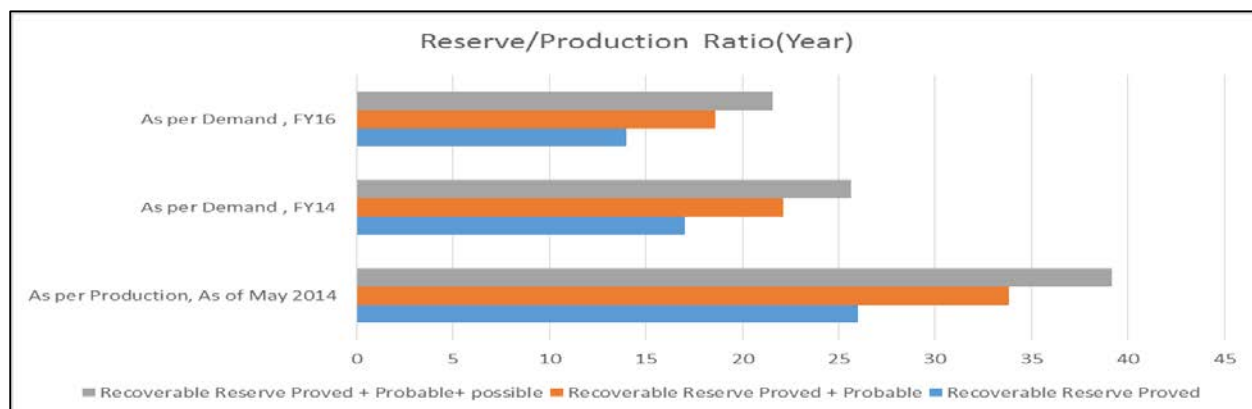
The depletion over recent years of domestic gas reserves has reduced the scope for which gas can be used to generate power. The Petrobangla will only be able to supply gas to the Bangladesh Power Development Board (BDPB) for the purpose of power generation until 2016-2017. The gas reserves in Bangladesh as per proven, probable and possible estimates are 20.7 tcf., 27.04 tcf. and

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.

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.

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 5.6).

Figure 5. 6: Estimated Gas Reserves in Bangladesh (number of years)



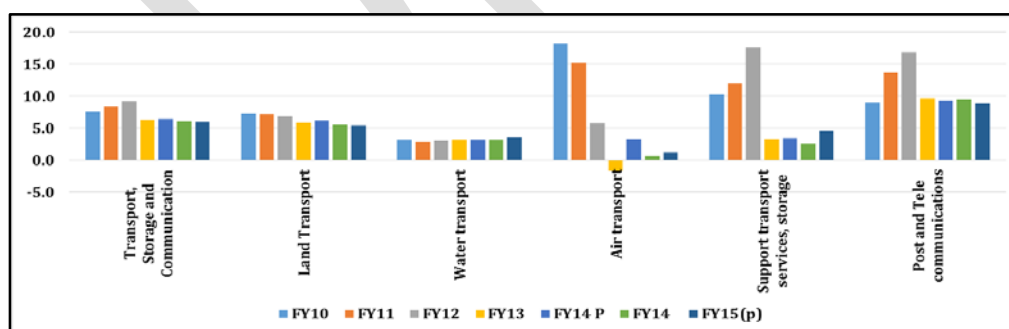
Source: CPD (2014).

5.6.5 Transport Sector

Progress in the transport sector has decelerated during the Plan period mainly due to sluggish growth of the road sub-sector (Figure 5.7). According to a report by the Roads and Highways Department (RHD), although the RHD had a target of constructing 4,672km of new roads by FY2015, only 8 per cent of this target (406.5km) had been completed by the end of FY2013. In regards to the strengthening and widening of roads, only 23 per cent of the FY2015 target had been achieved.

Similarly, in regards to the rail network, to achieve the target for FY2015 of having 3,252km of usable railway requires additional efforts given current progress (actual as of FY2013 is 2,877km, which is only 42km more than the benchmark figure of FY2010). 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).

Figure 5. 7: Growth of Transport and Communication Sector in Terms of GDP



Source: 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

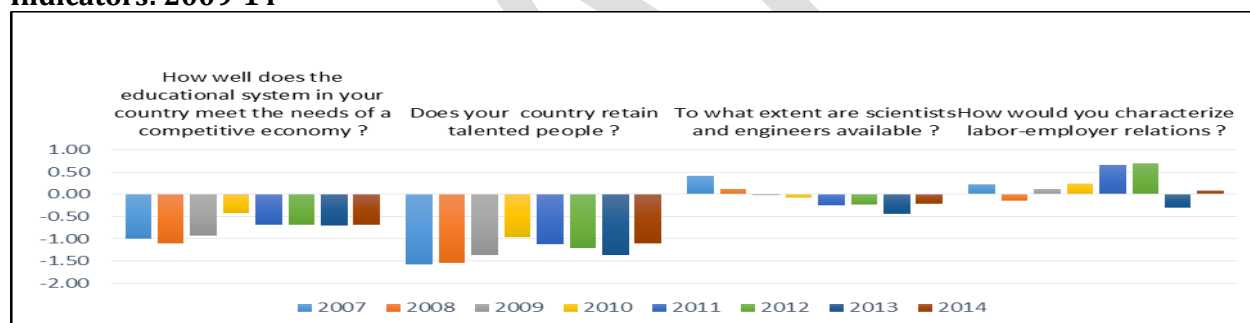
- adoption of the Vehicle Axle Load Control Station Operation Policy 2012
- passing of the Dhaka Transport Coordination Authority Act 2012
- establishing the Dhaka Transport Coordination Authority
- formulating the 20-year Road Master Plan
- approving the 20-year (2005 to 2024) Strategic Transport Plan (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.

5.6.6 Education Sector

The education sector has performed moderately well over the Plan period. As mentioned in Table 5.1 (above), 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 5.8).

Figure 5. 8: Trends in Level of Perception on Selected Education and Human Capital Indicators: 2009-14



Source: Global Competitiveness Report 2011-2015; World Economic Forum

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 regards 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

5.7 Benchmark Condition for FY2016

5.7.1 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 categorized 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 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 regards 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 Planning Ministry and Finance Ministry, 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 to a large extent did not get priority in the SFYP. Government need to put focus on reform in a number of areas including introduction of civil service act, restructuring of the Board of Investment, privatizing SOEs, reforms in NCBs, rationalization of size of the public sector and strengthening 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.

5.7.2 Targets set for major macroeconomic indicators for FY2016 under the 7FYP

Tables 5.11 and 5.12 below show the targets set for FY2016 (the first year of the 7FYP) against those achieved in FY2015 (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 appear in case of real income growth, private investment, rate of inflation, broad money growth and completion rate of primary education etc. Even some of the targets appear to be below the moderate level 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.

However, in the near term, it is more important 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 need 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 have better preparation to address the shocks/crisis and should have 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 on allocational and operational efficiency with a view to ensure better outcome from the Plan. In this context, assessment of public expenditure need to focus more on qualitative issues. *Fifth*, the capacity of the line ministries and local level administration need to be improved both in terms of skill upgradation as well selection of appropriate persons to handle complex, multi-sectoral and multi-phased projects. *Sixth*, the linkage between public investment and private investment need to be strengthened. In this context, necessary reforms need to be initiated in case of different sectors/institutions including BoI, SoEs and 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 enhances in the country.

Table 5.11: Major Targets for FY2016 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)	7.30 **	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
Agricultural GDP growth rate (%)	3.35 **	3.28
Proportion of living population living below national poverty line	24.7**	20.99
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)	46 **	43
Maternal mortality ratio (per 100,000 live births)	170 *	143
Births attendant by skilled health staff (percent 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
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 5.12: Major Targets in the 7th Five Year Plan For 2016

	Achievement in FY14	Target (2016)
Real GDP growth	6.5	6.6
Broad Money	16.1(12.5 up to March 2015)	16
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
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
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

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ANNEXURE

Annex Table A-2.1: Large- and medium-scale QIP share and growth

Major Industry Group	Share	FY14	Jul-Dec FY15
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, BBS.

Annex Table A-2.2: Progress of top 26 projects that should be implemented by June of FY2016

Sl. No.	Sector	Project Name	Project Cost	Implementation in Jul-Nov FY15			Cumulative progress up to November of FY15			End date
			Total	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	31/12/15
2		Dhaka-Chittagong 4-Lane	3,190	23.4	23.4	N/A	52.9	52.9	N/A	31/12/14
3		Joydebpur-Mymensingh Road Development	1,815	41.8	41.8	N/A	56.1	56.1	N/A	30/06/15
4		Construction of Third Karnaphuli Bridge (Revised)	651	0.2	0.5	0.0	66.6	155.3	0.0	31/12/15
5		Support to Dhaka Elevated Expressway PPP Project	3,217	7.2	7.2	N/A	6.7	6.7	N/A	30/06/15
6		Dhaka-Chittagong Railway Development Project	2,870	17.0	24.2	5.8	68.6	66.3	71.4	30/06/16
7		Construction of Bypass Road in Shatkhira town connecting Bhomra Land Port	117	2.7	2.7	N/A	46.3	46.3	N/A	30/06/14
8	Power	Ashugong 450MW PP	3,400	37.1	2.8	40.8	16.3	1.0	18.4	30/06/15
9		Construction of Haripur 412 MW Combined Cycle Power Plan and Associated Substation	3,966	12.4	3.6	29.9	73.6	32.8	83.8	30/06/15
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	31/12/15
11		Construction of Ghorashal 365 MW Combined Cycle Power Plan	2,512	0.5	0.9	0.0	0.0	0.1	0.0	30/06/16
12		Siddhirgong 335 MW PP	4,239	27.4	27.3	27.5	34.0	20.0	52.4	30/06/15
13		Shahjibazar 330 MW Combined Cycle Power Plant	2,844	48.7	2.9	100.5	20.0	28.8	16.0	31/12/15
14		Shikalbaha Dual Fuel 225 MW Combined Cycle Power Plant	2,022	14.1	1.7	17.9	1.9	0.7	2.5	30/06/16
15		Bhola 225 MW Combined Cycle Power Plant	2,001	63.4	33.8	73.8	48.1	25.0	57.9	30/06/15
16		Chapainawabganj 100 MW HFO Based Power Plant	1,113	0.2	1.4	0.0	0.1	0.3	0.0	30/06/15

Sl. No.	Sector	Project Name	Project Cost	Implementation in Jul-Nov FY15			Cumulative progress up to November of FY15			End date
			Total	Total	Taka	Project aid	Total	Taka	Project aid	
17		Bheramara Combined Cycle Plant (360 MW) Development	4,140	5.8	1.3	8.3	8.8	5.6	9.7	30/06/15
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	31/12/15
19	Industry	Shahjalal Fertilizer Project	5,409	21.7	9.9	35.9	75.3	27.2	92.4	30/06/15
20		Power Production and Suger Refinery Establishment through Co-generation Process in North-Bengal Suger Mill	73	0.5	0.5	N/A	0.1	0.1	N/A	31/12/16
21		Leather Industrial City, Dhaka (Second Revised)	1,079	2.9	2.9	N/A	13.1	13.1	N/A	30/06/16
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	30/06/15
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	30/06/14
24		Establishment of Gas Compressor Station in Ashugong and Elenga	1,494	27.1	21.1	34.5	64.6	48.5	74.7	30/09/15
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	30/06/15
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	30/06/16
Total			77,023	17.0	15.1	21.9	33.1	42.8	25.7	17.0

Annex Table A-2.3: 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 A-2.4: Capital adequacy and Profitability of banks

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

Annex Table A-2.5: Export Growth of Competing Countries of the Top 5 Knit and Woven Items Exported by Bangladesh to the USA, July-March FY2015

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: USITC, 2015.

Annex Table A-2.6: Export Growth of Competing Countries of the Top 5 Knit and Woven Items Exported by Bangladesh to the EU, July-March, FY2015

HS Code (6 Digit)	Bangladesh	Cambodia	Pakistan	Vietnam
<i>Top 5 Knitwear Items of Bangladesh</i>				
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
<i>Top 5 Woven wear Items of Bangladesh</i>				
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: EUROSTAT, 2015.

Annex Table A-3.1: Estimated Total Demand for and Supply of Rice and Wheat

Years/Items	2008	2009	2010	2011	2012	2013	2014	2015	2016
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

Notes: 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 A-3.2: Targets and Achievements of Aman and Boro Procurement Programs: 1995-2010

Year	Aman				Boro			
	Paddy		Rice		Paddy		Rice	
	Target ('000 tons)	Achievement (%)	Target ('000 tons)	Achievement (%)	Target ('000 tons)	Achievement (%)	Target ('000 tons)	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: FPMU.

Annex Table A-4.1: Selected Infrastructure related ADP Projects

Project	Projects Timeline	Cost (crore Tk.)	Percentage (%) of Completion (up to March, 2014)	ADP allocation in FY2015 (crore. Tk.)
4 Lane of Dhaka-Chittagong Highway (Daudkandi-Chittagong Section) (Revised)	1/1/2006-31/12/2014		41.6	8,100.0
Greater Dhaka Sustainable Urban Transport Project (BRT Gazipur-Airport)	1/12/2012-31/12/2016	2,039.9	1.2	71.2
SASEC Road Connectivity: Improvement of Jaydevpur-chandra-Tangail-Elenga Road (N-8) to Four lane Highway	1/04/2013-31/12/2018	2,788.5	0.0	492.3
Construction of Second Kanchpur, Meghna, Gamati bridge and rehabilitation of existing bridges	01/04/2013-31/10/2021	8,486.9	0.6	28.3
Support to Dhaka Elevated Expressway PPP Project	01/07/2011-31/12/2014	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	01/01/2013-31/12/2015	3,358.1	0.0	412.0
Veramara combined cycle power plant	01/07/2010-31/12/2014	4,140.8	7.6	625.0
Construction of Haripur 412 MW combined cycle power plant and associated sub-station	01/07/2007-30/06/2015	3,965.9	64.9	60.0
Siddirganj 335 MW combined cycle power plant construction	01/01/2009-30/06/2015	4,239.5	17.8	750.0
Ashuganj 450 MW combined cycle power plant construction (North)	01/12/2011-30/06/2015	3,400.0	6.7	885.0
400/230/132 KV Grid Network Development	01/07/2013-30/06/2017	3,227.1	0.0	30.0
18 lakh new consumer connection through extension of rural electrification	01/01/2012-31/12/2015	5,413.4	31.8	1,784.0

Source: Annual Development Programme 2014-15, Go

Annex Table A-5.1: Major Targets in SFYP and Achievements

Targets	Target for FY15	Achievement in FY14	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	19.76**	4.14
Private Investment (% of GDP)	25	21.39 **	3.61
Public Investment (% of GDP)	7.5	7.30 **	0.2
Remittances (USD billion)	17.8	14.3*	3.5
Tax Revenue as % of GDP	12.4	10.4 *	2
Average Annual CPI Inflation Rate	7.3	7.7 *	-0.04
Fiscal Balance (as % of GDP)	6	7.7 *	(+)1.7
Broad Money Growth (%)	15-16	16.7 *	(+)1.7- (+)0.7
Current Account Balance (as % of GDP)	-0.3	1.9 *	-2.2
Head count poverty (%)	22.5	24.7**	4.2
Overseas employment of skilled labour (%)	50	35.95 (2010)	14.05
Faster employment growth in manufacturing and organized services	Agriculture (23.5 ml); manufacturing (10 ml); Services and others (27.4ml) .	Agriculture (24.2 ml); Manufacturing (8.1 ml); Services and others (24.1ml)*	+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	3.35 **	1.05
Growth of real wages in Agriculture	Positive growth in real wages	5.84% *	
B. Human resource development (Education, Health and Population)			
Net Enrolment at primary level (%)	100	97 **	3
Grade V completion rate by gender (%)	75 (with gender parity)	70.3 (2012) Girls 67	4.7
Net enrolment rate in secondary education by gender (%)	75 (with gender parity)	75; (Girls 78; boys 61)*	0
Adult literacy rate (%)	80	56.8 *	23.2
Student-Teacher Ratio in primary education	1:30	1:40 *	+0.10
Percentage of cohort reaching grade 5 (%)	100	75.3 (2012)	24.7
Total fertility rate reduction	2.2	2.3 **	0.1
Increase contraceptive prevalence rate (%)	50	62.4 **	12.4
Under 5 mortality rate (per 1000)	50	46 **	4
Immunization, measles (percent of children under 12 months)	100	84 *	16
Maternal mortality ratio (per 100,000 live births)	143	170 *	-27
Births attendant by skilled health staff (percent of total)	50	42.1 **	7.9
Prevalence of child malnutrition (percent of children under 5)	41	35.1 *	5.9
Infant Mortality Rate (per 1000 live births)	31	38 **	-7
Valid coverage of full immunized children (%)	90	92.2 *	+2.2
Underweight of under-5 children. (%)	33	35.1 *	+2.1
Stunting of under-5 children 16 -59 months. (%)	25	38.7 *	13.7
C. Water and sanitation			

Targets	Target for FY15	Achievement in FY14	Gap
Population of urban population with access to sanitary latrines	100	59.7*	40.3
Proportion of rural population with access to sanitary latrines	90	66.2*	23.8
Proportion of urban population with access to safe drinking water	100	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 (2015)	7776
Electricity coverage (%)	68	62 {including (RE (BPDB))**}	6
% of road network in "Good to Fair" condition	95	62.04%*	32.96
Construction of new roads	4,672 km	406.5 km *	4265.5
Improvement/ Rehabilitation of roads	8,433 km	1993 km *	6440
Construction of new bridges/culverts /overpass	23,777 meter	17,239 meter *	6538
Contribution of road sector to national income	7.5% growth rate (average	6.7% growth(average) *	0.8
Per capita consumption of electricity	390 KWh	275 kwh (2013-14) (PD)	115
Access to electricity (% of households)	65	62 *	3
E. Gender Equity and Women Empowerment			
Ratio of girls to boys in tertiary education (%)	60	73 *	(+)13
Ratio of literate females to males (percent of ages 20 24)	100	86 (2012)	14
F. Environment Sustainability			
CO2 emissions (tonnes per capita)	0.38	0.34 *	0.4
No. of usable cyclone shelters	5,352 shelters	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 (2012)	
H. Governance			
Proportion of the Elected Representatives Female (Directly elected)	6% 10 th National Parliament	7% 9 th National Parliament *	+1
Numbers of Bills Passed per year	45	54 9 th National Parliament *	+10
Average Parliamentary Attendance	70% 10 th National Parliament	63% 9 th National Parliament {First Fifteen Session} *	7
% of Gross NPL in Public Banks	12.0	28.76%	+16.76
Income Tax as a % GDP	5.0	3.4*	1.6
Weighted Average National Disposal Rate		32.24 (2012)	
Case Disposal Rate {Criminal}		42.33 (2012)	
Case Disposal Rate {Civil}		8.23 (2012)	
Case backlogs in the formal justice system (lower and upper judiciary)		2.7 million*	

Source: MTIR = 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: *2013; **2014

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