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Independent Review of
iRBD
Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy in FY2016-17

First Reading

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Contents

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As part of the CPD IRBD tradition, CPD had organised an Expert Group Consultation on 29 November 2016. The working document prepared by the CPD IRBD 2017 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 2017 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

State of the Bangladesh Economy in FY2016-17

First Reading

SECTION I. INTRODUCTION

The present report is the first reading of the State of Bangladesh Economy in FY2017, prepared under the flagship programme of the Centre for Policy Dialogue (CPD) titled *Independent Review of Bangladesh's Development* (IRBD). The purpose of this report is to present an assessment of the performance of key sectors of the Bangladesh economy and to track trends in major macroeconomic variables during the first half of FY2017. The review examines quality of macroeconomic management and underlying strengths and weaknesses of the economy, at the halfway mark of the ongoing fiscal year. The report considers latest available data and information from domestic and international sources, as well as insights gleaned from key informants.

This report revisits macroeconomic trends in FY2016 so as to establish the benchmarks to assess the performance in FY2017 in Section II. In Section III, a review of the performance of key macroeconomic correlates during the early months of FY2017 has been carried out. Section IV deals with public debt situation in view of the changing dynamics of budget deficit financing, while in Section V implementation of a recently initiated social safety net programme is examined. Section VI provides a review of the state of transport connectivity between Bangladesh and India with suggestions regarding how to move forward. Section VII presents a detailed analysis of the underlying causes and implications for recent decline in remittances inflow to Bangladesh. Finally, the report ends with some concluding remarks.

SECTION II. REVISITING MACROECONOMIC TRENDS IN FY2016

2.1 Growth and Investment

Final estimates from the Bangladesh Bureau of Statistics (BBS) showed that the growth of gross domestic product (GDP) increased by 0.6 percentage points, to 7.1 per cent in FY2016, from the 6.5 per cent in FY2015. Hence, the final estimate exceeded target (7.0 per cent) set for the fiscal year for the first time in recent decade. Interestingly, as distinct from the agriculture sector (2.8 per cent), both industrial (11.1 per cent) and services (6.3 per cent) sectors registered higher growth rates in FY2016 compared to that of FY2015. Among the sub-sectors manufacturing sector registered the highest growth (11.7 per cent) since FY1996.

An analysis of the contribution of the various sectors to the incremental GDP growth in FY2016 reveal that the industrial sector, spearheaded by the manufacturing sub-sector, made the lead contribution in this context. It is interesting to note that when the provisional estimates for FY2016 was made in April, 2016, it was the services sector which played the key role in the incremental GDP growth (Table 2.1).

Table 2.1: Incremental contribution to GDP growth: Provisional vs. Final

Industrial origin sector	FY2015	FY2016 (p)	FY2016
Agriculture Sector	**0.53**	**0.40**	**0.43**
Industries Sector	**2.74**	**2.95**	**3.24**
Manufacturing	1.93	1.99	2.26
Services Sector	**3.00**	**3.44**	**3.21**
Public Administration and Defense	0.32	0.53	0.38
Education	0.17	0.30	0.26
Health and Social Works	0.09	0.15	0.13
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	0.86	0.89	0.88
Financial intermediations	0.25	0.29	0.25
GDP Growth	**6.55**	**7.05**	**7.11**

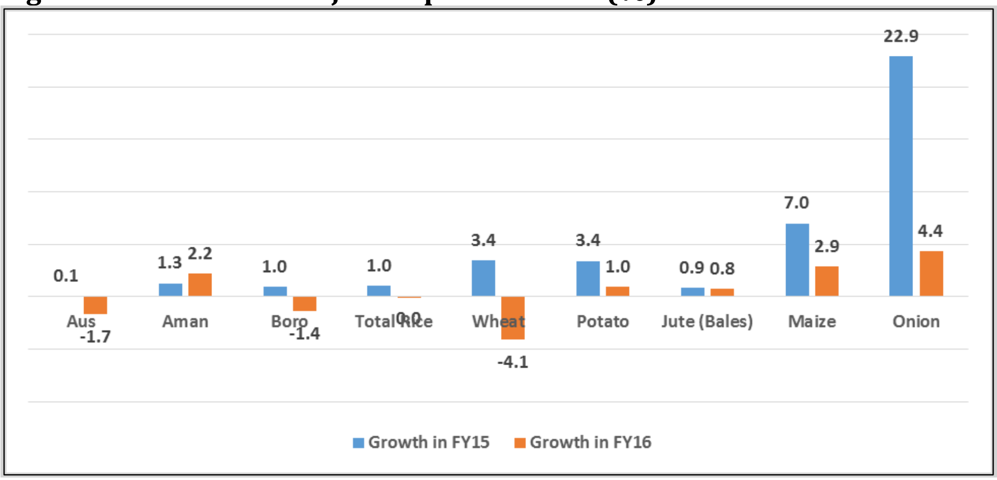
Source: Calculated based on Bangladesh Bureau of Statistics (BBS) Data.
Note: p denotes provisional estimates.

According to the BBS data, private investment's share in GDP increased significantly to 23.0 per cent in FY2016 compared to 22.1 per cent in FY2015 and is the highest in the last 21 years. It may be recalled here that, the provisional estimate for share of private investment was equivalent to only 21.8 per cent of the GDP. This upturn in private investment was somewhat of a surprise! However, data for proxy indicators for the second half of the fiscal year indicated only a marginal improvement in private investment scenario. For example, growth of credit to the private sector which was 14.2 per cent as of December 2016, took an upturn in the second half of FY2016 and posted a rise of 16.6 per cent at the end of June 2016 surpassing the target set at 14.8 per cent. After registering negative growth in the first half, industrial term loan also recorded a strong growth in the third (36.8 per cent) and fourth (11.9 per cent) quarters. Payments for capital machinery import also registered a strong growth (19.8 per cent) in the second half (January-December, 2016), corresponding figure for which was negative (-14.8 per cent) in the first half of FY2016. By contrast, public investment declined by 0.1 percentage points to 6.7 per cent of GDP in FY2016, a reversal of recent trends. Expenditure against Revised Annual Development Programme (RADP) for FY2016 fell short of the target. Consequently, the final estimate for public investment was much lower than the corresponding provisional estimate (7.6 per cent of GDP). The above significant discrepancy with regard to both magnitudes of key correlates and drivers of GDP growth once again draws attention to the need for improving quality of data related to GDP estimation. In this context there is a need to implement the plan of BBS to produce quarterly GDP estimates. This will help better understanding of quarterly GDP performance and drivers thereof.

2.2 Crop Production

FY2016 was comparatively a subdued year for crop production. Except for Aman, Maize and Onion, production growth figures for all other major crops were rather discouraging. Overall, paddy production remained at the previous level as in FY2015. Apart from Aman, all the previously mentioned crops had registered negative growth rates compared to FY2015. Relatively better growth rates in production were observed in case of maize (2.9 per cent), potato (1.0 per cent) and onion (4.4 per cent) (Figure 2.1). A large drop in the import of foodgrains (rice and wheat) was observed in FY2016. During FY2016, about 4.54 million metric tonne (MT) of foodgrains was imported, which was 14.0 per cent lower than FY2015. Of this amount, 4.2 million MT of rice and wheat was imported by the private sector. As public sector relied heavily on imported sources for replenishing the food stock, this low level of import has resulted in the lowest food stock level in recent years. At the end of FY2016, food stock stood at only 0.9 million MT which was about 0.4 million MT lower than the closing stock of FY2015. Curiously, distribution of rice and wheat saw a strong growth (12.3 per cent) in the backdrop of the decline in import, procurement and stock figures.

Figure 2.1: Growth of Major Crop Production (%)



Source: Calculated based on Bangladesh Bureau of Statistics (BBS) Data.

2.3 Fiscal Framework

CPD in its review of the State of the Bangladesh Economy in 2016 found that the quality of planning concerning the fiscal framework was rather wanting. At the end of FY2016, both from the income as well as the expenditure sides, the realised figures were far off the ambitious targets set for the FY2016 budget and the revised budget.

One may recall that, CPD in its earlier report on the state of the economy (presented in May 2016) estimated the possible revenue earnings shortfall (against the original budget target) to be around Tk. 38,000 crore (CPD, 2016a). According to MoF data, overall revenue earnings (i.e. NBR tax, non-NBR tax and non-tax) in FY2016 experienced a shortfall of about Tk. 37,057 crore.

Consequently, total revenue mobilisation registered a growth of 19.0 per cent in FY2016 (Table 2.2). NBR revenue earnings rose by 18.0 per cent while non-NBR revenue (both tax and non-tax) rose by 25.2 per cent in FY2016. The strong growth of non-NBR revenue was particularly driven by the growth in dividend and profit (105.5 per cent).

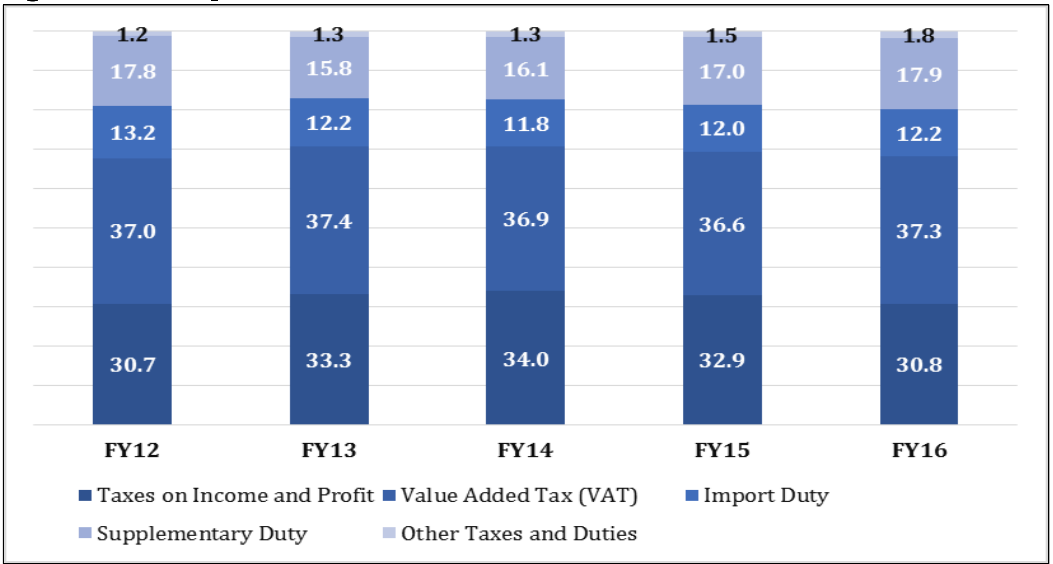
Table 2.2: Fiscal Framework for FY2016: Target vs. Attained Growth Rates (%)

Sources	Target Budget FY16 over Revised Budget FY15	Target Budget FY16 over FY15 Actual	Target Revised Budget FY16 over FY15 Actual	FY16 CPD Projection over FY15 Actual	Actual FY16 over FY15
Revenue Collection	**27.6**	**44.7**	**23.2**	**18.0**	**19.0**
NBR Tax Revenue	30.6	42.3	21.0	17.8	18.0
Non-NBR Revenue	13.2	59.6	36.4	19.4	25.2
Total Expenditure	**23.1**	**49.5**	**34.1**	**25.2**	**14.0**
Annual Development Programme (ADP) Expenditure	29.3	61.7	51.7	21.2	11.7
Non-ADP Expenditure	20.3	44.3	26.4	26.9	15.1
Overall Deficit (excl. Grant)	**13.6**	**62.5**	**63.5**	**44.4**	**0.6**

Source: Calculated based on Ministry of Finance (MoF) data.

One of the positive features of revenue mobilisation trend in recent past was rising share of income tax in total NBR revenue collection. In FY2016, share income tax declined for the second consecutive year to reach 30.8 per cent, close to the level of FY2012 (Figure 2.2).

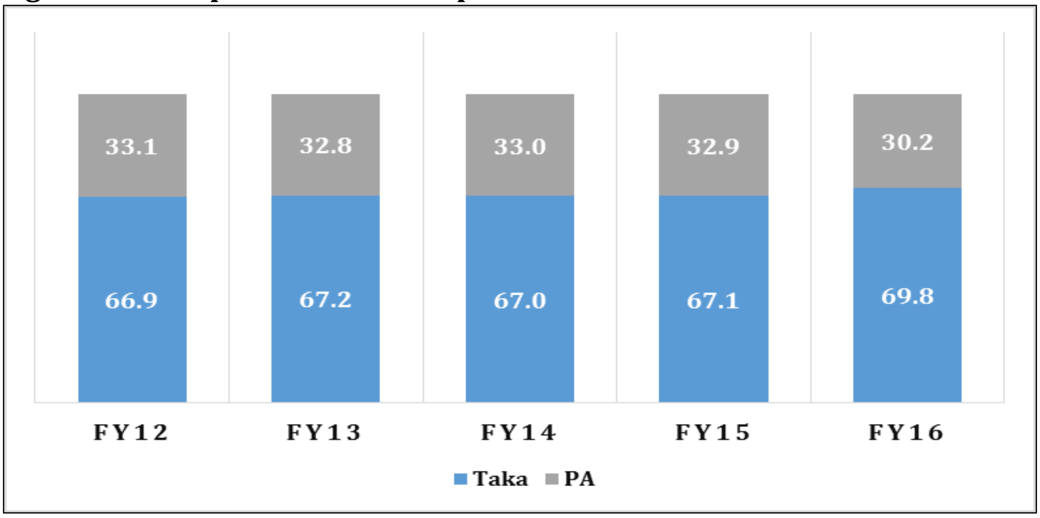
Figure 2.2: Composition of NBR Tax Revenue



Source: Calculated based on Ministry of Finance (MoF) data.

On the other hand, actual budgetary expenditure remained much lower compared to the target set for FY2016. In the end, the government could spend only about 76.3 per cent of the public expenditure earmarked for FY2016. Thanks to lower commodity prices in the global market, the demand for subsidy expenditure was significantly lower in FY2016. More importantly, public investment was far off the budget target. According to the Implementation Monitoring and Evaluation Division (IMED), actual ADP implementation was 86.1 per cent of original allocation and 91.7 per cent of the revised allocation. The implementation in the last quarter (April-June) of FY2016 was 44.9 per cent while 29.0 per cent of the total allocation was spent only in the month of June as per IMED data. Even conceding that funds tend to be released towards the end of the fiscal year, it is to be noted that, both of these figures are the highest since FY2006 (as per available data from IMED). Generally speaking, such regular spikes seen in the later part of the fiscal years raises questions about the quality of public investment. Indeed, according to the MoF data, ADP expenditure was only 69.1 per cent of the original allocation in FY2016. In addition, the share of project aid in total ADP expenditure has been declining since FY2014 (Figure 2.3).

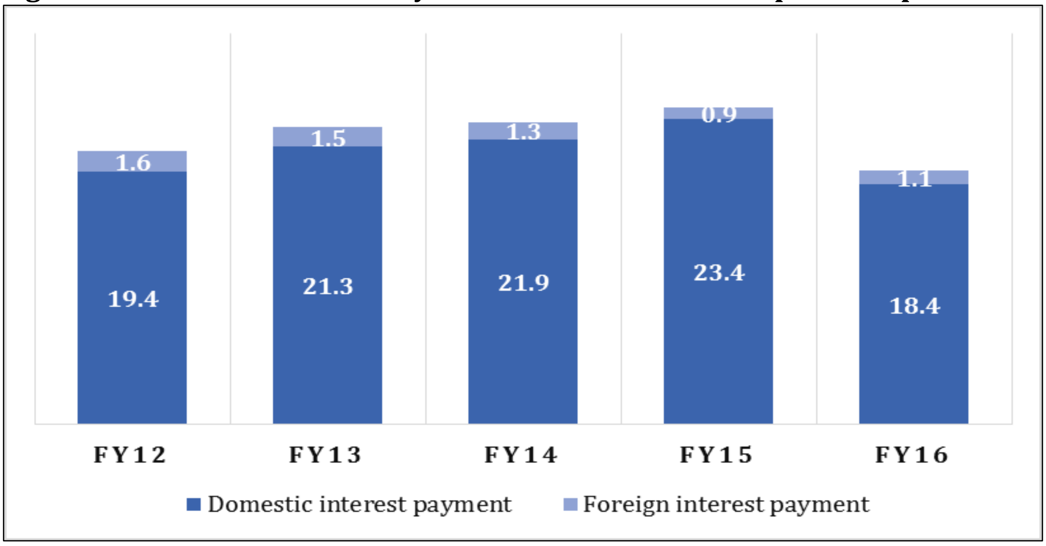
Figure 2.3: Composition of ADP Expenditure



Source: Calculated based on Implementation, Monitoring and Evaluation Division (IMED) data.

As it stands, final figures of income under the fiscal framework were marginally better than the CPD projections while on the expenditure side this was worse. Non-ADP expenditures was lower than the projection particularly due to negative growth in net loans and advances (-88.5 per cent), net outlay for food account operation (-19.3 per cent), expenditure for non-ADP programmes (-93.9 per cent), and investment in shares and equities (-21.1 per cent) in FY2016. Further, after persistently rising for four straight years, the share of interest payment in total non-development expenditure declined (19.5) in FY2016 while the foreign interest payment increased marginally in FY2016, thanks to raise of salaries for government employees (Figure 2.4).

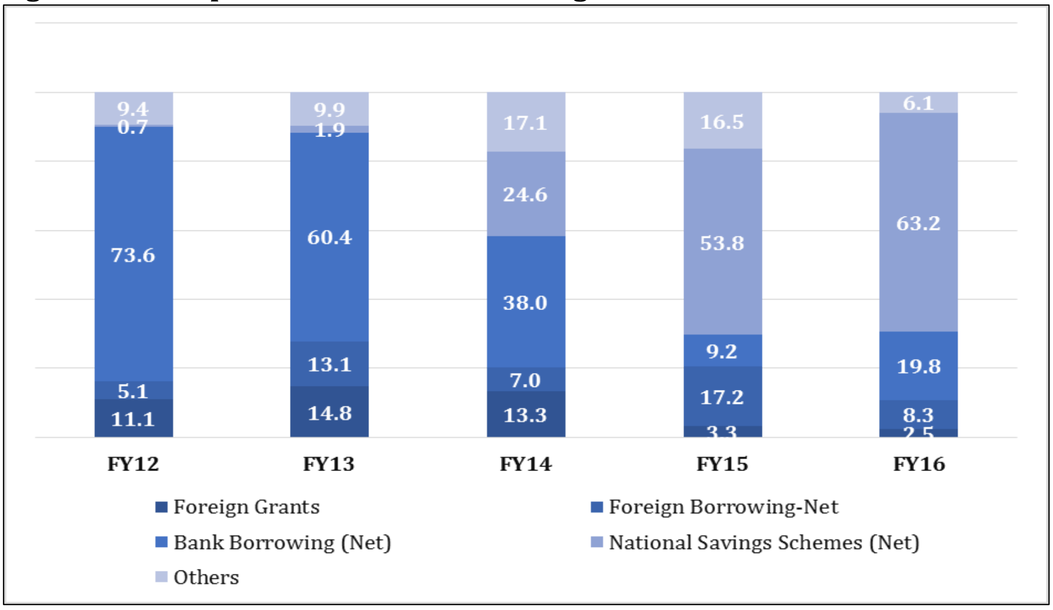
Figure 2.4: Share of Interest Payment in Total Non-Development Expenditure



Source: Calculated based on Ministry of Finance (MoF) data.

Low level of attainment of budgetary targets for FY2016 eventually resulted in a lower budgetary deficit. With the target of budget deficit having been set at 5.0 per cent of GDP, FY2016 closed with a much lower budget deficit of 3.1 per cent of GDP. Heavy reliance on domestic sources for financing budget deficit continued till the end of the fiscal year, contributing about 89.2 per cent of total financing of the fiscal deficit. However, financing structure of the budget deficit was significantly dominated by non-bank borrowing. Government's borrowing from programmed sources such as sales of National Savings Bond (NSD) certificates had increased notably and surpassed the revised target by Tk. 5,814 crore.[1] As a share of non-bank borrowing in total financing of budget deficit continued to rise. In FY2016, government financed 63.2 per cent of its deficits from NSD sales which was only 0.7 per cent in FY2012 (Figure 2.5). Moreover, the government relied on other non-banking sources rather than going for borrowings from the banking sources. In the end, government borrowed Tk. 3,258 crore as loan from 'Others' sources of non-bank financing and kept the borrowings from banking sources well below the planned limit. The government borrowed only Tk. 10,614 crore from the banking sources while the programmed level was Tk. 31,675 crore. Net foreign borrowing and foreign grants collectively contributed to the financing of only 10.8 per cent of total budget deficit in FY2016.

Figure 2.5: Composition of Deficit Financing Instruments



Source: Calculated based on Ministry of Finance (MoF) data.

Revenue-GDP ratio in FY2016 increased marginally to 9.9 per cent (Table 2.3), although it remained well below the target level (12.1 per cent). Also, public expenditure-GDP ratio remained unchanged at 13.0 per cent. Hence, although the government continued to push the size of the national budget, in reality it as share of the GDP, there was no significant change.

[1] While preparing the revised budget for FY2016, the target for NSD sales was raised by Tk. 13,000 crore. Net sales of NSD certificates reached Tk. 33,814 crore in FY2016.

Table 2.3: Fiscal Framework (as % of GDP) for FY2016

Indicator	Actual FY15	Budget FY16	Revised Budget FY16	Actual FY16
Revenue Collection	**9.5**	**12.1**	**10.3**	**9.9**
NBR Tax Revenue	8.2	10.2	8.7	8.4
Non-NBR Revenue	1.3	1.9	1.6	1.5
Total - Expenditure	**13.0**	**17.1**	**15.3**	**13.0**
ADP	4.0	5.6	5.3	3.9
Non-ADP	9.1	11.5	10.0	9.1
Overall Deficit (Excluding Grants)	**3.5**	**5.0**	**5.0**	**3.1**
Net Foreign borrowing and grant	0.7	1.7	1.4	0.3
Domestic Borrowing	2.8	3.3	3.6	2.8
Bank Borrowing (Net)	0.3	2.2	1.8	0.6
Non-Bank Borrowing (Net)	2.5	1.0	1.8	2.1

Source: Calculated based on Ministry of Finance (MoF) data.

2.4 Inflation

Inflationary trends experienced a consistent decline throughout FY2016. The annual average inflation in June 2016 stood at 5.9 per cent, which was below the target of 6.1 per cent. Lower global commodity prices and stable exchange rate of the Taka against USD contributed to the falling inflation.[2] Food inflation followed a declining trend all through the fiscal year and reached 4.9 per cent in June 2016 from 6.7 per cent in June 2015. In contrast, non-food inflation posted a rise to 7.5 per cent in June 2016 from 6.0 per cent in June 2015. A decomposition of non-food inflation trend in FY2016 reveals that, average prices were rising consistently for expenses related to clothing and footwear, gross rent, fuel and lighting as also for transport and communication.

The difference between urban and rural inflation also widened in FY2016 following some convergence over the last couple of years. The difference stood at 1.86 percentage points in June 2016 which was only 0.61 percentage points in June 2015. Inflationary trends concerning both food and non-food consumer items contributed to this. Furthermore, the impact of rise in electricity and gas prices falls disproportionately in urban areas compared to the rural areas which contributed to the variation in non-food inflation.

On a positive note, in June 2016, annual average growth rate of wage index (base year 2010-11) increased by 1.6 percentage points from June 2015 and stood at 6.5 per cent. To elaborate, wage indices for agriculture, industry and service sectors increased by 6.4 per cent, 5.8 per cent and 7.8 per cent respectively.

2.5 Monetary Growth and Financial Institutions

The growth rates of the monetary aggregates in FY2016 evinced a better performance as against their respective targets, except for net domestic assets and public sector credit. Growth rate of broad money exceeded the target limit of 15 per cent and reached 16.4 per cent at the end of June 2016 (Table 2.4). Similarly, growth of credit to the private sector surpassed the target of 14.8 per

[2] In June, 2016, the International Monetary Fund's (IMF) global commodity price index was 8.3 per cent lower than it was in June 2015. Indeed, the global prices of almost all commodities, including food and fuel, registered negative growth throughout FY2016 despite showing some tendency to plateau since September 2015.

cent to reach 16.6 per cent. As it is, the growth was the highest since December 2012. However, public sector credit missed the growth target of 18.7 per cent. Notwithstanding, this was the highest since September 2014 which attained a growth of 3.6 per cent at the end of June 2016 mainly due to the surge of bank borrowing in the month of June 2016 by the Government to underwrite fiscal deficit. This trend in the growth of monetary aggregates, however, was accompanied by the strong flow of net foreign assets which posted a growth rate of 23 per cent against the target of 11.1 per cent for the mentioned period. Indeed, robust accumulation of foreign exchange reserves, to keep the exchange rate of Bangladesh Taka (BDT) stable against United States Dollar (USD), contributed towards this strong growth.

Table 2.4: Growth of Monetary Indicators (Outstanding as of June 2016)

Indicator	Jun 2015 (Actual)	June 2016 (Target)	Jun 2016 (Actual)
Net Foreign Assets	18.2	11.1	23.0
Net Domestic Assets	10.7	16.2	11.9
Domestic Credit	10.0	15.5	14.0
Credit to the Public Sector	-6.2	18.7	3.6
Credit to the Private Sector	13.2	14.8	16.6
Broad Money	12.4	15.0	16.4

Source: Calculated based on Bangladesh Bank data.

Bangladesh's banking sector has been entrenched with uneven interest rate spreads, falling profitability, high non-performing loans (NPLs) and uneven competition in recent years. The challenges confronting the state-owned commercial banks (SCBs) as also specialised banks (SBs) are indeed formidable. Financial discipline of these banks was seriously undermined by scams, high NPLs and inadequate capital adequacy that called for repeated recapitalisation (CPD, 2016a). The highlight of the year was perhaps the heist of the central bank's foreign exchange reserve heist. This was followed by a series of ATM scams. Non-performing loans in banking sector increased during both the third quarter (to 9.9 per cent of total outstanding loans) and the fourth quarter (to 10.1 per cent of total outstanding loans) of FY2016. Due to the increase in non-performing loan at the end of the fiscal year, the SCBs faced yet another capital deficit which in turn created additional fiscal pressure for the government. Tk. 1,800 crore was doled out in FY2016 for recapitalisation of the SCBs. There has also been a sharp rise in excess liquidity, particularly with the SCBs and foreign commercial banks (FCBs), and to a lesser extent, with private commercial banks (PCBs) during FY2016. A part of this rise was influenced by the increasing amount of external borrowing by the private sector at relatively lower interest rates (CPD, 2016a). Due to the moderately surplus liquidity in the banking system, and thanks to the falling inflation, both the lending rate and deposit rate declined during this period, from 11.7 per cent and 6.8 per cent in June 2015 to 10.4 per cent and 5.5 per cent respectively in June 2016. At the end of June, the interest rate spread remained at 4.85 per cent in June FY2016.

2.6 External Sector

Export earnings registered a strong growth of 9.7 per cent in FY2016, which was higher than the annual target of 7.3 per cent growth set for FY2016. Indeed, export performance was showing positive trends throughout the fiscal year apart from July and September of FY2016 when it registered negative growth rates of (-) 12.0 per cent and (-) 7.0 per cent respectively. Both the readymade garment (RMG) and non-RMG product groups achieved respective export growth targets. Growth rate of RMG exports was 10.2 per cent, while export earnings from non-RMG products attained a growth rate of 7.5 per cent[3] (Table 2.4). Traditional markets including the EU (5.3 per cent), the USA (1.4 per cent), and Canada (0.3 per cent) contributed 7.0 per cent out of this 9.7 per cent growth in the total export.

Table 2.4: Growth of Export Earnings (%) in FY2016

Product	Actual Growth FY15	Growth Target FY16	Actual Growth FY16
RMG	**4.1**	**7.4**	**10.2**
Knit	3.1	6.8	7.5
Woven	5.0	8.0	12.8
Non-RMG	**0.2**	**7.2**	**7.5**
Raw Jute	-11.7	0.4	55.2
Leather	-21.4	0.6	-30.1
Home Textiles	1.5	5.7	-6.4
Frozen Food	-11.0	1.8	-5.7
Total Export	**3.4**	**7.3**	**9.7**

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

After registering slow growth during the first five months (0.9 per cent), import payments rebounded in the third and fourth quarters and stood at 4.3 per cent at the end of FY2016. Import growth in FY2016 was largely driven by significantly high growth payments made against the import of a number of product groups: edible oil (55.5 per cent) and oil seeds (42.3 per cent) experienced particularly high rates of import growth. Imports of textile and articles thereof (7.9 per cent), POL (8.7 per cent) and capital machinery (2.3 per cent) was also higher, to varying degrees. Indeed, these five product groups together accounted for about 43 per cent of total incremental import payments during FY2016.

Net foreign aid disbursement was about USD 2.6 billion in FY2016, experiencing considerable volatility throughout FY2016, and finally ending up with a 17.5 per cent growth. Inflow of remittance experienced a major setback in FY2016, a repeat of the previous year. Remittance inflow recorded a negative growth rate of (-) 2.5 per cent during FY2016 compared to 7.6 per cent growth in FY2015. Curiously, during the same period overseas employment registered a strong 48.2 per cent growth in FY2016, particularly in Saudi Arabia and Malaysia.

In FY2016, Bangladesh's overall balance of payments position was comfortable, accumulating an overall surplus of USD 5,036 million. The surplus increased by 15.2 per cent when compared to the previous fiscal year, in part due to the tapering trade deficit. Trade deficit declined to USD 6,274 million in FY2016 from USD 6,965 million in FY2015 (by 9.9 per cent) driven by strong export growth in the backdrop of the subdued growth in import payments (5.4 per cent).

At the same time, high inflow of foreign currencies from the financial account and lack of payment demand resulted in a continuing rise in the foreign exchange reserves. This led to some appreciation in the exchange rate of BDT against all major currencies (CPD 2016b). Indeed, to maintain stability of the exchange rate of Taka (vis-à-vis USD), the central bank continued to use market operation tools to withdraw excess foreign currencies from the market. Nonetheless, taka appreciated significantly in the face of falling exchange rate of UK Pound Sterling which dropped to 105 BDT after the vote for Brexit on 23 June 2016 from 114 BDT on May 2016. Exchange rate of Euro was volatile during the entire FY2016 period. Foreign exchange reserves of the country rose further by about USD 5.1 billion to 30.1 billion in FY2016 which is equivalent of eight months

[3] The corresponding growth was only 0.2 per cent in FY2015.

of imports. As aggregate demand remained low, the excess money supply arising from accumulation of net foreign assets had a rather negligible impact on inflation. It is also to be noted that, exports were able to sustain relatively high growth inspite of the comparatively strong domestic currency.

From the perspective of macroeconomic performance, FY2016 was thus a notable year. As the Bangladesh economy moved towards FY2017, a number of macroeconomic correlates indicated positive momentum. BBS estimates brought an optimistic outlook showing strong recovery of private investment and acceleration in GDP growth backed up by strong growth of export earnings and manufacturing output. The macroeconomic stability was also restored with lower inflation, sliding interest rate and a relatively stable exchange rate along with rising foreign exchange reserve. Among the downsides, declining trend of remittance inflow remained a nagging concern. The major setback was weaknesses in the banking sector demonstrated by rising amount of non-performing loans, growing excess liquidity and weak governance. Inability to improve implementation of budgetary targets, for both revenue earnings and public expenditure (including investment), will hold back the economy from realising its full potential. The challenge for macroeconomic management in FY2017 will be to take advantage of the macroeconomic stability of FY2016 by stimulating investment, raising implementation capacity strengthening institutions, and ensuring good governance in all aspects of developmental praxis.

SECTION III. MACROECONOMIC PERFORMANCE IN FY2017: EARLY SIGNALS

3.1 Public Finance

CPD (2016c) had earlier projected that, since the revised budget for FY2016 was difficult to realise, all major parameters of fiscal framework programmed in the budget for FY2017 would eventually require to register higher growth rates. This apprehension has indeed turned out to be the reality following the publication of the final figures of FY2016. As a matter of fact, for the majority of the indicators, the actual growth targets for FY2017 were higher than the CPD projections.[4] For example, the revenue growth target for FY2017, which was set at 36.8 per cent based on the revised budget for FY2016, increased to 41.6 per cent while the expenditure growth target increased to 51.3 per cent from 28.7 per cent (Table 3.1).

Table 3.1: Fiscal Framework for FY2016: Target vs. Reality of Growth (%)

Sources	Budget FY17 over Revised Budget FY16	Budget FY17 over FY16 CPD Projection	FY17 over FY16 Actual
Revenue Collection	**36.8**	**44.5**	**41.6**
NBR Tax Revenue	35.4	41.1	38.9
Non-NBR Revenue	44.5	65.0	57.4
Total Expenditure	**28.7**	**39.0**	**51.3**
Annual Development Programme (ADP)	21.6	52.2	65.2
Non-ADP	32.5	33.5	45.5
Overall Deficit (excl. Grant)	**12.3**	**27.1**	**82.3**

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

It should also be noted that these estimates are prepared based on MoF's Integrated Budget and Accounting System (iBAS) data. Curiously, data reported by other government agencies differ significantly. Indeed, discrepancies of figures as regards NBR revenue, ADP expenditure and financing of budget deficit between the MoF and other government agencies that report data on the above mentioned macroeconomic parameters are increasing (see Box 3.1).

[4] The exceptions were NBR Tax Revenue and Non-NBR Revenue.

Box 3.1: Data Paradox: NBR vs. MoF, IMED vs. MoF, BB vs. MoF

In recent years, discrepancy between data provided by the NBR (Table 3.2), IMED (Table 3.3), Bangladesh Bank (Table 3.4) and the iBAS reported by the MoF has become a common phenomenon. There could be several reasons behind such discrepancies. First, the methodologies followed by these institutions may be different. Second, data collection tools and techniques can also differ. Third, institutions could follow different accounting practices. In this regard, it is important to note that the MoF figures are more authentic and scientific compared to other estimates. However, such discrepancy has an adverse impact on the budgetary monitoring, and the quality of fiscal and budgetary planning is thus compromised. CPD has repeatedly urged the policymakers for a reconciliation and consolidation between these estimates for the sake of ensuring efficacy of public finance management.

Table 3.2: NBR Revenue Collection Reporting by Two Sources

Year	MRFP, Finance Division, MoF	NBR, MoF	Difference	% Departure from MRFP
	In crore Tk.			
FY12	91,595	95,059	3,464	3.8
FY13	103,332	109,152	5,820	5.6
FY14	111,421	120,513	9,092	8.2
FY15	123,959	136,724	12,765	10.3
FY16	146,221	155,519	9,298	6.4
Jul-Sep FY17	35,264	36,436	1,172	3.3

Source: Estimated from NBR and MoF data.
* Bangladesh Bank (2016, November) Major Economic Indicators: Monthly Update
Note: MRFP refers to Monthly Report on Fiscal Position which is published on the website of Ministry of Finance (www.mof.gov.bd).

Table 3.3: ADP Expenditure by Two Sources

Year	MRFP, Finance Division, MoF	IMED	Difference	% Departure from MRFP
	In crore Tk.			
FY12	37,532	38,023	490	1.3
FY13	49,474	50,035	562	1.1
FY14	55,328	56,913	1,586	2.9
FY15	60,004	68,532	8,528	14.2
FY16	67,010	83,488	16,478	24.6
Jul-Sep FY17	7,005*	9,767	2,762	39.4

Source: Estimated from IMED and MoF data.
*Data from Monthly Fiscal Macro Update (MFMU)

Table 3.4: Budget Deficit by Two Sources

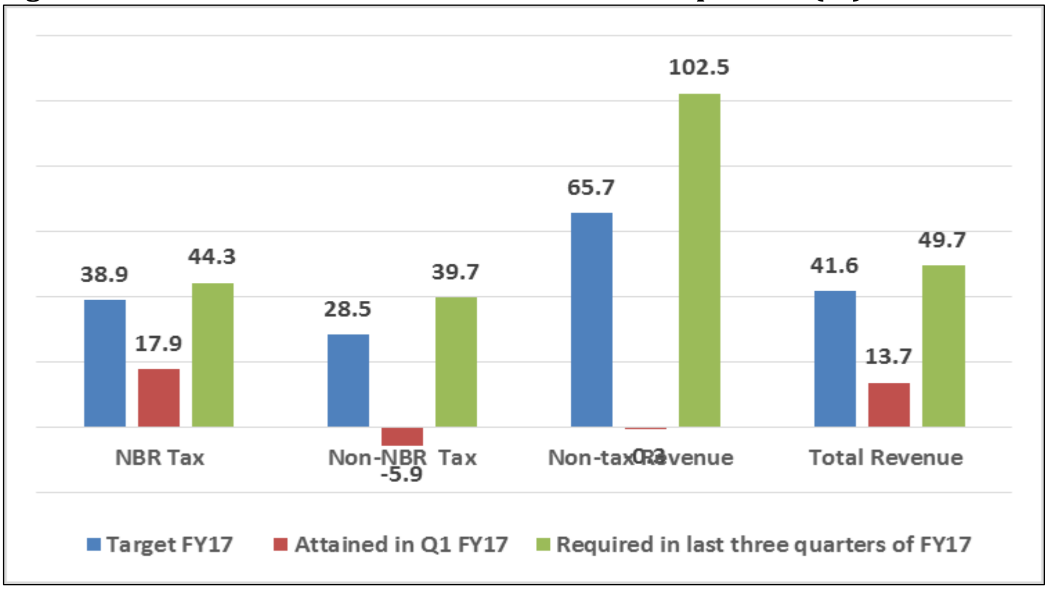
Year	MRFP, Finance Division, MoF	BB	Difference	% Departure from MRFP
	In crore Tk.			
FY12	36,248	30,740	-5,508	-15.2
FY13	44,647	40,678	-3,969	-8.9
FY14	47,849	36,204	-11,645	-24.3
FY15	53,308	44,420	-8,888	-16.7
FY16	53,484	58,707	5,223	9.8
Jul-Sep FY17	1,632	12,048	10,416	638.2

Source: Estimated from IMED and MoF data.

3.1.1 Revenue earnings

In FY2017, revenue mobilisation will fall short of the target for the fifth consecutive year as it is set at a very ambitious level. The question is by what margin and what this may imply for public finance management. During the first quarter of FY2017, total revenue mobilisation was 13.7 per cent higher than the corresponding period of the previous fiscal year. In order to meet the revenue target, revenue mobilisation will need to grow at a rate of 49.7 per cent in the remaining three quarters (Figure 3.1). This is indeed an unlikely scenario. NBR attained a much better growth of 17.9 per cent during the first three months (July-September) of FY2017, which was only 10.0 per cent in the same period of FY2016.[5] The figure is however inadequate against the annual target of 38.9 per cent. Hence, NBR collection will now need to increase by 44.3 per cent over the last three quarters of FY2017. Non-tax revenue collection of NBR, which was expected to account for 13.3 per cent of the total revenue in FY2017, declined by (-) 0.3 per cent compared to last year's comparable collection figure. Non-NBR tax collection also registered a negative growth of (-) 5.9 per cent; however, its impact on the overall revenue mobilisation will be insignificant as it contributes to only about 3.0 per cent of total revenue.

Figure 3.1: Growth Rates of Revenue Collection Components (%)



Source: Calculated from MoF data.

Revenue mobilisation could also affected due to deferred implementation of Value Added Tax and Supplementary Duty Act 2012, major rescheduling of SD rates, lower commodity prices in the global market, declining inflation in the domestic market and lack of urgent remedial measure(s).

Even if NBR could continue its current growth path (during July-September period) over the three quarters and non-NBR tax revenue and non-tax revenue together could attain a similar growth rate at the end of the fiscal year, even then the possible revenue shortfall in FY2017 could be

[5] Growth rate of NBR tax collection estimated from NBR data (reported by Bangladesh Bank) was 17.8 per cent during July-October of FY2017; this was higher than the corresponding figure of FY2016 (13.1 per cent). The improvement was largely driven by customs duties and value added tax (VAT) collection which registered 18.0 per cent and 16.1 per cent respectively during July-October of FY2017. In contrast, collection of income tax increased by only 6.3 per cent which was 21.9 per cent during the same period of previous fiscal year. Curiously, this year NBR has received a higher number of income tax return submission and the government officials have also come under the tax net with higher salaries but the income tax collection trend does not match with the aforesaid developments.

about Tk. 40,000 crore. On a more optimistic scenario, if revenue collection succeed to register the highest growth (26.3 per cent in FY2008) of the last sixteen years, overall revenue shortfall in FY2017 will be Tk. 26,000 crore as against the ambitious budget target. The preparation of revised budget for FY2017 is currently undergoing. This exercise should seriously consider the possible extent of revenue shortfall to set a realistic revised budget.

Reform agenda for revenue mobilisation needs to be accelerated

It should be acknowledged that NBR has indeed taken several administrative steps to improve revenue collection. Some of the reform measures are yet to be implemented. The new VAT and SD Act 2012 will introduce an integrated online system for VAT registration, return submission, refund and payment. This requires development of necessary (soft and hard) infrastructure, human resource and skill development, training of VAT officials, and preparation of relevant stakeholders as regards compliance. Small business enterprises have very little knowledge regarding the process. As of now, NBR has made preparation to implement this law from July 2017. One of the prerequisites of implementing this law is to install electronic cash register (ECR) in all 'point of sales' across the country, both rural and urban. Alternatively, the businesses can maintain proper documentation and accounting system for all purchases and sales. Thus, business community's preparation is key to successful implementation of the Act. At the same it also needs to be ensured that the VAT paid by the consumers are deposited to the government exchequer; currently checking such evasion has become very difficult.

Without addressing the aforesaid concerns, it will be difficult to implement the new Act from July, 2017. It may be recalled here that, the aforesaid joint committee of the NBR and FBCCI have also proposed some other amendments, a number of which are critically important. These include imposing a 4 per cent VAT on supply value for the service sector; differential treatment of bargaining shops and reduced VAT on a number of commodities including iron and steel. The proposed VAT and SD Act will also need to be reconciled on an urgent basis. Towards this end, the recommendations of the joint committee should be addressed without delay. In this regard, all preparations need to be done in a coordinated manner through participation of stakeholders and tax officials at various levels. If required, an action agenda may be developed to implement this Act in a realistic and staggered manner.

CPD (2016a) in its second and third interim report for FY2015-16, proposed a number of reform measures including changes in the current advance income tax (AIT) collection system through making tax deducted at source (TDS) online, introduction of the Benami Property Bill, and strengthening the Transfer Pricing Cell to curb the illicit financial flows. At the same time, the government should expedite preparation of a new Direct Tax Act and an amended Customs Act. These reforms are key to raise revenue mobilisation in a sustainable manner.

3.1.2 Non-development expenditure

According to data available for the first quarter of FY2017, total public expenditure (including both development and non-development expenditure), recorded a growth of 12.8 per cent, well below the annual target of 51.3 per cent. Among the components of non-development expenditure, 'Pay and allowances' recorded about 9.9 per cent growth during the reported period. The new pay scale for government employees came into effect during the second half of FY2016.

Foreign interest payments increased by 14.6 per cent in July-September period of FY2017 compared to the corresponding period of FY2016. Subsidy and transfer expenditure increased by 33.2 per cent during the first quarter of FY2017.

3.1.3 ADP expenditure

Expenditure for ADP did not mark any significant breakthrough in the first six months (July-December) of FY2017. However, despite registering a better performance compared to FY2016, it is still close to the historical trend. According to first six months data, actual spending under ADP was 27.6 per cent of originally planned allocation of Tk. 110,700 crore (Table 3.5). While the taka component of ADP expenditure (30.7 per cent) registered better performance compared to the previous three fiscal years, project aid expenditure trend (22 per cent) was the second lowest in last five years.

Table 3.5: Expenditure (July-December) over original ADP in the last 10 years

FY	Taka	Project Aid	Total
Jul-Dec FY10	29.6	27.9	28.9
Jul-Dec FY11	32.4	18.1	26.7
Jul-Dec FY12	35.1	16.7	27.6
Jul-Dec FY13	31.9	26.7	29.9
Jul-Dec FY14	29.7	23.7	27.5
Jul-Dec FY15	28.3	27.4	28.0
Jul-Dec FY16	25.3	20.2	23.5
Jul-Dec FY17	30.7	22.0	27.6

Source: Author's calculation based on IMED data.

Analysis of the top 10 ministries/divisions that account for 72.9 per cent of the total ADP allocation in FY2017 suggests that the expenditure rate in July-December was undermined by below par performance of particularly four ministries/divisions, viz. Road Transport and Highways Division (22.8 per cent), Ministry of Education (18.1 per cent), Ministry of Water Resources (12.8 per cent), Energy and Mineral Resources Division (23.9 per cent). In contrast, Power Division (47.7 per cent) and Local Government Division (37 per cent) performed better (Table 3.6). If these two divisions are excluded, the expenditure of the other top 8 ministries/divisions would have been only 22 per cent which is lower than the corresponding average figure.

Table 3.6: Implementation of Top 10 Ministries (Jul-Dec, %)

Ministries/Divisions	FY13	FY14	FY15	FY16	FY17
Local Govt. Division (Including Block Allocation)	34.5	40.1	37.2	32.9	37.0
Power Division	43.6	23.9	28.5	25.7	47.7
Bridges Division	4.1	3.1	28.4	17.5	15.9
Road Transport and Highways Division	46.9	29.4	40.6	29.4	22.8
M/O Railway	15.6	32.9	14.1	17.5	18.7
M/O Health & Family Welfare	19.9	32.3	29.2	16.4	27.6
M/O Primary & Mass Education	38.1	39.8	16.8	30.7	31.6
M/O Education	37.2	29.9	32.8	26.3	18.1
M/O Water Resources	22.0	27.3	6.9	13.9	12.8
Energy and Mineral Resources Division	28.2	36.7	101.3	22.8	23.9
Top Ten Ministry	**32.9**	**28.9**	**30.8**	**25.1**	**29.0**
Grand Total	**29.9**	**27.5**	**28.0**	**23.5**	**27.6**

Source: Author's calculation based on IMED data.

Intensive monitoring of priority projects that are close to completion should remain a priority

In view of significant infrastructure deficit and to attract private investment, better (in terms of quality) and timely implementation of the ADP, particularly that of growth enhancing infrastructure projects, should remain a policy priority. CPD (2015a) selected a set of 26 projects under the ADP for FY2015 which were expected to help boost growth and employment. CPD's second interim review on the state of the Bangladesh economy in FY2015 (CPD 2015b) urged for close scrutiny and tracking of progress of these projects. 14 of these 26 projects were supposed to be completed in FY2015 (or even earlier). Cost and completion deadlines of a number of these projects were revised; for a few, more than once. Among these 14 projects[6], 13 were not completed in FY2015 and were carried forward in the ADP for FY2016 (CPD, 2015c). 10 out of these 25 projects were supposed to be completed in FY2016. Among these 10 projects, 3 projects[7] were completed in FY2016 and the remaining 7 projects were carried forward to the ADP for FY2017 (See Annex 3.1). Share of allocation for the remaining 22 priority projects in the ADP for FY2017 was 11.6 per cent. Actual combined spending for these 22 projects was somewhat higher than (21 per cent during July-October of FY2017) the average for all ADP projects (13.5 per cent during the same period). If these 22 projects are excluded, the rate progress for all ADP projects deteriorates marginally (12.6 per cent) during the first four months of FY2017. Further, within this group, performance has varies.[8] Only nine projects had more than 21 per cent implementation rate while three projects[9] had zero implementation during July-October of FY2017. Only five[10] projects are closer to being completed.[11] However, two out of these five projects had below average implementation record during July-October FY2017 period. It is to be noted that, all five (could be completed) projects were already in the 'carryover' list.[12]

Considering the allocation that was made for FY2017, there are at least two projects (Joydebpur-Mymensingh Road Development, Construction of 520m long Bridge in Nagarpur-Mirzapur via Mokna over Dhaleswari River under Nagarpur Upazila of Tangail District) which could perhaps be completed if a 'final push' could be given for their completion. Furthermore, financial progress does not necessarily mean that a project has made same rate of physical progress. For example, as IMED data suggests, cumulative financial progress of Support to Dhaka Elevated Expressway PPP Project was 57 per cent up to October 2016, while the physical progress was only 38 per cent during this period. This also raises question on the quality and efficiency of spending.

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[6] Only one, 'Construction of Haripur 412MW Combined Cycle Power Plant and Associated Substation', was completed by FY2015.

[7] These are: Bhola 225 MW Combined Cycle Power Plant, Mubarakpur Oil/Gas Well Exploration Project, and Augmentation of Gas Production under Fast Track Program.

[8] The standard deviation of these 22 projects is 34.4 which suggests large variance in execution rate of these projects.

[9] These are: Construction of Bypass Road in Shatkhira town connecting Bhomra Land Port, Shahjalal Fertilizer Project, and Production of Electricity by Co-generation and Establishment of North Bengall Sugar Mill.

[10] These are: Dhaka-Chittagong 4-Lane, Joydebpur-Mymensingh Road Development, Dhaka-Chittagong Railway Development Project, Providing Electricity Connection to 18 lakh clients through Rural Electricity extension, and Shahjalal Fertilizer Project.

[11] Considering the cumulative completion rate being more than 75 per cent.

[12] These projects were scheduled to be completed within FY2015 and FY2016 as per project timelines.

Status of 'Fast Track' projects: Not very promising

The government has prioritised eight mega projects under the 'fast track' initiative.[13] Later Sonadia deep sea port project was scrapped from the list. In addition to the seven projects (excluding the Sonadia deep sea port project), two new projects were included in the 'fast track' project list in a meeting by ECNEC held on May 2016. These are: Padma Bridge Rail Link (PBRL) project and Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border (CPD, 2016TR).

Eight out of these nine projects received allocation in ADP of FY2017. Among these eight projects, RNPP (Phase-I) which is scheduled to be completed by FY2017, has made a cumulative progress of 93.9 per cent up to October 2016 while its physical progress was 85 per cent (See Annex 3.2). This project is expected to be completed by FY2017. Apart from RNPP Phase-I (25.5 per cent) and Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border project (66.9 per cent), the remaining 'Fast Track' projects have made below average financial and physical progress during July-October of FY2017. For example, the PMB project could spent only 10.4 per cent of its allocation during the aforementioned period.

Strengthening IMED by putting in place follow-up mechanisms to realise recent initiatives and policy decisions

Recently, the government has taken a number of initiatives to accelerate ADP implementation. A policy as regards Project Preparatory Fund (PPF) which aims to facilitate timely and successful implementation of the development projects has been drafted. The main objective of the PPF is to provide funds for completion of preliminary activities before the launch of any development project.[14]

One may recall that a number of proposals relating to expediting ADP implementation was announced last year by the Planning Minister. These include: (i) appointing PDs through direct interviews by the line ministries and divisions[15]; (ii) assigning a dedicated official to each government agency for monitoring and evaluating respective projects, and (iii) delisting the longstanding 'non-operational' projects from the ADP[16]. However, these are not being adequately followed up. It is suggested that these good initiatives should be discussed and followed up in the quarterly progress meetings to monitor ADP progress. These proposals need to be implemented by the line Ministries and other concerned entities.

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[13] These projects include: Padma Multipurpose Bridge (PMB), Dhaka Mass Rapid Transit Development Project (DMRTDP) known as Metro Rail project, 2x1200 MW Ruppur Nuclear Power Plant (RNPP), Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project (MUSCCFPP), 2x660 MW Moitri Super Thermal Power Project (MSTPP), LNG gas terminal for importing liquid gas project, Deep Seaport at Sonadia in Cox's Bazar and Deep Seaport at Paira, Patuakhali.

[14] Preliminary activities include land acquisition, feasibility study and environmental impact assessment (EIA).

[15] Developing guidelines to this end was also planned.

[16] In this connection, it was planned that the concerned ministries and divisions would be served letters on 1 October every year to send the list of non-performing projects to the Planning Commission.

3.1.4 Financing the budget deficit

As has been the case for the last five years, budget deficit was well within the planned limit, when the first three months of FY2017 is considered. Although a revenue shortfall can be envisaged, it will be offset by lower public expenditure. The structure of financing was characterised by heavy reliance on domestic financing sources. Within domestic financing structure, buoyant sale of high interest bearing national savings certificates (NSD) is once again going to be the key feature of domestic financing in FY2017. Since a large share of the financing has already been secured from the sale of NSD certificates, the need for bank borrowing was rather limited.[17]

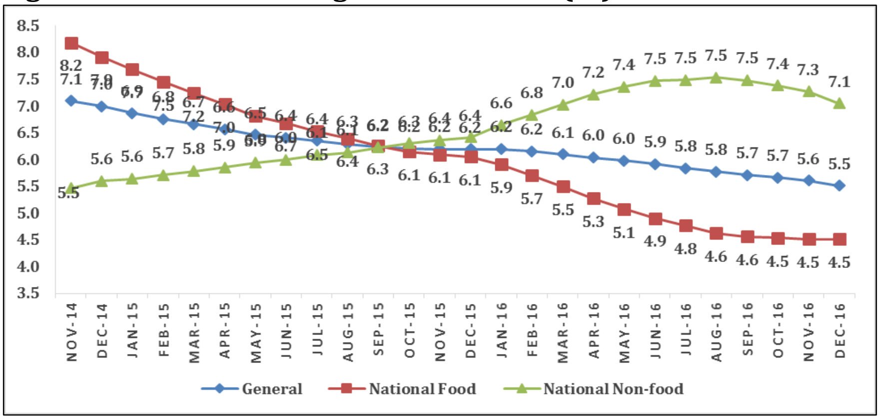
High rise of government borrowing through NSD sales has become a concern from the perspective of debt servicing liability. Wider difference between interest rates of bank deposit and NSD certificates has influenced the savers to opt for the latter instrument. Indeed, the government needs to address to this before the national budget for FY2018.

3.2 Inflation

The Consumer Price Index (CPI) inflation in Bangladesh had shown a declining trend for the last few years and was continuing for the first six months of FY2017. In December 2016, inflation rate was 5.5 per cent which was below the annual target of 5.8 per cent set for FY2017 by Bangladesh Bank in its Monetary Policy Statement (MPS), for July-December 2016.

The decline in general inflation has been spurred mainly by lower food inflation that continues to prevail since June 2014. Non-food inflation, though relatively low at present, is showing an increasing trend since November 2014 (Figure 3.2). Lower prices of rice made significant contribution to keep overall food inflation at a lower level. Further, depressed global commodity price and somewhat stable exchange rate of the BDT alongside restrained growth of broad money supply have contributed to the falling inflation in Bangladesh. This inflation trend is expected to continue also in FY2017.[18]

Figure 3.2: Annual Average Inflation Rate (%)



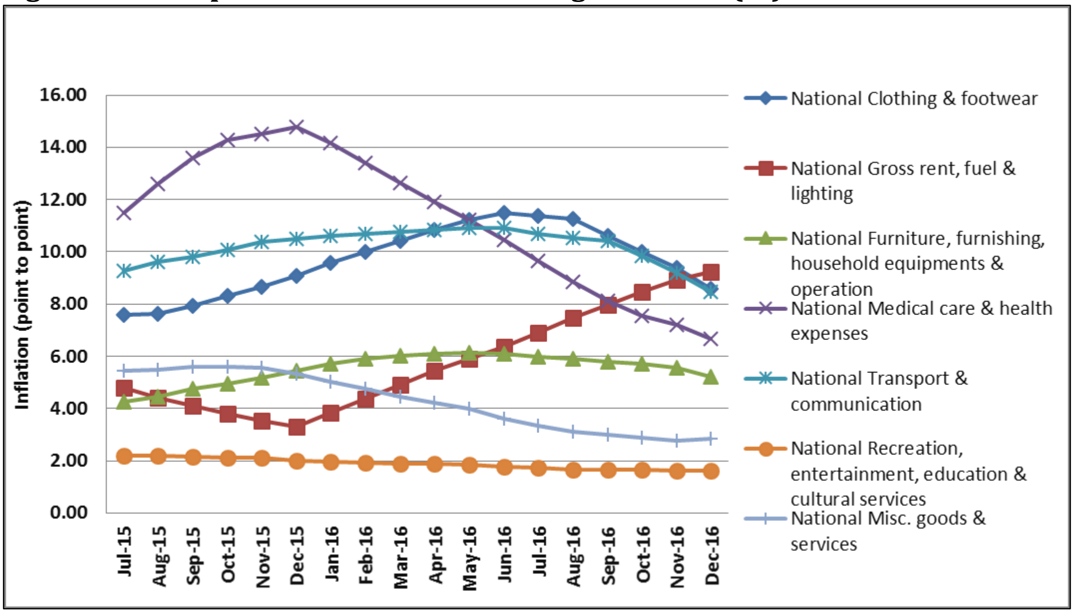
Source: Bangladesh Bureau of Statistics (BBS) data.

[17] Amount of net sale of NSD was 15,916.7 crore during July-October of FY2017 against the annual target of Tk. 19,610 crore.

[18] Data from the World Bank Commodity Prices suggests that the monthly food price index is on a declining trend since July 2016. According to available statistics from FAO Cereal Price Index, the cereal prices had averaged around 141.4 points in November 2016 which represents approximately 7.9 per cent below the previous year's level.

A decomposition of non-food inflation shows that, national gross rent, fuel and lightning have been the major sources of non-food inflation which has been increasing since December 2015 (Figure 3.3). The inflation (9.2 per cent) of national gross rent, fuel and lightning as of December 2016 was the highest during the last 43 months (since May 2013).

Figure 3.3: Composition of Non-food Average Inflation (%)



Source: Bangladesh Bureau of Statistics (BBS) data.

Although, the inflation of the aforementioned items is increasing both in urban and rural areas, it is 5.97 percentage point higher in urban areas (12.40 per cent) than in rural areas (6.43 per cent) as of December 2016. Prices of all utility items have gone up or expected to increase in FY2017 and the cost burden has fallen disproportionately on urban and rural population. Price of supplied WASA water for Dhaka dwellers increased twice in FY2017. Cost of per unit water (1,000 litres) for households increased by 22 per cent since June 2016.[19] Bangladesh Energy Regulatory Commission (BERC) has decided to raise the price of gas used in households by 50 per cent from the beginning of 2017. It increased by 26.3 per cent in September 2015. Such frequent increase of utility prices have emerged as social concern for the urban low and middle income households. This can be further verified from a report published by Consumers Association of Bangladesh (CAB, 2017) which states that the cost of living increased by 6.47 per cent while prices of commodities and services by 5.81 per cent in Dhaka in 2016.

According to the Commodity Market Outlook of the World Bank (2016), prices for most commodities are expected to rise in 2017. Energy prices are forecasted to increase by 24 per cent in 2017 after a decline of 15 per cent in 2016. Non-energy commodity prices are expected to rise by 2 per cent in 2017 after a 3 per cent drop the previous year. A small increase of 1.5 per cent in the Food Price Index largely reflects an anticipated 2.9 per cent rebound in grains prices (World Bank, 2016). Although, this will not be a major concern for Bangladesh to contain inflation within its target, but inflation may creep up a little in the later part of FY2017 due to the expected rise of global commodity prices.

[19] Before July 2016 the price of per unit of water (1,000 litres) was Tk. 7.71. After the yearly five per cent rise in July, it cost Tk. 8.49. But Dhaka Wasa raised the price again in November by 17 per cent to Tk. 10.

Low prices of oil in the global market are also not being adjusted at a rational level in the domestic market. It may be noted that BPC, after incurring loss for fifteen years in a row, started to earn profit since FY2015 which stood at Tk. 7,050 crore in FY2016.[20] It should be taken into cognisance that BPC is operating with a large debt burden, a major part of which is with the SCBs and guaranteed by the government (CPD, 2016a). At present, the BPC owes the exchequer some Tk. 26,300 crore. It may be mentioned that, with the profit money BPC already cleared all outstanding dues with commercial banks, paid outstanding VAT and import duties to the national exchequer and freight charges to shippers. But it paid only Tk. 1,000 crore in June 2015 to the MoF. Since then, it did not make further payment to the ministry.[21] Lower growth of revenue earnings in FY2016 may also have made decision making as regards lowering of domestic fuel prices a difficult choice for the government. BPC is still making a profit of Tk. 23 to Tk. 28 per litre from petrol and octane and about Tk. 16 from diesel and kerosene sale. In view of this, the government could reduce the administered prices of petroleum products to some extent so that BPC (and the government) and other stakeholders (producers and consumers) can share the benefits from lower global petroleum prices. In addition, rather than increasing prices of gas by substantial margins, the government should opt for meter based gas use policy at the household level. This is a better solution to address gas scarcity problem. This could also provide relief to the urban middle and lower middle class in particular.

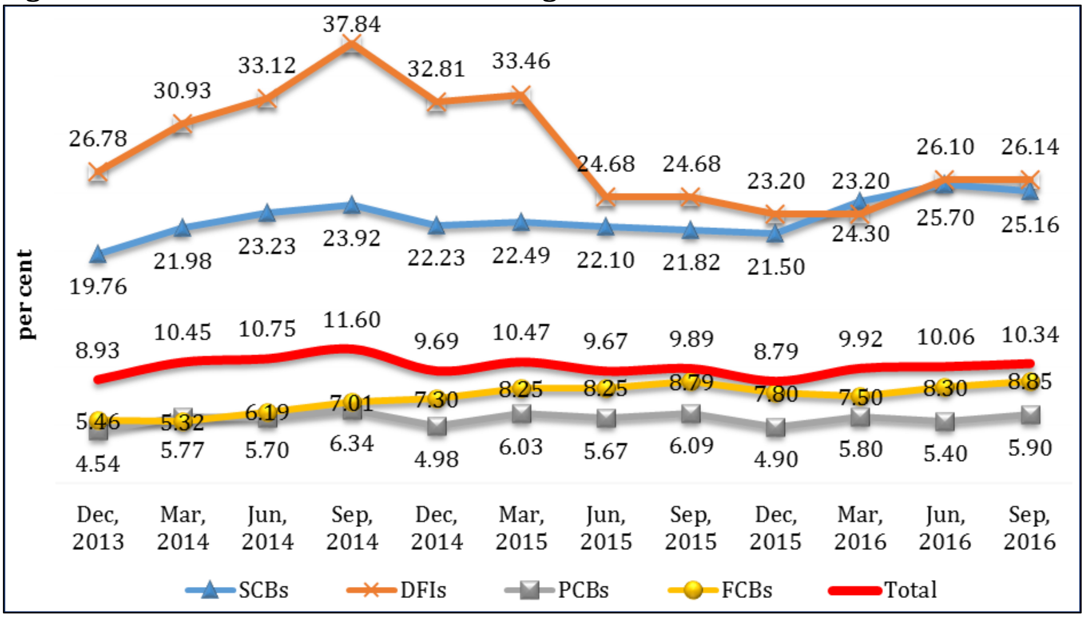
3.3 Banking Sector

Banking sector at this moment is dealing with a number of depressing trends. Despite a slight decline of interest rate on lending towards a single digit level (average lending rate being 9.9 per cent in November 2016), private sector credit growth has declined to 15.0 per cent by the end of November 2016 which was 16.8 per cent as of June 2016. Excess liquidity in the banking system is also at a high level. At the same time, non-performing loan (NPL) has continued to rise.

NPL in the banking sector has been following a certain trend during the last few years. It is observed that towards the last quarter (in December) of each year NPL comes down but starts to rise afterwards. For example, in December 2013, NPL came down to 8.9 per cent from between 11.9 and 12.8 per cent during other quarters of the year; in December 2014 to 9.7 per cent from between 10.5 and 11.6 per cent in other quarters of 2014; and in December 2015, NPL declined to 8.8 per cent from between 9.7 and 10.5 per cent during other quarters of the year (Figure 3.4). This trend is also noted in 2016. Available data for January – September 2016 indicates that NPL increased to 9.9 per cent in March 2016 and to 10.34 per cent in September in 2016. One of the probable reasons behind this lower NPL towards the end of the year could be restructuring and rescheduling of loans by December of every year.

[20] Reported in the Independent. Available at: http://www.theindependentbd.com/post/56396
[21] Reported in the Financial Express. Available at: http://www.thefinancialexpress-bd.com/2016/12/13/56131/BPC-has-to-use-profit-to-repay-debt-to-govt

Figure 3.4: NPL as % of Total Outstanding Loan



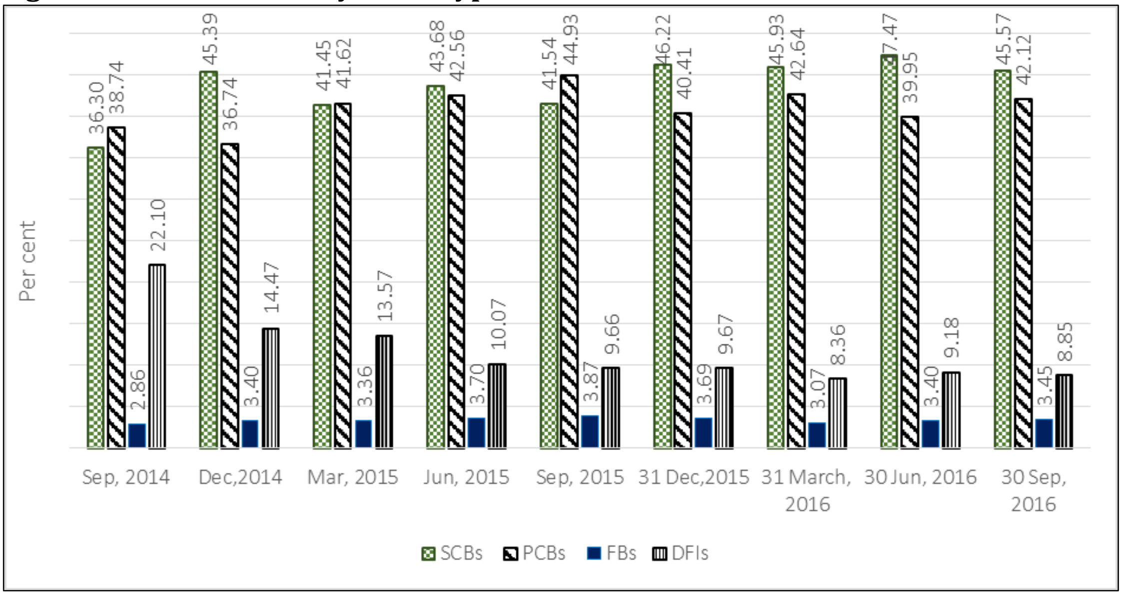
Source: Bangladesh Bank data.

Even though NPL was kept low by rescheduling 4.5 per cent and restructuring 2.8 per cent of total outstanding loans in 2015, the amount of NPL started to increase in 2016. It is encouraging to note that Bangladesh Bank has taken initiative to provide incentives to good borrowers and help them by providing 10 per cent rebate on their interest payments against their bank loans (BRPD Circular no – 06, Dated: 19 March 2015). It is yet to be seen how many banks offer this to its borrowers. Anecdotal information indicates that till 21 December 2016 only one bank had offered this incentive to its borrowers.[22]

The major contributor to the rise in bad loans are the state-owned banks (SCBs). Even though only 18.72 per cent of total loans of the banking sector are disbursed by the SCBs, the share of NPL of SCBs' in total classified loans was 45.57 per cent as of September 2016, according Bangladesh Bank data (Figure 3.5). The highest share of loan is provided by private commercial banks (PCBs) which contributes to 42.12 per cent of total NPL. In terms of the share of NPL in their respective total loans, there is a huge divergence amongst banks. For example, the share of NPL in their total loans was 25.16 per cent for SCBs, 5.9 per cent for PCBs, 8.85 per cent for foreign banks (FBs) and 26.14 per cent for development financial institutions (DFIs) in September 2016. Even though DFIs provide only 3.5 per cent of total loans by the banking sector, they have the highest NPL as a share of their total loans. It may be noted that among South Asian countries, Bangladesh stands second, only after Pakistan in terms NPL as a share of total loan (Figure 3.6).

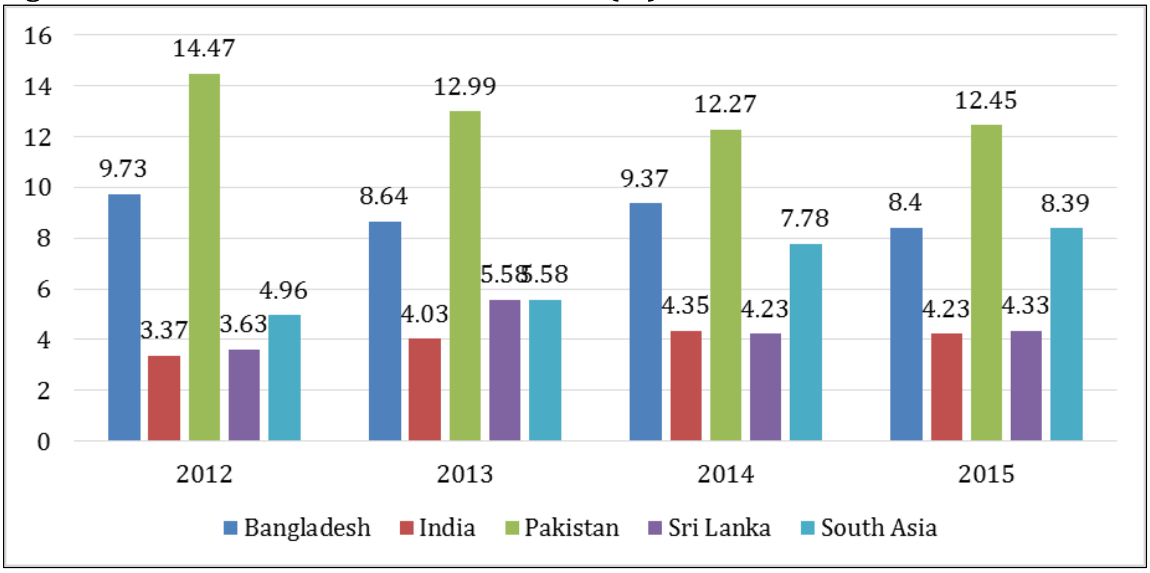
[22] Reported on the Daily Star. Available at: http://www.thedailystar.net/business/banks-unwilling-reward-good-borrowers-1333030

Figure3.5: Share of NPL by Bank Types in Total NPL



Source: Bangladesh Bank data.

Figure 3.6: Share of NPL to Total Gross Loans (%) in South Asia

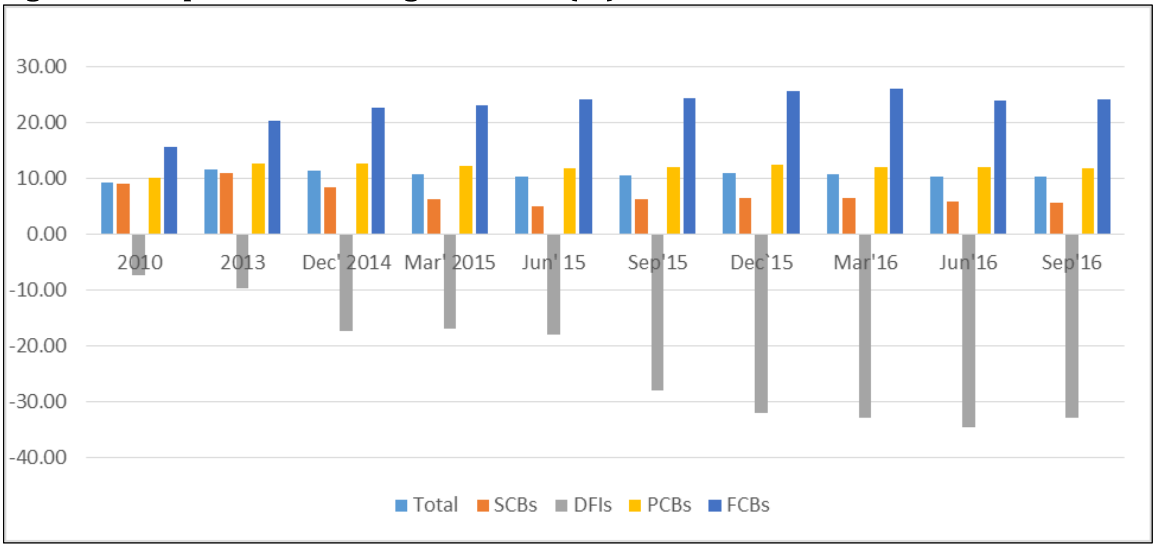


Source: World Bank, World Development Indicator data. Available at: http://data.worldbank.org/indicator/FB.AST.NPER.ZS

The overhang of NPL in the SCBs hit their profitability. It has also affected SCBs' ability to expand their loans. There is a steady decline in growth of advances in SCBs since December 2012. In 2016, however, there is an increase in advances by the SCBs. Lower credit growth by the SCBs could have repercussions on the overall credit growth as SCBs account for about one fifth (18.72 per cent as of September 2016) of the overall loan disbursed by scheduled commercial banks. In fact, the share of total loans by the SCBs in total loan disbursed by commercial banks has been declining since December 2014.

Bangladesh is in the process of full implementation of Basel III from January 2020. In the transitional arrangement of Bangladesh Bank, between 2015 and 2019, the banking system has to maintain a 10.625 per cent capital adequacy ratio (CAR) in 2016. This includes 10 per cent minimum total capital ratio and 0.625 per cent capital conservation buffer. In September 2016, both SCBs and DFIs could not maintain the minimum requirement (Figure 3.7). Although PCBs and FCBs maintained CAR above the minimum requirement, underperformance of SCBs and DFIs brought down the total share below the minimum requirement.

Figure 3.7: Capital to Risk Weighted Asset (%)



Source: Bangladesh Bank data.

In order to maintain the international standard of capital to risk weighted asset, the government is planning to release bond. The objective is also to meet the huge capital shortfall in the scam-hit banks such as BASIC bank, Sonali bank and Rupali bank. The details of such bonds are yet to be disclosed. Given that these banks suffer from extreme underperformance, the repayment ability and debt liability are matters of great concern.

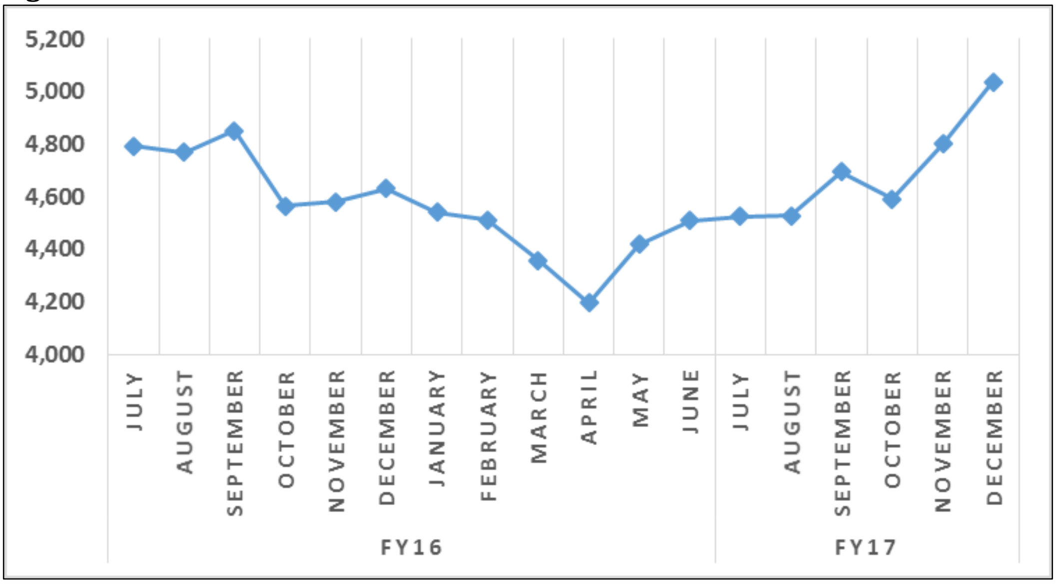
Another crucial indicator, profitability declined in June 2016 after a rise in December 2015. Higher provisioning for bad loans in the SCBs lowered their profits. In June 2016, Return on Assets (RoA) declined to 0.44 per cent from 0.80 per cent in December 2015. On the other hand, return on equity (RoE) declined to 7.13 per cent in June 2016 from 10.50 per cent in December 2015. Among the 6 SCBs, RoA is negative in 3 SCBs while RoE is negative in 2 SCBs. Out of the thirty nine PCBs, 2 PCBs had negative profitability ratio reflected through both RoA and RoE. Bank wise profitability reveals some stunning numbers. For example, RoE of Sonali Bank dipped to as low as (-) 711.58 per cent in December 2015. Although it improved to (-) 39.21 per cent in June 2016, the bank still faces crises in terms of dealing with scams and malpractices.

On the whole, there is little room to be optimistic about coming out of the current struggle on classified loans anytime soon that continues to persist in FY2017. The situation cannot be overcome without major policy reforms and establishment of good governance in the banking sector. The practice of writing off bad loans may help banks to heal wounds superficially, this will not improve the health of the sector on a lasting basis. In current situation, SCBs are not in a position for growth anymore. Thus their focus should rather be on consolidation through cleaning their balance sheet. Efforts towards recovering the stolen money from Bangladesh Bank's reserve through cyber-attack should be pursued consistently. This reserve heist underscores the importance of strengthening cyber security in the central bank and in the banking sector as a whole. Autonomy of Bangladesh Bank to undertake bold measures against defaulters and malpractices in the banking sector is a much needed policy decision. The need for setting up a banking commission in order to scrutinize the overall situation of the banking sector and solicit concrete recommendations for a dynamic sector has been ignored by policymakers till now.

3.4 Capital Market

In 2016, the capital market indeed ended with a high index as the Dhaka Stock Exchange (DSE) index recorded at 5,036 points in December (Figure 3.8). During the first half (July-December) of FY2017, the DSEX index recorded a spike. It registered a growth of 8.8 per cent as of December 2016 over the corresponding month of 2015. Such improvement in the market is due to the dynamic participation from both local and foreign investors. Psychological confidence may have driven this upward push. Sturdy participation by investors especially during the last few months of the calendar year alongside consolidation of stock prices, low commodity and oil prices in the international market have also contributed to such a performance. Additionally, higher corporate earnings and a lower interest rate played a crucial role in improving the performance of the capital market of Bangladesh.

Figure 3.8: DSEX Index



Source: Dhaka Stock Exchange (DSE) data.

Changes in sectoral composition of market capitalisation

Since the dramatic capital market collapse of December 2010, the share market, in terms of market capitalization has experienced certain compositional changes. However in recent years, the sectoral composition has witnessed significant changes. Thus the banking sector, inclusive of mutual funds and insurance, has lost its footing. The banking sector which contributed a lions' share to market capitalisation (30.5 per cent) in November 2010, declined to 16.3 per cent in November 2016 (Table 3.7). This can be attributed mainly to the emergence of potential thrust sectors such as pharmaceuticals, food, telecommunications and the IT sector. The high concentration in market shares that was seen before the market collapse is gradually changing as other sectors are developing.

Table 3.7: DSE Sectoral Performance (% of Total Market Cap)

Sectors	2010 (Nov)	2014 (June)	2015 (June)	2016 (June)	2016 (Nov)
Banks	30.53	16.46	13.55	15.13	16.32
NBFIs	13.06	6.42	5.60	5.57	5.66
Fuel & Power	10.61	12.31	14.29	13.44	13.36
Telecommunications	10.49	18.17	17.21	13.85	14.21
Pharmaceuticals	7.41	12.86	14.30	16.61	15.76
Insurance	6.23	4.18	2.79	2.73	2.76
Textile	4.16	3.46	3.40	3.13	3.21
Engineering	4.11	4.13	5.02	5.94	6.36
Cement	2.56	6.57	7.19	5.69	5.59
Food	2.16	7.72	8.76	9.34	8.36
Ceramic	1.94	0.79	1.05	0.94	0.89
Mutual Funds	1.21	1.44	1.07	1.16	1.15
Service & Real estate	1.16	0.42	0.78	0.70	0.69
Tannery	0.62	0.83	0.86	0.87	0.84
Travel	0.48	1.33	0.94	0.79	0.71
IT	0.14	0.18	0.20	0.36	0.36
Jute	0.04	0.03	0.03	0.03	0.04
Paper	0.04	0.02	0.09	0.06	0.06
Miscellaneous	2.92	2.43	2.66	3.44	3.46

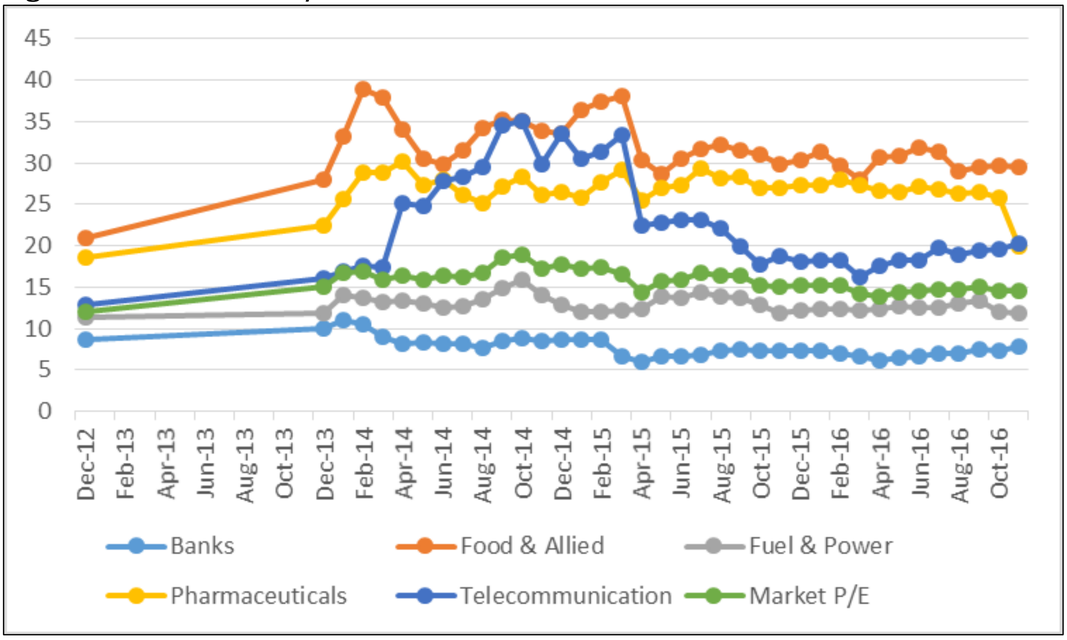
Source: Based on the data available in the DSE website.

IPOs offloading

At the end of 2016, the number of companies listed in the DSE was 294. There were only three new IPOs released under the Fixed Price Method as of November 2016, of which one was from the banking sector whilst the rest two fell under the manufacturing sector. The number of IPOs released were six during the corresponding period of FY2016, of which two were connected with the banking sector, one was from the IT sector and the remaining three belonged to the manufacturing sector. This can be considered as a positive development since Bangladesh's growth is mainly driven by the manufacturing sector. In addition, there are four new forthcoming IPOs which were also approved by the BSEC. However, there were no new IPOs released under the Book building method during July-November of FY2017. Similarly, during the same period in FY2016, there were no new IPOs released under the book building method.

Generally, a high price earnings (P/E) ratio creates a scope where the price of the stock can drop if the growth of earnings stops or slows down. In this regard, the gradual fall in the average market P/E ratio implies that the environment for investing in the capital market is favourable. As mentioned earlier in CPD (2016a), food and allied and telecommunication sectors have experienced high volatility in terms of P/E ratio. However, the ratios have been consistent since early 2015 and afterwards. Notably, the P/E ratio of pharmaceuticals experienced volatility with highest P/E ratio being recorded at 30.23 in April 2014 which stood at 19.99 in November 2016 (Figure 3.9). The peak for the market P/E ratio was recorded in October 2014 (18.91). The P/E ratio gradually came down to 14.61 at the end (June) of FY2016. As of November 2016, this stands at 14.52.

Figure 3.9: Trends in P/E of Selected Sectors



Source: Dhaka Stock Exchange (DSE) data.

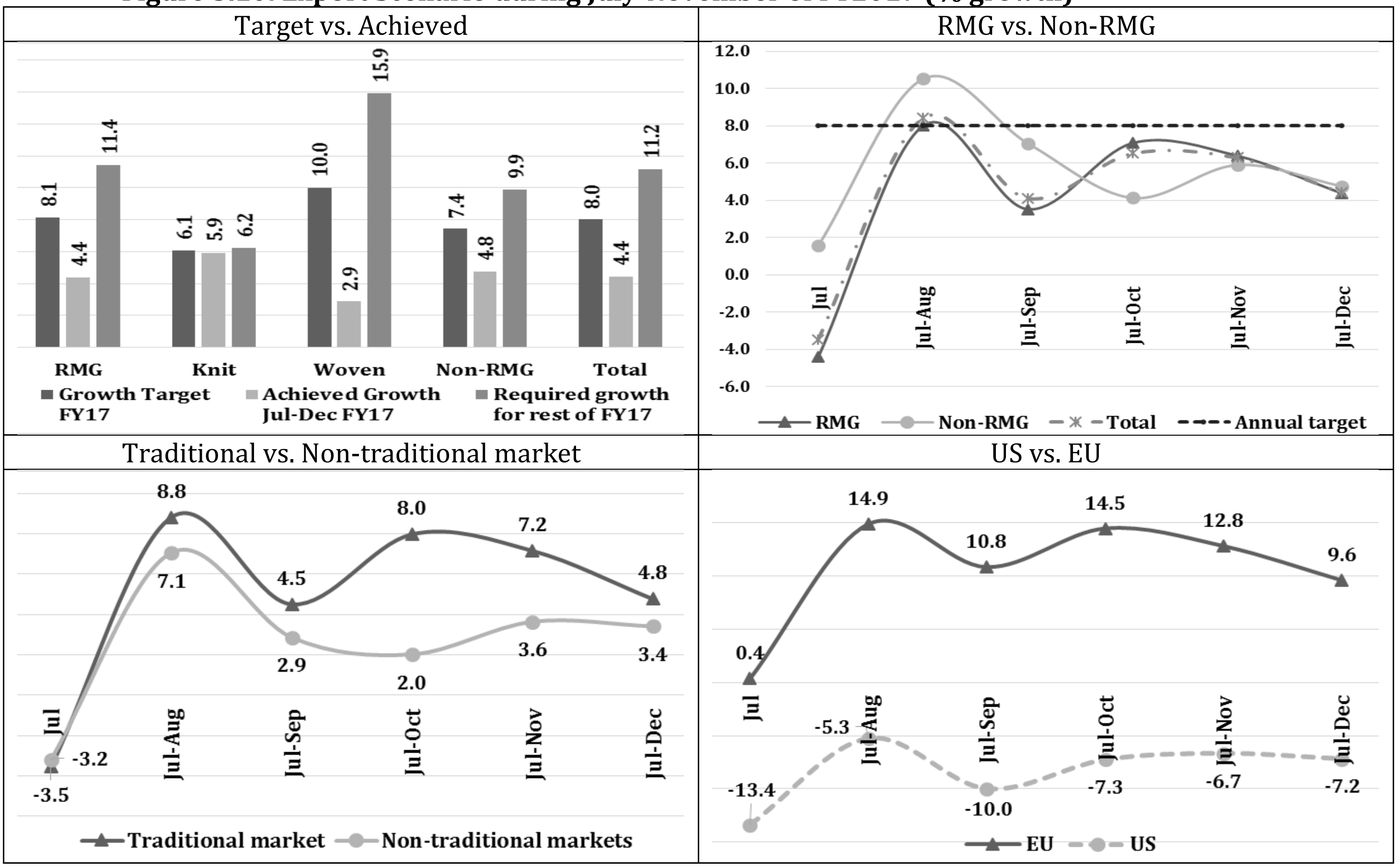
3.5 External Sector

3.5.1 Export earnings

For the first six months of FY2017, export earnings have remained below the envisaged annual target set for the ongoing fiscal year. *First*, as per Export Promotion Bureau (EPB) data, export earnings recorded 4.4 per cent growth during the July-December period of FY2017 against the annual growth target of 8.0 per cent. It is important to note that, to attain the target of USD 60 billion by 2021, export earnings need to grow by 11.9 per cent annually over the next five years. Export growth of both RMG and non-RMG items (4.4 per cent and 4.8 per cent respectively) was below their individual annual target (8.1 per cent and 7.4 per cent respectively). Indeed, to attain export target of RMG for 2021, to the tune of USD 50 billion, annual growth rate needs to be about 12.2 per cent. Knit RMG items achieved 5.9 per cent growth during the first six months of FY2017 against the annual target of 6.1 per cent (Figure 3.10). Over the same timeframe, woven items registered a growth of 2.9 per cent as opposed to the target of 10.0 per cent. Although non-RMG export growth remained positive, it exhibited considerable volatility and a generally declining trend.

Second, non-traditional markets could not replicate their performance as major source of market diversification. During FY2016, export growth in non-traditional markets (11.7 per cent) outstripped the growth of traditional markets (9.1 per cent). However, during the July-December period of FY2017, non-traditional markets registered a 3.4 per cent growth as opposed to the 4.8 per cent growth traditional markets. The key reason was the relatively weak performance of RMG in non-traditional markets. Amongst the major non-traditional RMG export destinations, Australia (-11.0 per cent), Brazil (- 45.4 per cent), Mexico (-17.7 per cent) and South Africa (- 20.7 per cent) exhibited significant decline.

Figure 3.10: Export Scenario during July-November of FY2017 (% growth)



Source: Author's calculation from Export Promotion Bureau (EPB) data.

Third, among the major traditional markets, export to the US market encountered a major setback. During July-December of FY2017, export to the US registered a negative growth of (-) 7.2 per cent. Although non-RMG export grew by 13.1 per cent, this achievement was offset by negative RMG export growth of (-) 9.1 per cent. Both knit and woven items suffered poor export growth [(-) 10.8 and (-) 8.5 per cent respectively].

The incidence of falling RMG export receipt in the US market is not a unique case for Bangladesh. Analysing US import payments data from United States International Trade Commission (USITC), it was found that apart from Vietnam, most other major RMG exporters to the USA suffered a negative export growth. Although Bangladesh's export receipt declined by (-) 5.6 per cent during July-October of FY2017, it was lower than the total decline of RMG import payment by the USA (-7.7 per cent). For Cambodia, China, Mexico, and Pakistan, the decline in RMG export receipt from US was (-) 12.7, (-) 11.2, (-) 6.4, and (-) 14.6 per cent respectively.

Fourth, export growth in the EU market was to the tune of 9.6 per cent during the first six months of FY2017. This growth was driven by RMG products. RMG export to the EU market grew by 10.1 per cent. Both knit and woven items fared substantial growth (9.7 per cent and 10.7 per cent respectively). However, during December of FY2017, total export growth to the EU declined by (-) 2.9 per cent compared to December of FY2016. For both knit and woven RMG products, export growth rates were negative ((-) 2.1 and (-) 4.5 per cent respectively) in December of FY2017.[23]

[23] During December of FY2017, export growth of knit items to most major EU destinations were negative [Germany: (-) 1.2 per cent, Spain: (-) 6.8 per cent, France: (-) 1.4 per cent, UK: (-) 8.0 per cent and Italy: 9.7

Export growth of non-RMG products in the EU has been showing a declining trend (from 12.8 per cent during July-August of FY2017 to 4.1 per cent during July-December of FY2017).

Finally, in the backdrop of changing global scenario, Bangladesh is expected to face a number of medium term challenges. These include Brexit and consequent altered trade scenario with the UK; rise of neo-protectionism in numerous parts of the globe; the Trump presidency and subsequent unpredictable US policies; grim outlook for the world trade prospect; and Bangladesh's graduation from the LDC category. In particular, Bangladesh will need to closely follow the ramifications of Brexit and review what it could mean for Bangladesh. In case the UK is not a member of the common market, Bangladesh may need to negotiate with the UK separately with regard to trade and market access issues. Ensuring continuity as regards duty-free access in the UK market along with favourable rules of origin should be seen as a major priority concern for Bangladesh. As the transforming global trade regime challenges Bangladesh from various angles, the effort towards raising competitiveness of her exportables through both product and market diversification has become a crying need.

3.5.2 Import payments

During July-November of FY2017, import payments rose by 9.5 per cent over the corresponding months of FY2016. In FY2016 the overall import payment growth was 5.4 per cent. Import growth in FY2017 so far has been driven by capital machinery, wheat, and petroleum products which recorded 24.5, 54.9, and 43.4 per cent growth respectively. Import payment for consumer goods increased by 6.5 per cent which was driven by spices, pulses and sugar. At the same time import of intermediate goods went up by 4.0 per cent. The increase of capital machinery import is particularly encouraging due to its investment implications. According to anecdotal information, a significant rise of capital machinery import payments was a result of high import of capital machinery for power sector projects which gained momentum in FY2017.

3.5.3 Balance of payments (BOP)

Balance of payments (BoP) for Bangladesh economy was positive with USD 1.9 billion during July-November of FY2017, but was lower than the BOP of USD 2.0 billion during the same timeframe of FY2016. During July-November of FY2017, trade balance was negative with USD (-) 3.9 billion as opposed to USD (-) 3.2 billion during the corresponding period of FY2016. The widened trade deficit alongside decreasing worker remittance[24] (discussed in details in Section 7) has contributed to the negative current account balance of USD (-) 726 million. During the corresponding period of FY2016, the current account had a surplus of USD 1.3 billion. Within the financial account, net foreign direct investment recorded a 9.6 per cent growth during July-November of FY2017 compared to the corresponding period of FY2016. In the same timeframe, medium and long-term (MLT) loans decreased by (-) 4.3 per cent while net trade credit increased by 160.2 per cent.

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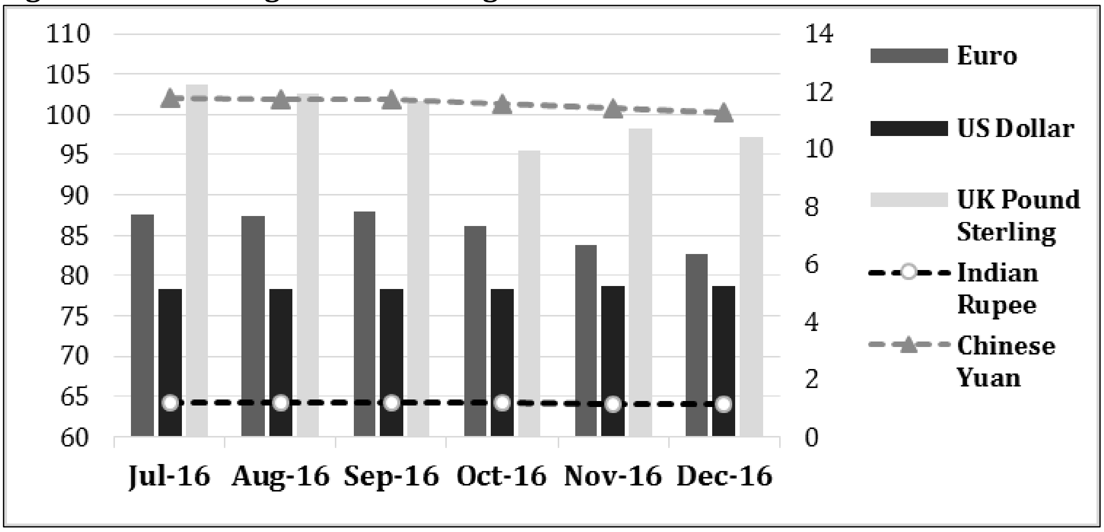
per cent]. But the major fall came in woven item export [Germany: 26.2 per cent, Spain: (-) 17.5 per cent, France: (-) 11.3 per cent, UK: (-) 24.5 per cent and Italy: (-) 11.8 per cent].

[24] During July-November of FY2017, remittance growth was (-) 15.7 per cent compared to the corresponding period of FY2016. Similarly during July-December of FY2017, growth was (-) 17.6 per cent.

3.5.4 Exchange rate

During July-December of FY2017, exchange rate of BDT against USD remained fairly stable – only marginally depreciating in November and remaining so in December. Over the same timeline, BDT has shown a generally appreciating trend against Euro and marginal appreciation against Chinese Yuan. While the exchange rate of BDT against Indian Rupee has been steady, it has been volatile against UK Pound Sterling (Figure 3.11).

Figure 3.11: Exchange Rate of BDT against Selected Currencies



Source: Compiled from Bangladesh Bank data.
Note: Indian Rupee and Chinese Yuan are shown in the secondary axis.

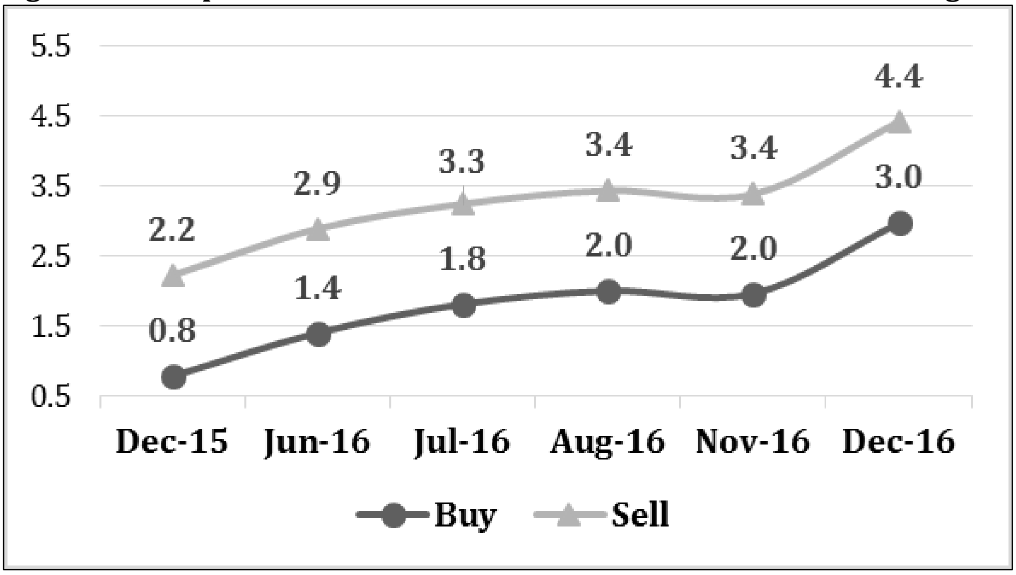
Alongside nominal exchange rate, real effective exchange rate (REER) should be considered for trade policy purposes due to its implicit tie to export and import performance. CPD (2016) argued that a significant portion of Bangladesh's trade balance movement can be explained through fluctuations in the REER. While the nominal effective exchange rate (NEER) of BDT has remained fairly stable during FY2014-FY2016 period, the REER has progressively appreciated in value over the same timeframe[25]. This widening gap indicates the relative weakening of BDT against major trading partners. This phenomena is of particular importance since Bangladesh is attempting to expand its export base in the EU market. Unfortunately REER calculation by Bangladesh Bank is available only up to FY2015, that too on a yearly basis. Hence it has become an exigency to provide the data on a more regular basis given its policy implications.

Another intriguing phenomenon prevailing in the foreign exchange market is the growing gap between the cash and headline exchange rates of BDT against USD. During December 2015, on average the aforesaid gap for buying and selling were Tk. 0.79 and Tk. 2.23 respectively. Exhibiting an upward trend, these became Tk. 2.97 and Tk. 4.42 respectively in December 2016 (Figure 3.12). This increasing gap may induce people to utilise informal channels of currency transfer as well as hoarding of USD. A supply shortage against growing demand of cash USD in the local foreign exchange market can be attributed to this phenomenon. Recognising the issue,

[25] Based on monthly data provided by the Bruegel Center. While Bangladesh Bank's REER estimates is generated using a 10 country currency basket which accounts for over 80 per cent of Bangladesh's total trade, Bruegel Center's currency basket constitute over 99 per cent of Bangladesh's total trade. Data is available at: http://bruegel.org/publications/datasets/real-effective-exchange-rates-for-178-countries-a-new-database/ [accessed January2, 2017]

Bangladesh Bank initiated its countermeasure by importing cash USD worth 4.0 million through a foreign commercial bank.

Figure 3.12: Gap between Cash and Headline Rate for BDT-USD Exchange



Source: Authors' calculation from Bangladesh Bank data.

3.5.5 Foreign exchange reserve

Foreign exchange reserve (FER) has maintained its upward trajectory to reach USD 32.1 billion as of 28 December 2016. During the July-December period of FY2017, FER increased to the tune of USD 2.0 billion. Major share of this FER was retained as convertible foreign currencies including securities and also in the form of Special Drawing Rights (SDRs), gold etc. The accumulation and deployment process of FERs alongside their security should be a concern for the policymakers.

Recently, the government has expressed the desire to create a sovereign wealth fund (SWF) utilising the growing FER. Although the details regarding this initiative is still unclear, reports from several media outlet indicate that the key focus of the said fund will be infrastructure development. CPD has the falling observations with regards to such funds.

Based on IMF and the 'Santiago Principles[26]', Al-Hassan *et al.* (2013) distinguished five types of SWFs. These include:

i. *Stabilisation funds* are initiated to shield the budget and economy from commodity price instability and external shocks (e.g., Chile (Economic and Social Stabilisation Fund), Timor-Leste, Iran, and Russia (Oil Stabilisation Fund)).
ii. *Savings funds* aim for intergenerational wealth equity by transforming non-renewable assets into diversified financial assets (e.g., Abu Dhabi Investment Authority, Libya, Russia (National Wealth Fund)).
iii. *Development funds* are set up to earmark resources to priority socio-economic projects, usually infrastructure (e.g., UAE (Mubadala) and Iran (National Development Fund)).

[26] The Santiago Principles or formally the 'Sovereign Wealth Funds: Generally Accepted Principles and Practices (GAPP)' are designed as a common global set of 24 voluntary guidelines that assign best practices for the operations of Sovereign Wealth Funds (SWFs).

iv. *Pension reserve fund*s are established to ensure revenue streams in the future with respect to pension-related contingent-type liabilities on the government's balance sheet (e.g., Australia, Ireland, and New Zealand).

v. *Reserve investment fund*s plan to decrease the negative carry costs of holding reserves or to earn higher return on ample reserves, while the assets in the funds are still counted as reserves (e.g., China, South Korea, and Singapore).

However, the objectives behind the SWFs are country specific and they evolve over time. Based on the aforementioned classification, Bangladesh's initiative could be deemed as a combination of development fund and reserve investment fund. It must be mentioned that international experience in the utilisation of FER is rather limited with notable examples in Singapore, South Korea and China (Singh, 2006; Mbeng Mezui & Uche, 2013). However, none of the aforesaid three examples utilised FER for infrastructure development.

The positive impact of infrastructure enhancement on economic growth is reiterated in development literature (Calderón & Servén, 2004; López, 2003; Demurger, 2001). But a sensible financing policy is equally important. Hence, relevant concerns regarding the utilisation of FER must be taken into cognisance through proper analysis. Singh (2006) identified long term sustainability of current account surplus, quality and quantity of capital inflow, and liquidity management as key concerns regarding deployment of FER in infrastructure development. He also identified long gestation period and relatively low return of infrastructure projects to be key constraints for financing infrastructure through FER. He asserted that market confidence could be negatively impacted if FER financed projects are delayed or abandoned due to economic (e.g., cost overrun) or political (e.g., disapproval of the initiatives by the preceding political party in power) reasons. Political goodwill is rudimentary to succeed in FER financed projects. Bernstein *et al*. (2013) argued that political pressure might result in either imprudent policy attempts to support inefficient firms or industries, or undertake investment activities in industries, sectors, or geographies which are chosen due to populist notion.

The opportunity to employ the growing FER in infrastructure development might provide Bangladesh with a cushion against the upcoming debt liabilities (discussed in details in Section 4). However, utilisation of this national asset must be considered with utmost care given the rather exceptional nature of the Bangladesh scenario. Pragmatic policies must be chosen in this regard. Independent institutional mechanism, moderate interest rate, feasible maturity period and appropriate monitoring governance should be the priority issues in the aforesaid context.

3.6 Investment Prospects in FY2017

BBS data indicates that, in FY2016 private investment rebounded by a significant margin. The movements of proxy indicators suggest a mixed trend. As has been mentioned above, import payments for capital machinery registered a significant growth but this was dominated by one sector. Besides, the apprehension of a trade mispricing (over invoicing) cannot be undermined in this context. Also, over the period July-November of FY2017, L/C opening for capital machinery declined by (-) 1.75 per cent. Among other indicators, industrial term loan disbursement was only 2.7 per cent during the first quarter of FY2017 while non-farm rural credit increased by only 0.9 per cent. Rising excess liquidity in the banking system may also indicate lack of investment demand. It is also important to note that, overall growth of credit to the private sector declined (see Section 3.4). Growth rate of agriculture credit during July-October period of FY2017 was 15.4 per cent which was 16.3 per cent during the same period of the preceding fiscal year. In contrast, loan disbursement to small and medium enterprises increased by 23.3 per cent during the first quarter of FY2017. During July-November FY2017, net foreign direct investment (FDI) inflow increased by 9.6 per cent.

It is however encouraging to observe that investment registration with Bangladesh Investment Development Authority (BIDA) has increased substantially during the first five months of FY2017. A total number of 641 projects were submitted with investment proposals to the tune of USD 14 billion (Tk. 11,100 crore), of which about two-third was foreign and joint-venture investment proposal. The investment proposals in five months this fiscal year already surpassed the total amount of proposed investment registered in FY2016. The investment proposals of Jul-November FY2017 are expected to create about 111 thousand jobs. However, it may be noted that, the employment-investment ratio in FY2017 has also declined substantially. It implies that rise in investment and job creation do not necessarily follow the same pace. Moreover, to realise the proposed investments, it is important to deliver the needed infrastructure and policy support in a timely manner. In this context, implementing special economic zones and other infrastructure projects, finding a medium term solution to ensure gas supply and raising capacity of port facilities will be critical.

SECTION IV. IS BANGLADESH ROLLING TOWARDS A DEBT STRESS?: AN EXPLORATION OF DEBT SUSTAINABILITY OF BANGLADESH IN THE CONTEXT OF RECENT DEVELOPMENTS IN EXTERNAL FINANCIAL FLOW

4.1 Background

Bangladesh's public debt situation, which include both external and domestic debt, has been comfortable when measured against conventional debt sustainability tools. Bangladesh was able to keep the present value of total debt-to-GDP ratio at sustainable levels, below the threshold values. According to the Debt Sustainability Analysis of the IMF (2016), the vulnerability of Bangladesh to falling into public debt distress is low. As a matter of fact, Bangladesh has never defaulted on its external debt obligations. Among the low-income countries, Bangladesh's track record in this context has been quite impressive.

According to Bangladesh Bank (2015) data Bangladesh currently obtains 62.3 per cent of its public debt from domestic sources, and 37.7 per cent of debt from external sources. However, the Medium Term Debt Strategy of Ministry of Finance (2014) suggests that Bangladesh would be better off if it attained 60 per cent of public debt from foreign sources and the rest from domestic channels. This is underpinned by the fact of relatively lower interest rates and longer maturity periods in case of foreign debts when compared to domestic debts. At the same time, the Medium Term Debt Strategy recognized that excessive reliance on external debt could exert inflationary pressure. Consequently, the strategy proposed that if Bangladesh experienced increasing levels of inflationary pressure, she should exercise the option of reverting back to the original borrowing-mix.

As is known, for obtaining domestic loan, the Government of Bangladesh has been increasingly relying on sales of National Savings Directorate or NSD Instruments which entail payment of high interest rates (e.g. the 5-year Bangladesh Sanchyapatra had an interest rate of 9.20 per cent at the end of 1st year). Consequently, increasingly higher amount of resources have to be deployed on account of servicing this debt. By contrast, because Bangladesh was (in recent past) a low-income country, as also a Least Developed Country, she was able to borrow from external sources at concessional interest rates. Now that Bangladesh has graduated to lower middle-income status, the borrowing conditionalities will become more stringent and she will have to access foreign loans at higher interest rates in the future, with higher levels of amortization payments.

In view of some of the recent MoUs and Agreements, loan shopping spree from new sources of foreign creditors, there is likely to be a surge in external debt of Bangladesh on account of borrowings at higher interest rates (e.g. the Chinese commitment of USD 20 billion with interest rate of 2 per cent, commitment fee of 0.25 per cent and management fee of 0.025 per cent and Russian loan of USD 11.38 billion at 4 per cent interest rate for Rooppur Nuclear Plant). This is an important departure from the time when the overwhelming part of Bangladesh's foreign debt was incurred under soft loans. In this backdrop, the issue of public debt sustainability is assuming heightened urgency from the perspective of Bangladesh as additional resources will need to be allocated on account of servicing these more-expensive foreign debts. As may be recalled, interest payments on debt already constitute Bangladesh's one of the largest budgetary revenue-expenditure items. An accumulation of higher debt-servicing liability thus calls for a prudent public debt management strategy on the part of Bangladesh's policymakers.

Mahmood, Arby and Sherazi (2014) commented that if Bangladesh was unable to manage her public debt properly, she will have to allocate a significantly higher share of revenue for servicing the public debt. Consequently, Bangladesh may end up having not enough resources for underwriting public investment, which could lead to declining economic growth.

In view of the above cautionary note, Sri Lanka is a case in point. According to Foneska and Ranasinghe (2007), Sri Lanka has persistently faced problems in managing her failed debt and is currently experiencing a debt crisis of a sort. According to Shephard (2016) because of the accumulating unsustainable level of debt, Sri Lanka has become entwined in a serious debt trap. The country has defaulted on her debt of USD 75 billion owed to various creditors. Indeed, Sri Lanka has recently applied for a bailout from the IMF.

4.2 Literature Review

Sustainability of debt is not exclusively dependent on the income level of a country. As it was seen in the aftermath of the Global Economic and Financial crisis of 2007, developed countries are equally vulnerable to experiencing debt distress as the developing economies. N'cuba and Brixovia (2015) observed that countries are able to sustain debt if economic growth is higher than real interest rate on debt. The authors further asserted that the condition of debt were better in developing countries as compared to the advanced countries following the Global Economic and Financial crisis of 2007.

Mahmood, Abby and Sherazi (2014) felt that in the SAARC region, Bangladesh and India were countries that fulfilled the necessary conditions debt for sustainability, which was having economic growth greater than real interest rates. However, none of these economies satisfied the sufficient condition as regards debt sustainability, which referred to the requirement of having primary budget surplus on average. Islam and Biswas (2006) noted that, Bangladesh's interest rates on domestic debt and external debt were rising on a continuing basis due to which the gap between real interest rate and economic growth rate would narrow down in the future. Consequently, Bangladesh will need to undertake fiscal consolidation measures to improve its primary budget deficit and to maintain debt at sustainable levels.

As maintained by Islam and Faisal (2012), Bangladesh serviced the larger part of financing her external debt servicing from her export earnings. Since the export base of Bangladesh is heavily concentrated in the ready-made garments sector, there was an urgent need to go for diversification of the country's export basket to make its exports more resilient to external shocks and to be able to continue properly servicing her external debt.

4.3 Adopted Methodology and Data Description

4.3.1 Methodology

This paper will adopt the debt-stabilising primary balance approach to assess debt sustainability of Bangladesh under the baseline scenario. The baseline scenario takes into account the estimates of national sources and the projections of the Seventh Five-Year Plan. The rationale for selecting debt-stabilising primary balance approach is that the methodology focuses on the twin variables of growth rate and real interest rate with regard to examining debt sustainability. Relative movement of these two are critical to maintaining a country's sustainable level of debt. According to the Debt Sustainability Analysis of IMF in 2016, the current level of Bangladesh's debt-to-GDP ratio is sustainable as the country is at low risk of falling into debt distress. Blanchard et. al. (1991) and Buiter (1985) observed that the debt-stabilising primary balance approach denotes first deriving the level of primary balance (the difference between government revenues and total government expenditures barring interest payments on debt) that will stabilise total public debt-GDP ratio at its current level, over the future, for a given level of economic growth and real interest rate. It then takes the difference between debt-stabilising primary balance and actual primary balance to identify the "primary balance gap". In this case, a positive primary balance gap will signify that debt-to-GDP ratio will increase in the absence of fiscal consolidation measures. Debt-stabilising primary balance approach is deployed to assess debt sustainability, its advantage being that it requires few assumptions. At the same time, the IMF/World Bank Debt Sustainability Framework, which looks at the ratio of both external debt and debt service with other economic variables, will also be deployed to examine whether external debt in Bangladesh is sustainable according to other metrics of evaluating debt sustainability. As noted by Hjertholm (2001) and IMF (2004), one of the primary reasons for using Debt Sustainability Framework is that this particular methodology relates to accumulation of external debt with measures of external debt-servicing capacity (revenue and exports) of Bangladesh.

In addition to assessing debt on the basis of indicators of debt-stabilising primary balance approach and Debt Sustainability Framework of IMF and World Bank, this paper also examines debt sustainability of Bangladesh under different scenarios to be developed by undertaking simulation exercises. The simulation exercise will involve scenario building with various possible levels of flow of foreign finance, exchange rate of Taka, economic growth, nominal interest rate, real interest rates and revenue flows. The idea is to test whether Bangladesh will be able to maintain debt sustainability if values of these economic correlates deviate from the projections made in the 7th FYP.

4.3.2 Data description

For the purposes of the present study, the value of the variables were selected for the period of FY2015 to FY2020. Data of GDP at current prices, GDP growth, and exports for the period of FY2015 and FY2016 were taken from the Monthly Economic Trend of Bangladesh Bank, while data for GDP, GDP growth, public domestic debt and public domestic debt servicing for the years FY2017 to FY2020 were extracted from the 7th FYP. Data on exports for the period FY2017 to FY2020 were sourced from the 7th FYP document and the report titled "Bangladesh's Readymade Garments Landscape: The Challenge of Growth" (McKinsey and Company; 2011).

Data on public domestic debt and public domestic debt servicing for FY2015 and FY2016 were obtained from Bangladesh Bank's Monthly Economic Report on Government Borrowing from Domestic Sources; corresponding data for FY2017 to FY2020 were sourced from the 7th FYP document. Data for public external debt, public external debt servicing, total revenue and total expenditure for FY2015 and FY2016 were taken from the 2016 Bangladesh Economic Review, whereas corresponding data for the period FY2017 to FY2020 were collated from the 7th FYP Projections made by the Planning Commission. Data for real interest rates on both public domestic debt and public external debt for FY2016 were taken from Bangladesh Bank Monthly Economic Trend and 2016 Bangladesh Economic Review, while data concerning real interest rate on public domestic debt and public external debt for the FY2017 to FY2020 period were obtained from the 7th FYP Projections.

4.4 Findings

4.4.1 Assessment of debt sustainability using sustainability indicators

According to the IMF/World Bank Debt Sustainability Framework, a country's public external debt will be considered unsustainable if the computed external debt ratios exceed their respective threshold levels. From Table 4.1, which represents the baseline scenario, it is observed that all debt ratios relating to Bangladesh will remain significantly below their respective threshold levels for all fiscal years for the period between FY2017 and FY2020. Hence, this framework reveals Bangladesh will be in a comfortable position in terms of public external debt sustainability.

Table 4.1: Assessment of Debt-Sustainability Using Sustainability Indicators (Baseline Scenario)

FY	IMF/World Bank Debt Sustainability Framework					Debt-Stabilising primary balance approach		
	PV of External Debt-GDP Ratio (Threshold= 40)	PV of External Debt-Revenue Ratio (Threshold= 250)	PV of External Debt-Exports Ratio (Threshold= 150)	External Debt Service-Revenue Ratio (Threshold= 20)	External Debt Service-Exports Ratio (Threshold= 20)	Debt-Stabilising Primary Balance (as per cent of GDP)	Actual Primary Balance (as per cent of GDP)	Primary Balance Gap (as per cent of GDP)
2015	12.88	119.34	80.43	5.22	3.52	-	-	-
2016	12.79	105.41	77.17	3.92	2.87	-6.33	-3.1	-3.23
2017	11.89	88.08	72.66	5.01	4.13	-5.86	-2.80	-3.06
2018	11.01	77.00	67.76	5.14	4.52	-5.93	-2.70	-3.23
2019	10.12	67.04	61.57	5.57	5.11	-5.74	-2.60	-3.14
2020	9.24	57.41	57.70	5.32	5.34	-6.06	-2.50	-3.56

Source: Calculations from Bhattacharya and Ashraf (2017, unpublished).
Note: Primary balances are calculated for stabilising total public debt-GDP ratio at the 2015 level which is 34.24 per cent. A negative primary balance gap indicates that debt will be sustainable as total public-debt GDP ratio will decline over time.

The debt-stabilising primary balance approach indicates the level of primary budget balance that enables a country to stabilise total public debt-to-GDP ratio at a sustainable level. If a country's real GDP growth is higher than the real interest rate, it denotes that the country will be able to maintain debt at a sustainable level despite incurring primary budget deficit. According to Table 4.1, from FY2017 to FY2020, Bangladesh will be able to maintain public debt-to-GDP ratio at a sustainable level if it can maintain primary budget deficit at the level of 5.7 per cent of the country's GDP. From Table 4.1, it is evident that the actual primary deficit of Bangladesh is expected to be lower than the debt-stabilising level of primary deficit for every fiscal year during the period, owing to which the primary balance gap will be negative and public debt-to-GDP ratio will decline in every fiscal year. Due to the gradual decline in public debt-to-GDP ratio, Bangladesh is expected to be able to maintain total public debt at a sustainable level from FY2017 to FY2020.

4.4.2 Assessment of debt sustainability using simulation exercises

For the IMF/World Bank Debt Sustainability Framework, in the simulation exercise, values of different variables are altered compared to those under the baseline scenario to reflect economic shocks.[27] The economic shocks are injected simultaneously in the simulations. From Table 4.2, it is evident that all indicators of the IMF/World Bank Debt Sustainability Framework will be well below their respective thresholds in every fiscal year for the FY2017 to FY2020 period. What transpires from the exercise is that Bangladesh will be able to maintain debt sustainability during the period from FY2017 to FY2020 even if she is impacted by all the aforesaid adverse shocks simultaneously.

Table 4.2: IMF/ World Bank Debt Sustainability Framework

FY	Additional annual 2 billion USD financial flow, 2 per cent depreciation, 3 per cent rise in nominal interest rate and Taka 30000 crore decline in revenue collection compared to baseline scenario					Additional annual 5 billion USD financial flow, 5 per cent depreciation, 5 per cent rise in nominal interest rate and Taka 50000 crore decline in revenue collection compared to baseline scenario				
	PV of External Debt-GDP Ratio (Threshold=40)	PV of External Debt-Revenue Ratio (Threshold=250)	PV of External Debt-Exports Ratio (Threshold=150)	External debt service-revenue ratio (Threshold=20)	External Debt Service-Exports Ratio (Threshold=20)	PV of External Debt-GDP Ratio (Threshold=40)	PV of External Debt-Revenue Ratio (Threshold=250)	PV of External Debt-Exports Ratio (Threshold=150)	External Debt Service-Revenue Ratio (Threshold=20)	External Debt Service-Exports Ratio (Threshold=20)
2015	12.88	119.34	80.43	5.22	3.52	12.88	119.34	80.43	5.22	3.52
2016	13.72	132.08	82.77	8.17	5.12	15.18	164.62	91.60	11.90	6.62
2017	12.70	111.48	81.49	8.79	6.42	13.98	134.16	89.67	11.90	7.95
2018	11.70	99.67	79.41	8.49	6.76	12.79	117.12	86.82	11.14	8.26
2019	10.72	89.17	75.44	8.57	7.25	11.65	102.79	82.01	10.88	8.68
2020	9.75	78.69	73.96	7.92	7.45	10.54	89.22	79.98	9.87	8.85

Source: Calculations from Bhattacharya and Ashraf (2017, unpublished).

In case of the debt-stabilising primary balance approach, the simulation exercise raises real interest rates compared to that of the baseline scenario due to three reasons.28 According to Table 4.3, the simulation exercises reveal that Bangladesh will be able to sustain her debt despite having primary deficit so long as her real GDP growth rate is higher than the real interest rate. However, if real interest rate exceeds real GDP growth rate, Bangladesh will be required to have primary surplus to stabilise debt at a sustainable level. That situation could become alarming for

[27] The value of foreign financial flow into Bangladesh has been increased to reflect the rise in the projected borrowings from Russia, China, India and Japan in the future. On the other hand, the depreciation of the exchange rate of Taka against US Dollar in the simulations capture the possible incidences of foreign currency mismatch on external debt. Increase in nominal interest rate on debt mirrors the situation when Bangladesh will no longer have access to concessional loans owing to graduation to higher economic status and will have to obtain external finances that bear higher interest rates. The value of revenue is decreased to indicate that Bangladesh has failed to attain her revenue projections in a fiscal year. The simulation exercises also highlight the situation when planned figures of the 7th FYP are not realised.

[28] Firstly, Bangladesh will incur external debt at higher interest rates for graduation to higher income-grouping. Secondly, she will incur steeper interest rates on domestic debt on account of her increasing reliance on NSD instruments. Thirdly, the expected financial flows from foreign partners, such as Russia, China and India, anticipated over the near-to-medium term future, will have higher interest rates compared to the concessional external loans that Bangladesh had previously received.

Bangladesh as she had not been able to post primary budget surplus over the period of the past two and half decades.

Table 4.3: Debt-Stabilising Primary Balance Approach

	Real interest rate increases by 0.5 per cent			**Real interest rate increases by 1 per cent**			**Real interest rate increases by 2 per cent**		
FY	**Debt-Stabilising Primary Balance (as per cent of GDP)**	**Actual Primary Balance (as per cent of GDP)**	**Primary Balance Gap (as per cent of GDP)**	**Debt-Stabilising primary balance (as per cent of GDP)**	**Actual primary balance (as per cent of GDP)**	**Primary Balance Gap (as per cent of GDP)**	**Debt-Stabilising primary balance (as per cent of GDP)**	**Actual primary balance (as per cent of GDP)**	**Primary Balance Gap (as per cent of GDP)**
2016	-4.19	-3.10	-1.09	-2.05	-3.1	**1.05**	2.23	-3.1	**5.33**
2017	-3.73	-2.80	-0.93	-1.60	-2.8	**1.20**	2.65	-2.8	**5.45**
2018	-4.47	-2.70	-1.77	-2.40	-2.7	**0.30**	1.76	-2.7	**4.46**
2019	-5.18	-2.60	-2.58	-3.15	-2.6	-0.55	0.90	-2.6	**3.50**
2020	-6.50	-2.50	-4.00	-4.56	-2.5	-2.06	-0.69	-2.5	**1.81**

Source: Calculations from Bhattacharya and Ashraf (2017, unpublished).
Note: Bold figures represent unsustainable debt. As was noted, primary balances are computed for stabilising the ratio of total public debt-GDP at its value from FY2015 which is 34.24 per cent. A negative primary balance gap signifies that debt can be sustained as there will be decrease of total public-debt GDP ratio over time. While a positive primary balance gap highlights problem of sustaining debt as total public-debt GDP ratio will increase over time.

4.5 Policy Perspectives

As the preceding analysis evince, Bangladesh is currently at low risk as far as debt distress was concerned. One of the key reasons driving Bangladesh's debt sustainability is her ability to manage debt thanks to her real GDP growth rate being higher than the real interest rate on debt. This surplus of real GDP growth rate over the real interest rate has enabled Bangladesh to maintain debt sustainability at a time of primary deficit. The simulation exercise reveals that Bangladesh could face difficulties in maintaining debt sustainability if real interest rate surpassed the rate of her real GDP growth. However, such a scenario is rather unlikely since Bangladesh has been experiencing robust economic growth for a considerable period of time, and the real interest rate is not anticipated to rise by any significant magnitude in the future.

However, there is no room for complacency. The aforesaid numerical figures concerning debt sustainability indicators mask problems related to debt composition in view of the expected high interest rate denominated financial flows from China, India and Russia. The maturity period of these flows (20 years) are significantly lower than that of the erstwhile concessional foreign loans (40 years). Consequently, Bangladesh will be required to allocate higher levels of resources in servicing these newly sourced external debt compared to the earlier debts incurred on concessional terms. The 'tied' nature of new forms of financial assistance from foreign partners is also a matter of concern for Bangladesh. There are conditionalities attached to these financial flows which may have important developmental implications for Bangladesh. These conditionalities often entail tied procurement of materials, involvement of technical expertise and others, with all the possible adverse implications associated with 'tied loan'. The loans from Russia and China are cases in point in this connection.

The issue of possible currency mismatch is yet another concern. Bangladesh is going for external borrowings that are denominated in foreign currency, while the resources for servicing the debt are generated in local currency, BDT (Bangladeshi Taka). Any depreciation of the BDT will increase the burden of servicing the foreign-denominated debt in terms of the revenue generated. Consequently, the burden of debt servicing will rise to the extent of currency depreciation.

The internal rate of return of external debt-funded projects is also relevant in the context of debt sustainability. The money spent on projects will have to be eventually retrieved from the returns on the projects. Before implementing the projects, it is important to decide as to the way the costs are going to be recovered. For example - China is providing a large part of finance for the construction of Padma Bridge Rail Link. The Government of Bangladesh needs to decide on how the costs are to be recouped. The government can recover the investment directly from the Padma Bridge by imposing tolls on vehicles that travel on that bridge. On the other hand, the government can recoup the borrowing indirectly – from the benefits to the economy accruing from the multiplier impacts of the bridge on the economy and the resultant increased revenue. However, problem arises when the projected returns fails to generate the expected income for various reasons. According to Shephard (2016), one of the main reasons why Sri Lanka is at present currently experiencing problems of debt distress is that the costly debt-financed investment projects did not produce the anticipated benefits to underwrite the payments for the interest and principal amounts. These resulted in Sri Lanka going for bailout support from the IMF. Avoiding cost escalation, ensuring the required quality, timely execution and good governance in implementation of the debt-financed projects are thus critical to maintaining debt sustainability in countries such as Bangladesh.

As was noted earlier, whilst Bangladesh is currently able to maintain debt sustainability, she has to apportion a significantly large share of the revenue expenditure towards debt servicing. According to the Monthly Fiscal Macro Update of Ministry of Finance, the government allocated 24.8 per cent of its revenue expenditure in interest payment on debt; to contrast revenue expenditure on account of education and health were respectively 22.4 per cent and 7.2 per cent of the total. If more resources are to be invested for social sectors (for example health and education), greater attention should be given to debt-sustainability issues and for devising ways to reduce debt burden.

Bangladesh is at present at a comfort zone as regards debt sustainability. However, in view of the likely scenario with regard to changes in the composition of borrowings and the lurking danger of currency mismatch, maturity mismatch, investments not giving the expected returns, the situation could change. Bangladesh will thus need to monitor debt sustainability situation, from a forward-looking perspective, on a continuing basis. The GoB may decide to go for a Medium Term Debt Management Policy where a transparent mechanism for reporting on various aspects of debt sustainability could be put in place.

SECTION V. 'FOOD-FRIENDLY PROGRAMME FOR THE ULTRA-POOR': A POPULIST INITIATIVE WITH POSITIVE IMPACT BUT MULTIPLE SHORTFALLS

5.1 Introduction

Despite the considerable progress in poverty reduction in Bangladesh particularly with respect to hardcore poverty (which reduced from 18.0 per cent in 2010 to 12.9 per cent in 2016), the absolute number of hardcore poor continues to remain alarming (about 20 million). Those belonging to this group of people are chronically underfed, extremely vulnerable to shocks. They are in need of targeted support towards improvement of food security and livelihoods (IFPRI, 2009). The government's various interventions as part of the myriad social safety net programmes (SSNPs), with increased coverage of the poor and vulnerable sections, have made positive contribution in terms of significantly reducing the share and number of poor in the country.[29] However, budgetary allocation for the social safety net is much lower compared to what has been earmarked in the national plan documents (7th Five Year Plan). In this backdrop, the recently initiated 'Food Friendly Programme (FFP) for the Ultra-poor' is an extension of the existing SSNPs.[30] The key focus of the FFP is to address the needs of the ultra-poor, an especially vulnerable group who were not specifically targeted in any of the previous SSNP initiatives. True that the 'ultra-poor' is a subset of the 'people under the poverty line' and these are not 'mutually exclusive' categories. Thus, the different ongoing SSNP, initiatives do include a share of the ultra-poor people but under a different identity (Table 5.1).

Table 5.1: Social Safety Net Programmes: Targeting Criteria, and Beneficiary Selection Criteria

Name of the Programme	Targeting Criteria (based on 2007)	Nature of Benefit/ Planned Coverage/ Delivery Mechanism (based on 2007)
Vulnerable Group Feeding (VGF)	1. Disaster and calamity victims.	10kg rice for 8 months/5000000 persons/Food
Gratuitous Relief (GR)	1. Disaster and calamity victims.	10kg rice variable period/6,400,000/ Union Parishad.
Vulnerable Group Development (VGD)	1. Households with no more than 15 acres of land. 2. Households less than TK. 300 dependent upon seasonal wage employment. 3. Women of reproductive (18-49) age. 4. Day labour or temporary worker. 5. Households with little or no productive assists.	30 kg wheat/ 200,000 MT wheat/ Union Parishad and NGO
Food for Works (FFW)	1. People who are functionally landless. 2. People who lack productive resources. 3. Women headed household where women are widowed, deserted and destitute.	Quantity of work/ 2,247,000 man month/Food

[29] The SSNPs in Bangladesh are broadly of four types: i) provision of special allowance for various underprivileged sections of the population; ii) employment generation through micro-credit and different fund management programmes; iii) food security based activities to better manage the consequences of natural disasters; and iv) provision of education, health and training.

[30] At present, 142 different types of SSNPs are in operation with a total budgetary allocation of Tk.45230 crore for FY2017 which is 13.3 per cent of the total budget and about 2.3 per cent of GDP. The coverage of existing SSNPs for FY2017 is 25.7 per cent higher compared to that in FY2016.

Name of the Programme	Targeting Criteria (based on 2007)	Nature of Benefit/ Planned Coverage/ Delivary Mechanism (based on 2007)
	4. Day labour or temporary workers. 5. People with income less than Tk. 300 per month.	
Test Relief (Rural Infrastructure Maintenance Programme) (TR)	1. Generally a location is targeted where poverty is relatively severe.	5-6kgs of wheat per day for a monthe during raining season/ 1,700,000
Food Support for Chittagong Hill Tracts	1. Backward CHT inhabitants	Employment for a month/800,000 person/ Union Parishad.

Source: MoF and Ahmed (2007).

According to official documents, the FFP is targeted to support low income families, particularly malnourished women and children with a view to helping them meet their nutrition deficiency. The programme is planned to cover five million families with a monthly allocation of 30 kg of rice to be distributed at a subsidised price of Tk.10 per kg under the Ministry of Food's 'Fair Card Programme". The programme targets the lean season– September, October, November, March and April, when the rice price in the retail market usually shows an upward trend. The Ministry of Food has made an allocation of 750 thousand tonnes of rice for this programme. The programme received public attention after its initiation in September, 2016 because of its wide coverage, significantly reduced price (Tk.10 per kg) vis-à-vis the retail market price (Tk.36-37 per kg) and relevance to one of government's key election pledges in 2009. At the same time, the programme has also come under close and critical scrutiny because of its multiple shortcomings in the context of operationalisation. In this backdrop, the present paper analyses the operational efficiency of the FFP programme in terms of its coverage, problems of inclusion and exclusion, leakages and impact on price stabilisation. The paper also examines the programme's allocative and distributive priorities in the context of the broader social protection point of view.

5.2 Review of the Food Friendly Programme

5.2.1 Identification of the beneficiaries

The target group of beneficiaries for the FFP programme is the 'ultra-poor' people who generally earn less than US$1.25 a day (World Bank) or people who consume less than 1,805 kcal per day (BBS). Because of the lack of operational definition of 'ultra-poor' as well as inadequate family level data of this category of people, both at national and at local level, identification of the ultra-poor people tends to be difficult. Moreover, given the presence of various SSNPs with coverage of a diverse range of poor people, a distinct and mutually exclusive group of 'ultra-poor' people is difficult to identify. However, the official document of the FFP mentioned that poor women, widows and women with disabilities and children will get priority as FFP beneficiaries. In this backdrop, there remains a risk of misidentification of the target group of FFP beneficiaries particularly in terms of 'inclusion and exclusion', 'duplication' and 'fake' identity within the beneficiary group.

There is a formal process for selecting the FFP beneficiaries. As per official document, an ultra-poor beneficiary is supposed to be: a) a permanent resident of the union; b) head of the family;

and c) holder of National ID card. Poor women, widows, women with disabilities and extremely poor families with children are to get preference as FFP beneficiaries. People who have received support under the Vulnerable Group Development (VGD) programme are not to be included in the FFP.

A five member committee is to be formed which was to be headed by a government official (i.e. UNO) while Chairman of the Union Parishad and two noted persons of the union were to act as members of the committee (Annex 5.1). The committee is supposed to prepare the initial list of ultra-poor people of the union based on overall observation in terms of vulnerability and poverty situation of the people. The list is supposed to be scrutinised and finalised at the Upazila level by a committee headed by the local Member of the Parliament (MP). The union level committee is also responsible for monitoring the procurement and distribution of rice among the ultra-poor. Overall, selecting the ultra-poor at the union parishad level by avoiding concerns such as exclusion, inclusion, duplication and fake identity call for a broad-based consultation at the village and union levels. This also requires disclosure of beneficiary related information to ensure transparency in the selection process and accountability in implementation.

5.2.2 Selection of dealers

The upazilla committee is also responsible for selecting and appointing an appropriate number of dealers. According to the official document, a village ration dealer is to be appointed for every 500 families. There is a set of eligibility criteria for the dealership which include the followings: a) dealers have to have a permanent selling shop in the *hat* or market; b) the floor of the shop should be of concrete so that food grains could be stored properly; c) dealers should be capable of storing at least 15 metric tons rice in the specific shop; d) dealers should be solvent enough to store and distribute rice. In order to ensure transparency in selecting the dealers, respective upazilla should publicly announce the name of the dealers and the information required for selection as a dealer. The dealer will distribute the rice from a 'shop' located in a nearby market. Its location should be convenient for beneficiaries to commute and will not entail extra transport cost.

5.2.3 Activities undertaken during September-November 2016

According to the Director General of Food, a total of 4.91 million people have been enlisted as beneficiaries against the target number of 5 million beneficiaries. During the first phase, the programme covered districts belonging to seven Divisions. According to Table 5.2, a total of 9,878 dealers have distributed about 388,695 m tons of rice during this period. In other words, on average a dealer has covered 498 beneficiaries (indeed approximately the target number of beneficiaries which is 500). However, each of the beneficiaries has received, on average, 79 kg of rice which is significantly lower compared to the targeted amount of 90 kg.[31] This calls for explanation. According to newspaper reports, FFP operated in a number of districts suffer from problems of leakages, inappropriate inclusion, unjustified exclusion and selling of rice in the black market. This could explain the significant gap between the targets and the amount actually received by the beneficiaries (See Annex 5.2).

[31] It is to be noted that, even if undistributed amount of rice is included in the calculation, this will not improve the average amount of rice received by the beneficiaries.

Table 5.2: Division-wise Distribution of Rice under the Food Friendly Programme

Division Name	Appointed Number of Dealers	Approx. no of Beneficiaries (per dealer beneficiaries = 497 beneficiaries)	Approx. Distributed Rice (m.ton) (per beneficiary received rice 79.1kg)	Share of Total Beneficiaries (%)
Dhaka	2695	1339415	105813.785	27.3
Khulna	1310	651070	51434.53	13.3
Chittagong	1545	767865	60661.335	15.6
Sylhet	579	287763	22733.277	5.9
Rajshahi	1284	638148	50413.692	13.0
Rangpur	1507	748979	59169.341	15.3
Barisal	958	476126	37613.954	9.7
Total	9878	4909366	387839.914	100.0
Reality		4911806	388695	
Gap from Reality		-2440	-855.086	

Source: Estimates of CPD based on the data of the Ministry of Food, 2016.

A Division-wise distribution of rice shows that the highest amount was distributed in Dhaka Division (27.3 per cent), followed by Chittagong (15.6 per cent), Rangpur (15.3 per cent) and Khulna (13.3 per cent). The lowest share of rice was received by Sylhet (5.9 per cent) and Barisal Divisions (9.7 per cent). The Division-wise distribution of rice under the FFP is not fully matched with the national level distribution of ultra-poor people as reported in the Bangladesh Poverty Map in 2010 and Seventh Five year Plan background study (Sen et al., 2015) (See Annex 5.3). The programme thus appears to have a selection bias even at the national level which is likely to reduce the scope of more inclusion of ultra-poor from the poverty prone regions (such as Barisal and Khulna) and the problem of inclusion from less poverty-prone regions (such as Chittagong and Dhaka). Accordingly, there is a scope to make improvements in terms of targeting the beneficiaries at the national level under the FFP.

The programme has experienced a number of irregularities which was addressed, albeit partially, through subsequent corrective actions. According to the official documents, the government has indeed cancelled 218,865 beneficiary cardholders; this was about 4.5 per cent of the total number of enlisted beneficiaries (Table 5.3). Of this, 207,000 beneficiaries have been 'changed/corrected'. This is indicative of inclusion of non-eligible or ghost beneficiaries in the FFP with connivance of vested groups. Similarly, a total of 130 dealerships out of the 9878 dealerships have been cancelled (about 1.3 per cent) because of complaints raised including criminal allegations (Table 5.4). Besides political influence in the process of selecting dealers which was reported in national dailies and also noticed during the field visit in Narshingdi, is another weakness. To be true, concerned authorities did try to address the 'selection problem' both as regards both beneficiaries and dealers, with varying degrees of success. However, selection bias continues to remain a nagging concern in various districts as reported in various national dailies (Annex 5.2). Some, beneficiaries have faced the problem of demand for bribes (either to be listed or to receive the right amount of rice) as reported in some national dailies (Annex 5.2). However, it is to be noted that complaints about the quality of rice have been few and far between – this has indeed been the case only in two districts (Kurigram and Sirajgonj).

In general, field level investigations evince positive impression about the programme among the poor, particularly at a time when the retail price of coarse rice had jumped up significantly. However, despite its positive contribution, the FFP continues to be adversely impacted by a number of shortcomings that include lack of transparency in selecting the beneficiaries and dealers, inefficient monitoring and problems of governance.

Table 5.3: Problems in Beneficiary Selection

Indicator	No. of Beneficiaries	% of Total Beneficiaries
Number of enlisted People	4911806	100
Number of Cancelled Card Holders	218865	4.5
Changed/Corrected Card Number	207026	4.2
Replaced Number of Card	11836	0.2

Source: Ministry of Food, 2016

Table 5.4: Problems Concerning Dealership

Division Name	No of Cancelled Dealership	No of Complaints	No of Criminal Case	Penalty Applied by Mobile Courts
Dhaka	52	45	9	67000
Khulna	13	28	3	181792
Chittagong	10	20	3	115268
Sylhet	13	10	3	108000
Rajshahi	16	31	9	430182
Rangpur	13	44	6	101926
Barisal	13	24	4	0
Total	130	202	37	1004168

Source: Ministry of Food, 2016.

5.3 Narshingdi District FFP: A Case Study[32]

The CPD team had visited the district headquarter of Narshingdi and an adjacent village (called *Sonatola* of Chinishpur union) in late December, 2016 to observe and examine various activities in connection with the FFP at the field level. According to the officials of the District Food Control Office, the programme covered 63,039 ultra-poor families who had received about 5,219 m tonnes of rice. The average amount received by the beneficiaries was found to be 82 kg which was 8 kg less compared to the targeted amount (90 kg for three months) (Table 5.5 and Figure 5.1). Moreover, upazilla-wise distribution of rice shows significant variations – the amount received by beneficiaries was, on average, 12 kg lower than the targeted amount (in the case of Sadar upazilla) while the amount was on average 11 kg higher than the targeted amount (in case of Monohordi upazilla). In other words, a part of the beneficiaries were deprived from getting the right amount of rice. A part of the allocated amount was presumably with vested quarters including the dealers benefitting from this.

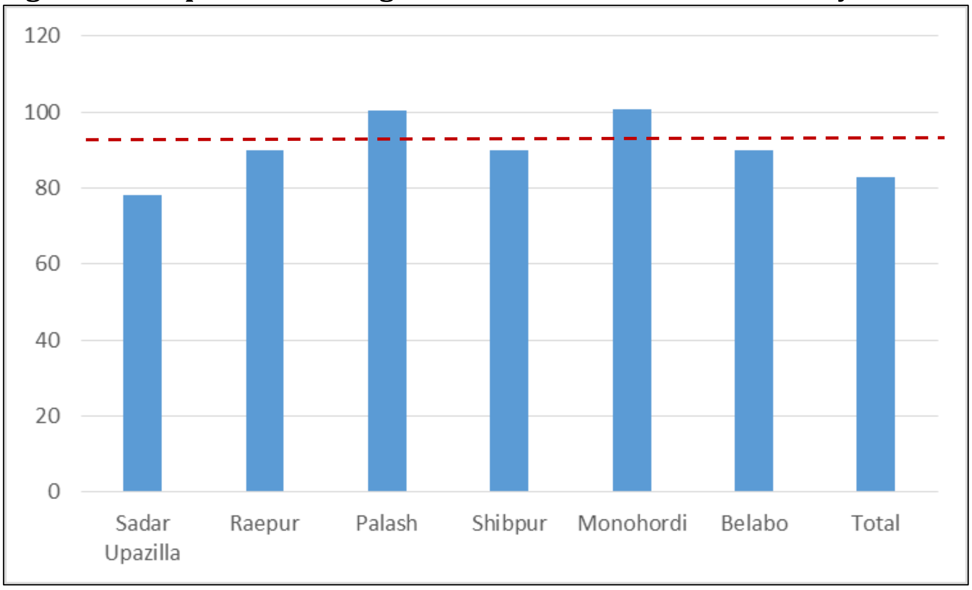
[32] The CPD team would like to sincerely appreciate the support extended by Mr Alauddin, Lecturer, Uttara University in conducting the field survey in Narshingdi.

Table 5.5: Operation of the FFP in Narshindi Districts During Sep-Nov, 2016: Identifying the Gaps

Upazilla	Union	No. of dealers	Distributed (m. ton)	No. of beneficiary	Amount received per beneficiary	Gap between 3 months allocated 90 kg and actually received
Sadar Upazilla	14	28	1580.0	20247	78.0	-11.96
Raepur	24	48	1633.0	18145	90.0	0.00
Palash	4	8	451.4	4498	100.4	10.36
Shibpur	9	19	632.8	7043	89.8	-0.16
Monohordi	12	24	794.4	7883	100.8	10.77
Belabo	8	16	470.1	5223	90.0	0.00
Total			5219	63039	82.8	-7.21

Source: CPD Field Survey, December 2016.

Figure 5.1: Gap between Target and Actual Amount Received by Beneficiaries



Source: CPD Field Survey, December 2016.

CPD team observed that identification of beneficiaries and selection of dealers in Narshingdi district did not fully comply with the official process. Since there are no proper selection criteria for identifying the ultra-poor, local authorities in Narshigndi had to depend on existing available information about the ultra-poor of the district. It was reported to the CPD team that the beneficiaries were identified by updating a list of VGF beneficiaries prepared in 2010. No doubt, many households may have graduated from the vulnerable group in the mean time (and some others may have also slided down). Also, there are differences in the selection criteria between VGF and FFP. In view of these, updating the VGF list was unlikely to address the issues of 'inclusion' and 'exclusion' as regards the list of FFP beneficiaries. The beneficiaries are to be permanent inhabitants of the district/upazilla. However, problem of 'inclusion' arise when there are poor beneficiaries who were temporary dwellers mainly in border regions of the district and were not permanent inhabitants of the locality.33 Although union parishad chairman and members are likely to have an important role regarding identification of the beneficiaries, the

[33] These poor people are migrant workers from the North-Bengal region who live on a temporary basis in the Narshingdi district.

CPD team had observed that in many cases the beneficiaries were identified by the dealers who were not supposed to have any role in the selection process. CPD team while meeting with the beneficiaries of Chinishpur village found that some beneficiaries were rather 'well-off' and should not have been included in the list. On the other hand, some households were found to be not included although they appeared to be justifiably eligible for inclusion in the FFP.[34] Some of the villagers also benefitted from an ongoing VGF programme; however, a few cases of 'duplication' of beneficiaries between VGF and FFP was also observed.

Selection of dealers in the Narshingdi district was also found to be not above question. It was reported to the CPD team that some of the selected dealers did not comply with the selection criteria. No dealer was supposed to distribute rice to more than 500 beneficiaries. However, one dealer was found to have distributed rice to over 700 families. Because of this type of over-coverage of beneficiaries by a single dealer, beneficiaries who resided in distant places had to face additional transportation cost for each time they collected the rice. The use of the traditional buckets for weighing rice instead of automated weighing machines was also likely to cause discrepancy in the amount of rice actually distributed.[35] Since Narshigdi district is relatively well-off, there is a tendency among the dealers to include temporary dwellers as beneficiaries to fulfill the quota. This alludes to lack of monitoring by the local concerned authorities. On the other hand, dealers were not happy about the commission received for the dealership. A dealer received Tk.1.5 for distributing one kilo of rice. The three months' work under the FFP would enable a dealer to earn an amount of Tk.67,500. Dealers did not feel this was attractive enough.[36] Whether this created a disincentive for the dealers and was a reason for leakage and open-market selling to earn additional money, remains to be investigated further.

CPD team found that the beneficiaries of Chinishpur village appreciated the programme. They felt that the FFP has ensured food support to the poor families during the lean season. Moreover, the quality of rice as reported by the beneficiaries as similar to the one they usually consumed. Beneficiaries did not complain about the amount of rice they received since they did not generally check it afterwards. Some beneficiaries complained about the distance they had to cover to come to the dealer's shop (the shop's location in the nearby village market would have helped). This meant incurring an extra cost an account of travel to collect rice at least three times during the implementation of the FFP. Approximately, Tk.150 was required as transport cost over the period of three months. This was equivalent to price of 15 kg of rice received by the beneficiaries.

5.4. Implications of the Programme at the National Level

5.4.1 Price stabilisation

It is generally expected that a broad-based SSNPs of distribution of rice would also have a certain price stabilisation effect on the market. However, review of price movement during the corresponding period finds that the price of rice, particularly that 'coarse' rice, has indeed shown some upward movement over the period when FFP was being implemented. Analysis of trend

[34] A number of beneficiaries in the study area were well-off enough for not to be included in this programme: some had "pukka" or concrete house, while some others had a number of cows in the household.

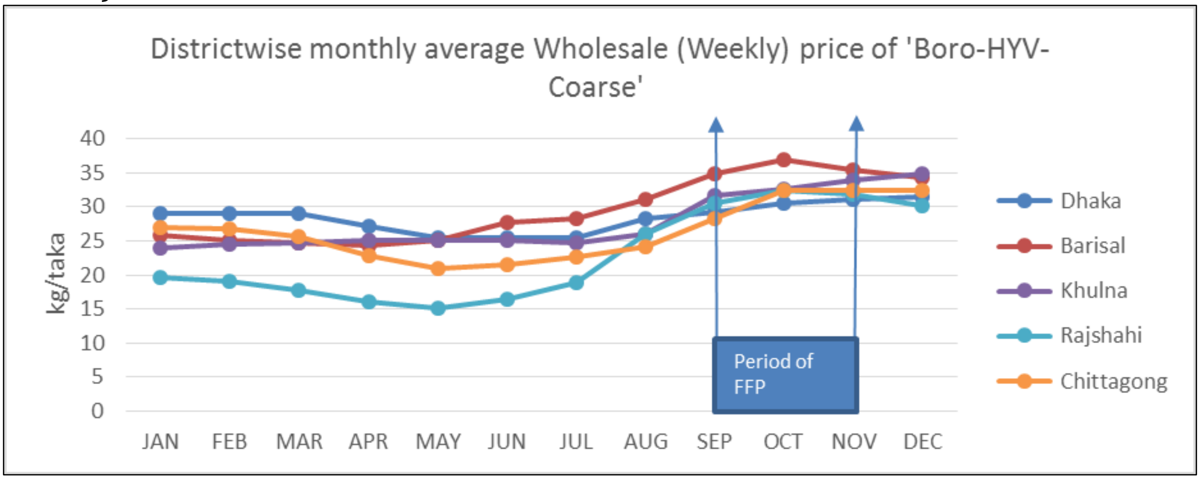
[35] However, none of the beneficiary has reported that.

[36] The commission charge for per kg of rice is Tk.1.5. If a dealer distributed 90 kg of rice to one beneficiary and covers a total of 500 beneficiary, the total amount he could receive as commission charge is about Tk.67500.

data of wholesale and retail price of rice in major districts during the programme period evince a different perspective in this regard.

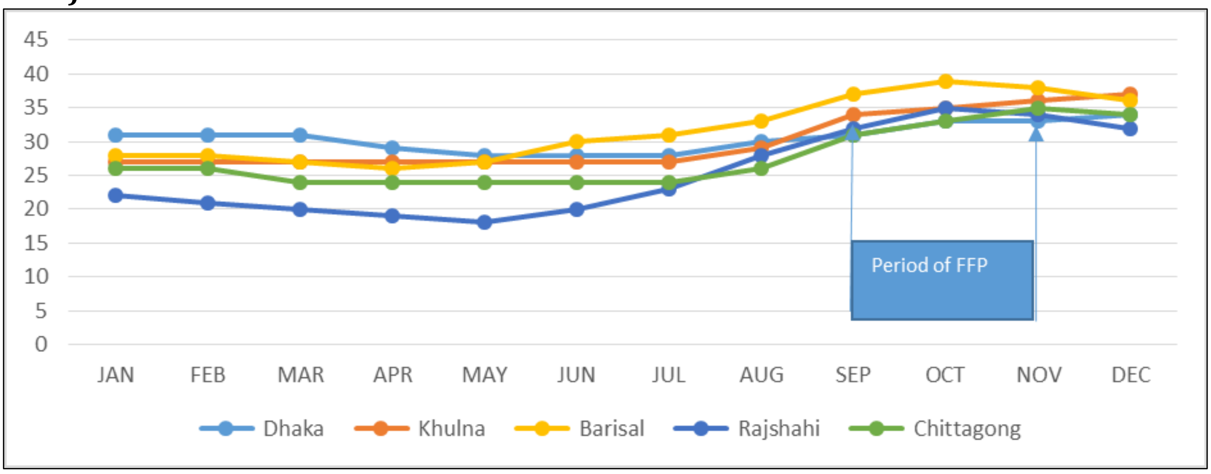
CPD has studied the movements of the wholesale and retail prices of 'Boro-HYV-coarse' rice during January to December, 2016 in major districts of the country including Dhaka, Chittagong, Khulna, Sylhet, Barisal and Rajshahi. Figures 5.2 and 5.3 show that both wholesale and retail price of Boro coarse rice has started to rise from May-June, 2016; this was prior to the commencement of the FFP in September. During July to September, 2016 wholesale price had indeed increased by 25.1 per cent on a month-on-month basis. Fall of Boro production (negative growth of Boro production of 1.0 per cent during FY2016), possibly due to the adverse effects of flood in 20 districts during 2016 and decreasing public stocks (457 lakh m ton in June, 2016 – lowest in last five years) may have been the reasons behind the rise in the rice price in the retail market. In addition, the open market sale (OMS) programme which was in operation has been suspended in June, 2016 which also reduces the lack of availability of coarse rice to the poor. As a matter of fact, the rise in retail market price of rice (month on month) during June to September, 2016 was the highest over the period of last six years (Figure 5.4).

Figure 5.2: District-Wise Monthly Average Wholesale Price of "Boro-HYV-Coarse" (Per Kg in Taka)



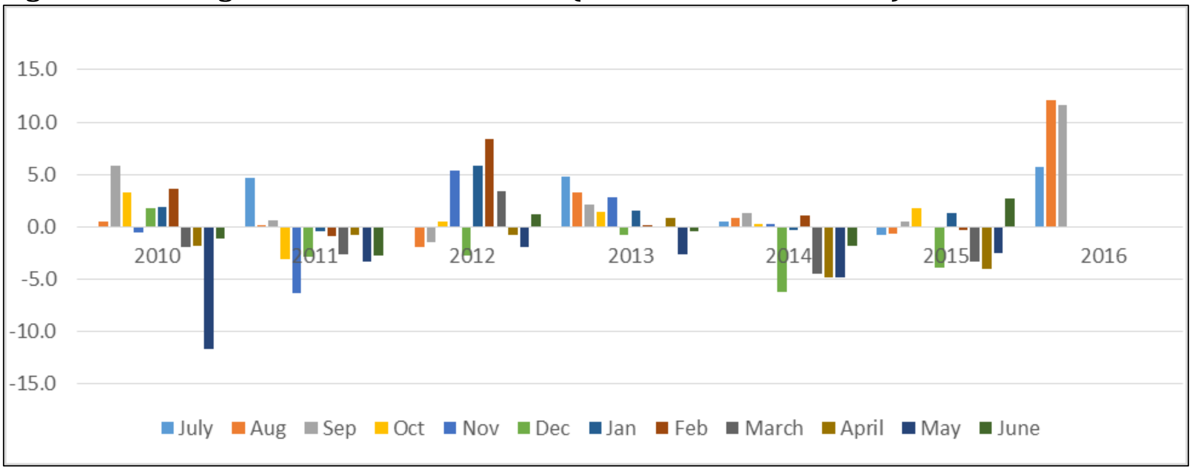
Source: Department of Agriculture (DAM).

Figure 5.3: District Wise Monthly Average Retail Price of "Boro-HYV-Coarse" (Per Kg in Taka)



Source: Department of Agriculture (DAM).

Figure 5.4: Changes in Retail Market Price (Month-On-Month Basis)



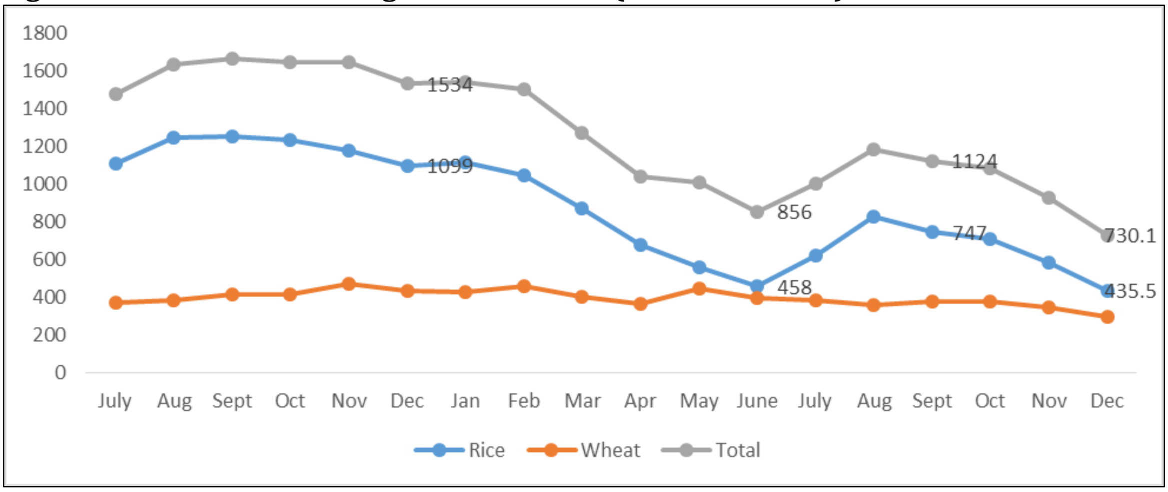
Source: Based on the data of the Department of Agriculture (DAM).

The trend in the rise in market price of rice has indeed continued even during the period when the programme was commenced. However, in the major districts, the price has stabilised by the time the programme ended, albeit at a higher level (Figure 5.2 and 5.3). According to the fortnightly reports of FPMU, the wholesale and retail prices of the coarse (Swarna) rice in Dhaka city markets on 8 December, 2016 have decreased by 4.2 per cent and 3.9 per cent respectively compared to that of the previous fortnight (24 November, 2016) (FPMU, 2016). However, many other factors must have contributed to price dynamics over this period including the rise in public stock particularly through domestic procurement of rice, largescale import of wheat and reinstatement of OMS in urban areas on September, 2016.

5.4.2 Position of public food stock to meet emergency need

The public food distribution stock (PFDS) has experienced a downtrend since December, 2015. The total food stock was 15.34 lac m ton as of December, 2015 of which rice was 10.99 lac m. ton and wheat was 4.35 lac m. ton. During January to June, 2016, the stock has depleted significantly and reached the lowest level (8.56 lac m ton of which 4.58 lac m. ton was rice). With the procurement of rice after June, 2016, the total food stock has started to rise and reached 11.83 lac m. ton; however it has gradually declined afterwards mainly because of the distribution of 3.88 lac m. ton of rice among the ultra-poor under the FFP. Hence the total stock after the end of the programme was again at a lower level (7.30 lac m ton as of December, 2016). This is significantly less compared to the required amount of stock for meeting the emergency needs. In fact, the lack of adequate stock caused the Ministry of Food to discontinue selling of rice under the OMS programme (at present only wheat is being sold under the OMS programme). As it is, the domestic food stock would hardly allow undertaking of largescale progrmame of FFP type particularly at a time when Boro rice production is low and import of rice is also not enough to replenish the current low levels of PFDS. It will be important to increase the stock of rice adequately in line with the required level (either through domestic procurement or through import) before initiating the second phase of the FFP in March, 2017 when the demand for rice is likely to be about be 3.62 m. ton.

Figure 5.5: PFDS Stock during 2015 and 2016 (Rice and Wheat)



Source: CPD-IRBD Study, 2016.

5.4.3 Budgetary allocation for the FFP

The FFP is a programme that came as an afterthought; it was not included in the national budget for FY2017. As evidence shows, the allocation for food subsidy has been increasing over the years (from 1060 crore in FY2014 to Tk.1240 crore in FY2015 and 1430 crore in FY2016) with increasing coverage under the different SSNPs. The national budget for FY2017, has increased the budget allocation for social protection and social empowerment to Tk. 45,230 crore which is 24.4 per cent higher than the previous year; its share in GDP has increased from 2.08 per cent to 2.3 per cent. Of these, allocation for food security programmes (including VGD, VGF, OMS, TR, GR, FFW, WFM and TR (cash) in FY2017 was Tk. 8,854 crore which is about 10.2 per cent higher compared to that in FY2016. Despite the rise in overall allocation for the SSNPs, it continues to remain below the target set in the national strategy for the seventh five year plan (3.0 per cent of GDP). Introduction of the FFP under the food security programme is an important inclusion which will address the distributive priorities of the SSNPs by extending the coverage of SSNPs, particularly targeting the less attended ultra-poor people.

It is important to appreciate the allocative priorities of the FFP by analyzing the fiscal and financial aspects of the programme. An approximate estimate shows that the government has to allocate an additional Tk.1.74 crore towards this programme.[37] From allocative point of view, the additional allocation of resources is not expected to exert a significant pressure on the government's overall budget. However, concerns remain as regards to the reduction of PFS for emergency purposes on account of allocation from this for the purposes of FFP.[38]

[37] Assuming that during the first phase, government used the remaining stock of Aman rice which was procured during November, 2015 to March, 2016 (total procurement was 2 lac m.ton at a price of Tk.31 per kg) and the stock of Boro which was procured during May, 2016 to August, 2016 (total procurement target was 7 lac at a price of Tk.32 per kg). However government could procured only 323000 m. ton till September, 2016. The procurement cost for 750,000 m ton of rice was likely to be Tk.2.38 crore. Since dealers purchase the rice from the food department at a price Tk.8.5 per kg, hence total receipt to public exchequer was likely to be Tk.63.75 lac. Overall, government has to spend Tk.1.74 crore to maintain the programme.

[38] Failure to achieve the procurement target of Boro rice (target: 7.50 ac and realized 3.23 lac as of September, 2016) is another reason for low PFDS as of December, 2016.

5.4.4 Populist approach

The programme was initiated at a time when there is a demand to provide support to the distressed people who were adversely affected by the floods of May-July, 2016. According to the Ministry of Disaster Management, a total of 912,150 families in 20 districts were affected due to the flood. 175,037 acres of crop was lost and 902,878 houses were damaged. During this period, the rice price in the retail market also started to rise, mainly after May, 2016, particularly for the coarse rice. Hence, the FFP was justified in terms of addressing the food needs of the distressed people and also in view of the expected price stabilisation effect. Analysis shows that all the flood affected districts have been covered under the FFP (See Annex 5.4). However, it is not clear whether flood affected people in those districts were given priority in selecting the FFP beneficiaries.

On the other hand, setting the market price of rice under the FFP at Tk.10 did have a political relevance. The incumbent government had made a pledge (during the campaign of the National Election in 2009) to distribute rice at a price of Tk.10 per kg among the poor people. By setting the price of rice at that benchmark level, the government may take credit as regards meeting its election pledge. The programme is being implemented at a time when the next general election is not very far. Hence, the initiation of the programme during 2016-17 and its continuation in the following years may imbue a 'feel good factor' among the voters, particularly the large poor section of the country, with favourable attitude towards the budgetary pressure and fiscal sustainability and also the overarching goal of addressing poverty in Bangladesh.

5.5. Conclusion

The FFP programme needs to be reviewed in terms of its strengths and weaknesses. First, the initiation of the programme is justified in terms of addressing the basic needs of the ultra-poor who were not specifically covered under any of the existing 144 SSNPs. As was found during a field visit in Narshigdi, the programme has been appreciated by the beneficiaries. Second, the programme has major weaknesses in terms of management and operation. The lack of proper definition of ultra-poor, listing of beneficiaries with its problems of 'inclusion', exclusion', selection bias as regards dealers, leakages and rent seeking attitude etc have raised a number of questions as regards appropriateness of FFP as the right way to address the problems of the ulta-poor. Instead of putting emphasis on the district/upazilla which have high concentration of extreme poor and suffered disproportionately from natural disasters, a generic approach was taken in selection of areas. Highest amount was allocated to Dhaka and Chittagong districts. This calls for better planning, both in terms of following poverty mapping in selecting districts, and better targeting of beneficiaries with district.

Monitoring by the Food Department needs to be strengthened for more appropriate selection of the dealers (for the next phase), and reducing the leakages. Third, the effect of the FFP in terms of its impact on price stabilisation and stocks should be closely monitored. The second phase of FFP will be implemented at a time when Boro procurement has underperformed (target 7.5 lac vs. actual 3.23 lac). Low Boro production compared to the previous year and the lowest level of PFDS both in June and December, 2016 over the last five years are also factors to be reckoned. Fourth, whilst the fiscal and the budgetary impact of the programme was not significant (only Tk.1.74 crore) depletion of food stock at a further lower level because of the programme remained a concern. This needed to be considered from the point of view of sourcing rice for the next phase of FFP. Overall, the FFP is a mix of populism, extension of social coverage and multiple inefficiencies. Before initiating the second phase in March, 2017, the government should take stock of the experience and undertake corrective measures to raise allocative efficiency, avoid selection bias in case of both beneficiaries and dealerships and develop better transparency in management and operation of the FFP in order to attain its declarative objective of servicing the food-security needs of the ultra-poor.

SECTION VI. CURRENT STATE OF BANGLADESH-INDIA CONNECTIVITY: A CASE OF LOW LEVEL EQUILIBRIUM

Bangladesh-India connectivity issues have gained renewed importance in view of some of the recent developments. As it may recalled, the Joint communique released at the time of Bangladesh Prime Minister's visit to New Delhi (in 2010) talked of extending cooperation in areas of multi-modal transport connectivity between the two countries – roads, railways, ports and waterways (Moazzem, 2016). In 2015, during the visit of Indian Prime Minister to Bangladesh the two sides signed 22 agreements and made amendments to the bilateral trade agreement which was already in place[39]. Indeed, Bangladesh had carried out a significant homework in view of the upcoming visit of Indian Prime Minister's visit to Dhaka (2011) through the work of the Core Committee on Transit (CCT). The amendments to the bilateral trade Agreement allow India to transport goods between two points within India. This would permit use of territory of Bangladesh to transport goods from western part of India to the northeast regions (NER) and vice versa[40].

The idea is that this could potentially be a "win-win" for both the countries through "Benefit Sharing". Under this principle, the benefits accruing from the reduction in transport costs and turnaround time would be shared by both countries through negotiation. The Indian side would gain thanks to reduced trade-transport costs on account of connectivity through the new more convenient and shorter routes; Bangladesh would gain thanks to earnings from user fees and charges by providing the necessary infrastructure and trade facilitation services. Indian traders would gain through lower cost and reduced turnaround time which will be passed on to producers and consumers. Bangladesh will gain through development of connectivity infrastructure, export of services (user charges) and through transport and logistics business. Bilateral trade will be boosted. And, facilitating the development of the North East states will raise purchasing power in the sub-region which will potentially create new export opportunities for Bangladesh.

A trial run of the bilateral connectivity between indeed had taken place through the two consignments of cargo that Bangladesh had allowed by using its territory. Bangladesh had earlier allowed India to transport 19537.2 MT of foodgrains in FY15 on humanitarian grounds. Prior to this, in 2012, Bangladesh had allowed India's state-owned Oil and Natural Gas Corporation to carry heavy machineries, turbines and cargoes through Ashuganj port for the Palatana power plant in Meghalaya, as a goodwill gesture. However, now that the two countries have agreed to put in place the transit modalities for the passage of goods through Bangladesh on commercial basis, through negotiated user charges, and some cargo movements have already taken place through the route, there is a rationale to review the experience. Such a review will also allow a comparison between the current negotiated rates with the ones proposed by the aforesaid CCT. The comprehensive recommendations of CCT were not made use of since the issue of user charges were not on the agenda of discussion during the visit of Indian Prime Minister in 2011.

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*The section draws on an ongoing CPD study - Rahman, M. & Bari, E. (n.d). *Current state of Indo-Bangla connectivity: A case of low level equilibrium.* Forthcoming CPD working paper. Dhaka.

[39] Ministry of External Affairs. India. Retrieve January 4, 2017 from http://mea.gov.in/bilateral-documents.htm?dtl/25346/Joint

[40] Trade Agreement between Bangladesh and India (Article VIII): The two Governments agree to make mutually beneficial arrangements for the use of their waterways, roadways and railways for commerce between the two countries and for passage of goods between two places in one country and to third countries through the territory of the other under the terms mutually agreed upon.

Subsequently, through bilateral negotiations, as part of the revised Inland Water Transit and Trade Protocol (IWTTP) between India and Bangladesh the 'Kolkata-Ashuganj-Tripura transit' became operational from June 2016[41]. User charges were agreed upon for used of the transit facilities through negotiations between the relevant authorities of the two countries. As is known, such charges are to be devised in a manner that ensures a win-win outcome. In this case, for India through the reduced cost accruing from lower transport cost, lower turnaround time and other benefits; for Bangladesh through the user fees, better infrastructure, transport-logistics business (if it is her own operators who handle the transport business). The fees/charges will need to be designed in such a manner that Indian traders find it economically feasible to make use of the alternate (new) route even after paying the charges (having considered cost, time and other related factors). Regrettably, whilst the various charges for transit has been put in place, it is not clear on what grounds and basis this was done by the concerned authorities. Such an exercise would have allowed greater transparency and avoid misunderstanding. This paper has made an attempt to do this by detailing the cost and user charges involved and also through a comparison with the fees/user charges proposed in the CCT Report. This discussion is also important in view of fixing user-charges under the BBIN-MVA and also in view of Bangladesh deciding to allow India to use the Chittagong and Mongla ports for trade with third countries.

As it stands, till now only three shipments have used the transit facility through the Ashuganj port. The Indian traders are to pay transit fees of BDT 192.2 per ton as negotiated between the two countries[42]. Of this, the National Board of Revenue (NBR) is to receive BDT 130 per ton and Roads and Highways (R&H) and Bangladesh Inland Water Transport Authority (BIWTA) are to receive BDT 52.2 and BDT 10.0 per ton respectively. When one compares with the CCT Report, it appears that the components of social and environmental costs have not been considered in this estimation while the economic cost for infrastructure development charges and road damage charges appear to be have been underestimated.[43]

Objectives

i. Considering the aforementioned situation the objectives of the present study are-
ii. To review the charges levied in case of transit through Ashuganj International River port (AIRP)
iii. Stocktaking on the current capacity of the AIRP and road network between AIRP to Akhaura Land Customs (ALC) station
iv. Come up with considerations that should guide future negotiations when the transit becomes fully operational through the AIRP and other potential routes

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[41] In such cases, fees and charges, if leviable as per international agreements, conventions or practices, may be applied and transit guarantee regime may be established through mutual consultations. Retrieved from: http://www.mofa.gov.bd/sites/default/files/Protocol%20on%20Water%20Transit%20and%20Trade%20(PIWTT).pdf

[42] Retrieved from http://www.thedailystar.net/frontpage/transit-fee-too-low-1239754; Information collected from KIIs (Rahman & Estiaque, n.d)

[43] Three components of cost calculation in determining international transit fees are-economic, social and environmental costs.

Methodology

To understand the estimation methodology of the 'negotiated transit charges', and their justification, CPD conducted several Key Informant Interviews (KIIs) with officials from R&H, BIWTA and Overseas Shipping & Logistics (private sector). To validate this information the research team made field visits to AIRP and ALC station. Detailed field level data were also collected during these visits. Secondary literature and newspaper articles were reviewed to compare the currently negotiated rates in reference to the recommendations of CCT-2011. Based on the above, two business scenarios are considered to assess the transshipment charges (per ton in BDT) for Kolkata-Ashuganj-Agartala route: *a) scenario A: 'If all the required transit facilities are put in place and b) scenario B: 'In consideration of the present port, logistics and road capacity'*. Before introducing scenario B, as a building block, details of the current condition of the AIRP and the road network will be presented in the next paragraphs.

6.1 Review of the Transshipment Charges

Though regional, sub-regional and bilateral connectively have been gaining increasing attention from the perspective of stimulating trade and business in South Asia, issues of service/user charges have not been discussed with due rigour and has tended to remain politically sensitive. Indeed, the fee of BDT 192.2 per ton, for transit/transshipment of goods through the AIRP has come under some criticism in Bangladesh as being underpriced. Lack of transparency as regards how the rates were arrived at was a key reason. The rates being lower compared to CCT recommendations was another. However, there is a need to bring some clarity to the issues involved to deal with the emergent confusion.

Table 6.1 Scenario A: If All Facilities were Installed

(per ton in BDT)

Recommended rates by Core Committee (2011)	Inflation Adjusted CCT-2011 rates (2016)	At currently planned rate	Inflation Adjusted CCT-2011 rates (2016) compared to currently planned rates
1245[44]	1705[45]	870[46]	96% higher

Source: various published reports and own estimates.

[44] To calculate the recommended rate by 'the Core Committee on Transit-2011' unit values (in per-ton per-km) are multiplied by the respective distance of water and roadways. The distance between Angtihara to AIRP was about 488 km (in waterways) and distance between AIRP to ALC station was about 51 km (roadways). The recommended transshipment charges for this multimodal transit facility were calculated to be BDT 1245, of which 'use of waterways' charge and 'use of roadways charge' were respectively BDT 1058.8 and BDT 186.4 (Rahman & Bari, n.d).

[45] Annual average (calendar year) of CPI rates are used for price adjustments in relation to the recommended rates by the CCT.

[46] The calculation includes total amount of proposed custom related charges, proposed charges for the use of roadways recommended by the CCT (it was originally estimated for a 4-lane National Highway standard) and currently negotiated transshipment charges for BIWTA and regular charges according to Bangladesh-India Coastal Shipping Agreement. The proposed total custom related charges are BDT 580 per ton. In absence of currently available facilities such as scanning, merchant overtime services, inland container terminal (ICT) service and other administrative facilities, customs related charges were negotiated at BDT 130 per ton. Escort charge of BDT 50 per ton was kept as an option to be availed by businesses (to be applied if request for security is made). However, escort charges were collected by custom department in all the three transshipments that have taken place over the past seven months. For estimation purposes, existing rates (fixed components) of regular charges for permission of voyage, pilotage bit, berthing charge, annual vessel charge, godown charges have been converted into per ton charges. These charges were converted for a 1000 MT equivalent cargo vessels and the standard cargo vessel was considered to be equivalent to 500 ton (Rahman & Bari, n.d).

6.2 Current Facilities at AIRP

A dedicated reinforced cement concrete (RCC) dockyard has been designated at the AIRP for vessels carrying transshipment goods from India. The length and width of the main dockyard is 75’3”x44’8”. However, the length and width of entry/exit passage of the dockyard is 44’8”x44’8”. At best two trucks can be loaded/unloaded at the same time. Two vessels cannot berth at the dockyard at the same time. Indeed, during the winter season vessels loaded with 1500 MT goods were found to be forced to berth at a distanced of twenty feet from the dockyard as water levels tend to go down (Rahman & Bari, n.d).

It was found that, land acquisition for the ICT (automated) is at present ongoing. Proposed land of the Ashuganj ICT is *thirty* acres of which *twenty-six* acres of land will be acquired from the public; *four* acres of land is owned by the GoB (Rahman & Bari, n.d).

At present, the port has no facility such as way bridge scale, scanning machine, and crane[47]. In addition, covered van facility is also not available[10]. In absence of designated stand, truck jam is a common feature at the AIRP. Besides, there is no permanent custom officer at the AIRP. Custom officers are generally informed a few hours in advance about arrival of the cargo (vessel). The officers come from Brahmanbaria which is about 20 km away from the AIRP. Lack of aforementioned facilities are creating problems for handling the transshipment work leading to both cost and time escalation in undertaking transshipment through this route. In other words, this is increasing the cost of doing businesses and reducing the competitiveness of AIRP.

6.3 Current Road Condition between AIRP and ALC Station

The road between of AIRP and ALC station can be divided into three road segments based on information on current road conditions compiled from the field visits.

Table 6.2 Current Condition of Transit Roadways between AIRP and ALC

Road description	Approx. distance (in km)	Approx. length (in feet)	Current Status
AIRP to Sarail Bishwaroad	13	35-40 feet	This road segment is part of Dhaka-Sylhet National Highway. Roads are of good quality; and moderate level congestion was observed.
Sarail Bishwaroad to Sultanpur	22-23	25-28 feet	This is the bypass road of Brahmanbaria district. Part of it is under the regional high way between Sylhet and Comilla district. Road network is relatively narrow and at places are not of good quality. Congestion is already rather high in this road segment.
Sultanpur to ALC station	14-15	20-22 feet	Narrow but good quality roads, moderate congestion. Among the nine bridges two/three bridges are in poor condition; width of majority of these bridges are rather narrow for large-size (big truck) vehicular movement.

Source: CPD compilation based on field visits (Rahman & Bari, n.d)

[47] If required, logistics services are to be hired from outside. However, godown (4,400 square feet) facility is currently available but remained unused till date (Rahman & Bari, n.d).

Table 6.3 Scenario B: Transshipment Charges with Current Port and Road Capacity

(per ton in BDT)

Currently negotiated rate (2016)	What could be the rates according to CCT-2011	Inflation Adjusted CCT-2011 (2016)	What could be rates according to CCT-2011 compared to currently negotiated rate (2016)	Inflation Adjusted CCT-2011 (2016) compared to currently negotiated rate (2016)
192.2[48]	263.6[49]	360.9[50]	37.1% higher	87.7% higher

Source: Calculated and complied by CPD from information collected from KIIs (Rahman & Bari, n.d).

6.4 Issues of Transshipments and Revenue Generation

In the first seven months, only three consignments were transported by Indian businesses by availing the transit facility through Kolkata-Ashuganj-Agartala route (Table 6.4). Total 4,263.7 MT goods were transported, of which 61 per cent was food grains and rest were corrugated iron sheets and steel. From these three transshipments Bangladesh had earned about BDT 820 thousand. KII information suggests that appropriately USD 31 per ton is incurred by the private party for transporting the goods from Kolkata to Akhara-Agartola by suing AIRP (all expenses related to transport/logistics/administrative/etc). In this connection, Yunus (2013) estimated that IWT facilities supposed to halve the cost of transportation from Kolkata to Agartala. Specifically, through Chicken Neck corridor, the cost of transportation was estimated at USD 50.08 per ton while a significantly reduced cost of USD 25.61 per ton was estimated when the IWT corridor was availed.

At currently negotiated transshipment charges, the share of the government revenue in this total cost was about 7.9 per cent[51]. In addition, the government earns another 5 per cent of this amount from the regular charges levied under Bangladesh India Coastal Shipping Agreement (in addition to the BDT 192.20/ton)[52]. The tradeoffs become more clear if current rates are evaluated with abovementioned two business scenarios:

a) *If all facilities were put in place* as per the core committee recommendations, Bangladesh would earn six times more revenue compare to what is the case now and it would be nine times higher if the charges were inflation-adjusted. In contrast, the cost of transshipment would increase respectively by USD 13.4 and USD 19.3 per ton[12]. This will have

[48] As was mentioned earlier, currently negotiated transshipment charge is BDT 192.2 per ton. In addition to the transshipment charges, each vessel has to pay regular charges according to Bangladesh India Coastal Shipping Agreement. These include BDT 2500 for permission of voyage, BDT 400 for each pilotage bit (the route includes seven pilotage bits), canal charge (BDT 6 and BDT 7 per gross ton respectively for Mongla-Ghasiakhali channel and Gabkhan channel), berthing charge (BDT 315 per day), landing and shipping charge (BDT 34.50 per ton), labor handling charge (BDT 50-60 per ton), godown charge (if used - BDT 5.75 per square feet) and annual vessel fee (BDT 172.5 and BDT 45 per gross ton respectively for foreign and national flagged vessels).

[49] Even considering the poor facility of the AIRP and 38 km moderate 2-lane roadways between Sarail Bishwaroad and Akhaura land port, the negotiated transshipment rate of BDT 192.2 per ton is envisaged to be underestimated. According to KII's and collected field data, it is found that congestion fees (in roadways) and water pollution fees were not included in the calculation process. Inclusion of these two components (recommended by transit Core Committee) would raise the currently negotiated transshipment charge to BDT 263.8 per ton.

[50] Annual average (calendar year) CPIs have been used for the purpose of price adjustments in view of the recommended rates by the CCT-2011.

[51] 1 USD is equivalent to BDT 78.5

[52] According to the Agreement, BDT 120-125 is to be charged per ton (assuming that the vessel carried 1000 MT of cargo and the gross tonnage of the vessel is 500 ton.

implications in terms of the cost of using the Kolkata-Ashuganj-Agartala corridor. On the other hand, this presupposes presence of all needed facilities in connection with using this route (Rahman & Bari, n.d).

b) *At the current condition of port and road capacity*, even if comprehensive recommendations of the CCT-2011 were taken into consideration, about 27 per cent more revenue would be earned (through addition of congestion and water pollution charges) compared to what had currently been realised. If inflation adjustment was made, this would result in doubling of the current revenue earnings. On the other hand, it would increase the cost of transshipment by approximately USD 1 and USD 2.1 per ton respectively (Rahman & Bari, n.d). Charges for congestion and water pollution as was suggested in the CCT-2011 report needs to be factored into the costing.

Table 6.4 shows that average berthing period was about 14 days for the three cargo vessels. Because of lack of available facilities, the average days to complete the source to destination cycle took 23-24 days. This, of course, reduces the competitiveness of the transit corridor.

Table 6.4 Number of Transshipments and Status of Revenue Earnings

Vessel Name	Product	Quantity (in MT)	Revenue[53] ('000 BDT)	Berthing period (in days)	Turnaround time (in days)
MV Newtek 6 (BD)	Iron Sheet and Steel	1004.4	193.1	17	27-28
MV Avi (IND)	Rice	2272.5	436.8	13	22-23
MV Sumon 1 (BD)	Rice and Iron Sheet/Steel	338.2 648.6	189.7	12	21-22
Total	--	**4263.7**	**819.7**	--	--

Source: Calculated and complied from the data collected from Ashuganj and Akhaura ports (Rahman & Bari, n.d)

6.5 Possible Consequences of the Current Low Level Equilibrium

The review of the transit charges presented above reveals that the negotiated rates are underestimated even in view of the current state of support available at the AIRP and the existing road network. However, the magnitude of this underestimation is not as significant as is often reported and discussed. Apparently, the current negotiation took place considering a low level equilibrium where port facilities and road conditions were taken to be as they are i.e. far less than adequate. The following propositions may be drawn from the above discussion.

There is a need to undertake the needed work relating to navigation, road network and infrastructure/logistics in connection with connectivity through Kolkata-AIRP-Akhaura/Agartola route. It is good to see that the second line of credit (LoC) of India include a number of projects to address the identified gaps. For instance, Development of Ashuganj River Port-Dharkhar-Akhaura Land Port Road (Length: 50.87 Km) and Establishment of Inland Container River Port at Ashuganj – both the projects are listed under the new Indian USD 2 billion line of credit (LoC). The first project has already been approved with an estimated cost of USD 338.8 million (estimated LoC component is USD 283.7 million). Both these projects need to be completed on time and within the estimated budget. Only through these interventions this route can be fully oeprationalised

[53] To calculate the revenue earned by the GoB from transshipment the CPD study multiplied the total quantity by BDT 192.2 per ton.

and the potential earnings through export of transport services (user fees/surcharges etc) can be realised.

As negotiations are ongoing in view of the BBIN-MVA (Rahman, *et. al.* 2016) and on allowing India to use Chittagong and Mongla port, a more comprehensive approach is needed with regard to the user/service charges – with both current (considering the deficits) and future (when all transit trade facilitation has been put in place) scenarios being considered and spelt out. Piecemeal, discrete and episodical fixing of rates will undermine Bangladesh's negotiating power. Besides, a clear roadmap in this context will also encourage undertaking the needed steps in this context.

As the field investigation revealed, transshipments has taken about 23-24 days on average to complete the source-to-destination cycle by availing the multimodal transit facility via the Ashuganj route. In addition to that, at present, the berthing period (in days) is also significantly high at the AIRP and the godown has remained unused. As the cargo transshipment at AIRP has been few and far between, freight forwarders have preferred to pay berthing charge and avoid multiple labour handling costs and paying godown charges. If the route is fully operational, the scenario will change. As was pointed out, underdeveloped infrastructure will not only lead to serious bottlenecks, it will also discourage Indian traders from using the route. This appears to be the case at present.

Evidently the charges will need to be fixed in a manner that allows sharing of the benefits (current expenses minus the one of this new alternate route) under a win-win scenario. Lack of enthusiasm on the part of Indian traders to use this route is an indication that even with the current rate of fees/charges, Indian traders are not interested to send good through this route at present. As the analysis has shown cost difference not being significant enough and the fact of not being able to reduce the turnaround time enough are the key reasons behind this. Removing the infrastructure and logistics bottlenecks, with due urgency, has become an imperative in this backdrop.

In fixing the charges, the issue of reciprocity (particularly as part of BBIN-MVA and also bilaterally with India) should also be taken into consideration. Buy-back type of arrangements (such as transit facilities provided to build the Palatana power plant in Meghalaya and buying 100 MW of electricity from there) need also be taken cognisance of (in making exceptions to the rule in cases of applying charges in particular case).

6.6 Policy Suggestions

i. Make use of the alternative paradigm of "Benefit-Sharing" in negotiating connectivity fees and *charges*. As will be recalled, what actually inspired the breaking of the four-decade long deadlock with regard to Bangladesh-India connectivity, and the resultant transit agreement through Bangladesh, was that the accrued gains will be shared by both countries on the basis of "benefit sharing". Thus, it is logical that benefit-sharing should be the guiding principle in arriving at the charges and user fees, in a way that guarantees that the transport operators find the alternative routes through Bangladesh profitable, and Bangladesh is able to recoup its investments in infrastructure and trade facilitation and generate revenues through export of transit services. Earlier, the CCT-2011 had made some estimations in this regard. In view of the changes over the past six years, there is a need to undertake a comprehensive study to estimate the benefits to be accrued to the Indian operators on account of transit through Bangladesh, the services to be provide for use of the alternate route (by the Bangladesh side), and identify the principles of benefit sharing towards win-win outcomes for both the sides.

ii. *Undertake the needed investments to effectualise the connectivity.* One of the key reasons why over the past seven months only three consignments have used the AIRP route is that due to lack of the needed infrastructure operators are not getting the expected benefits in terms of reducing the costs and cutting down on the turnaround time. Under the prevailing scenario, Bangladesh will need to make the required investments in terms developing the required transport network, build the infrastructure and put in place logistics support and trade facilitation measures that will enable seamless movement of goods through the country. Short of this, Indian and Bangladeshi transport operators will be discouraged to use this route, and Bangladesh may lose the emergent window of opportunity. As was mentioned earlier, the second LoC by India does include two investment projects to develop the AIRP route. A comprehensive investment plan will need to be designed to develop the waterways and the road network and improve the port facilities to ensure seamless and speedy connectivity in connection with the transit.

iii. *The fees and charges currently negotiated will set the benchmark for future negotiations.* The fees and user charges which Bangladesh will negotiate with regard to use of the AIRP route will set the benchmark for future negotiations in the context of other developments taking place as regards connectivity. Also, these will set reference points for any reciprocal charges that will be imposed by India and other partner countries when Bangladesh will seek to use similar facilities. Thus, current negotiations as regards fees and charges with respect to India should be cognisant of the wider emerging sub-regional connectivity scenario including those under the BBIN-Motor Vehicle Agreement.

iv. *Bangladesh needs to design a comprehensive approach as regards transit fees and charges.* As of now Bangladesh is dealing with transit fee-related issues in a discrete and episodical way, and in a case by case manner. Since transit involves multi-modal connectivity and consideration of wide-ranging factors, the best way to go will be for Bangladesh to go for negotiating a comprehensive agreement which will lay down the basic principle of benefit sharing in consideration of the various services to be delivered, the fees to be fixed and charged, reciprocity guidelines, in-built mechanisms for adjustment of fees, dispute settlement mechanism etc. As has been pointed out in the paper, Bangladesh indeed loses out in view of the existing low-level equilibrium. A comprehensive approach will give predictability to all sides and bring transparency to the current opaque manner of negotiations.

SECTION VII: REMITTANCES: DELVING INTO CAUSES OF DEPRESSED TREND

7.1 Global Outlook

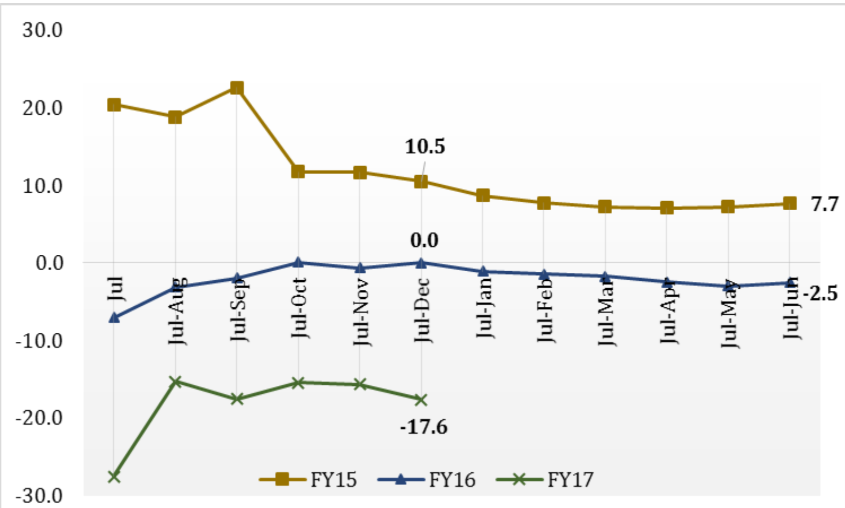
Global remittance inflow to the low-middle income countries (LMICs) in 2016 was estimated to the tune to USD 442 billion, which is 0.8 per cent over 2015. Except for Latin America and the Caribbean, remittance flow to all other developing regions has decelerated or slowed down. The South Asia region would incur a decline of 2.3 per cent in 2016 (World Bank, 2016). Bangladesh remained the eighth largest remittance recipient economy in 2016 with an estimated USD 14.9 billion of remittances.

7.2 Remittance Earning Trends in Bangladesh

Remittance income plays a critically important role in the socio-economic development of Bangladesh – both at the national and household levels. It contributes to poverty alleviation, supports human resource development, and increases savings and investment (Ghosh, 2006; Bakewell, 2009; Luthria, 2009 and Rahman and Sadique, 2014). At the macro-level, it provides a cushion to achieve favourable balance of payments and stable foreign exchange reserve. Over the years, remittances have increased steadily with the growing number of migrants. However, in the recent past, remittances inflow to Bangladesh has declined significantly. Some distinguishing features of recent remittance income from Bangladesh migrants are as follows.

First, annual remittance flow has been hovering around USD 14-15 billion since FY2013. Remittance income slowed down during the last 18 months (since July 2015) and recorded a (-) 2.5 per cent annual growth in FY2016. *Second,* in the early months of FY2017, remittance inflow continues to face an alarming dip and falls below USD 1 billion a month for the latest two consecutive months (November and December 2016). Similar situation was experienced in November 2011 when remittance income went below USD 1 billion a month (USD 909 million). Figure 7.1 shows the trend of remittance flow since FY2015.

Figure 7.1: Remittance Inflow Growth (%)



Source: Estimated from Bangladesh Bank (2016) data.

Third, remittance inflow during July-December of FY2017 was the lowest when compared with the same period of the last four fiscal years. During the period, growth of remittance declined by (-) 17.6 per cent compared to the corresponding periods of the previous fiscal year. *Fourth,* Gulf Cooperation Council (GCC) countries are the sources of 57.6 per cent of total remittance inflow to Bangladesh. During the July-December FY2017 period, remittances growth was negative in all the GCC countries (cumulatively (-) 16.9 per cent), except for in Qatar which registered a positive growth of 45.6 per cent. This perhaps could be due to ongoing constructive works for the Qatar FIFA World Cup in 2022. *Fifth,* in addition to GCC countries, remittances from Malaysia, Singapore, UK and USA have also seen a significant fall during the same period. Remittances from these countries have fallen by (-) 9.8 per cent, (-) 13.5 per cent, (-) 23.2 per cent and (-) 36.9 per cent respectively. *Sixth,* cross-country comparison between remittance-receiving countries also revealed signs of slowdown in growth. During July-October FY2017, remittances growth of Bangladesh and Pakistan were in negative terrain, while growth has slowed down significantly in Nepal and Sri Lanka. Signs of recovery is evident in case of the Philippines (Table 7.1).

Table 7.1: Cross-country Comparison of Remittance-receiving Countries

Country	CY2014	CY2015	Jul-Oct FY16	Jul-Oct FY17
Bangladesh	8.0	2.5	0.1	-15.4
Nepal	5.2	14.4	11.7	4.3
Pakistan	17.9	11.8	5.2	-3.8
Philippines	7.2	4.0	0.6	3.3
Sri Lanka	9.5	-0.5	1.1	0.9

Source: Central Bank websites of respective countries.

Seventh, according to World Bank's Remittance Prices Worldwide database[54], cost of sending remittances to Bangladesh has increased during the fourth quarter of 2016 compared to the same period of 2015. Remittance transfer price has dropped only in case of Qatar[55] and Malaysia corridor. One interesting observation is that, remittance transfer cost to Bangladesh has increased in case of Saudi Arabia corridor during the reported period, while the cost has come down in case of sending money to the Philippines, Indonesia, Nepal, Sri Lanka or India[56] (Table 7.2).

Table 7.2: Remittances Sending Cost

***Receiver:* Bangladesh**			***Sender*: KSA**		
Sender	**2015 Q4**	**2016 Q4**	***Receiver***	**2015 Q4**	**2016 Q4**
KSA	3.28	3.60	Bangladesh	3.28	3.60
UAE	2.29	2.72	Philippines	4.48	3.40
Kuwait	1.89	2.06	Indonesia	5.2	3.19
Qatar	6.49	4.89	Nepal	3.92	1.45
USA	4.19	4.84	Sri Lanka	3.77	2.52
UK	3.51	4.72	India	4.42	3.70
Malaysia	4.39	3.29			
Singapore	1.62	2.19			

Source: Remittance Prices Worldwide database, World Bank. Retrieved from: https://remittanceprices.worldbank.org/ (Accessed on 3 January 2017)

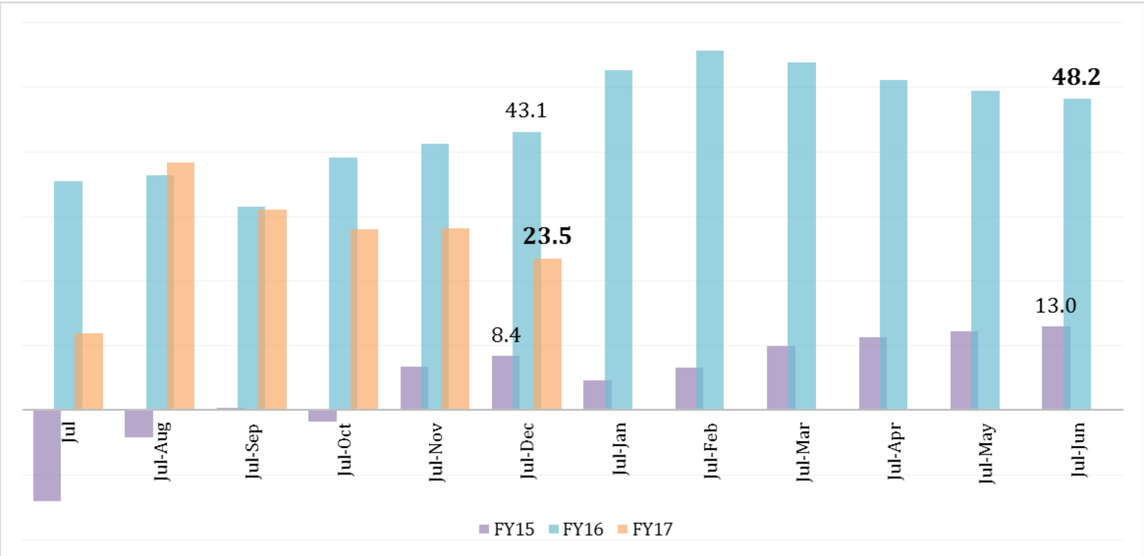
[54] Retrieved from https://remittanceprices.worldbank.org/ (Accessed on 3 January 2017).
[55] Qatar is Bangladesh's one of the pricy corridors.
[56] Although the cost has decreased related to corresponding quarter of the previous year, the rate is still a bit high in case of India compared to Bangladesh when sending money from Saudi Arabia (3.7 per cent compared to 3.6 per cent).

7.3 Current Trends of Outward Migration from Bangladesh

In the literature, it is well-articulated that the size of emigrant stocks is the most important determinant of remittances (Ratha and Shaw, 2007; Freund and Spatafora, 2008; Lueth and Ruiz-Arranz, 2008 and Singh et al., 2011). However, no reliable estimate is available regarding Bangladesh migrant workers' stock in different countries across the world.[57] However, for a couple of years, outward migration from Bangladesh has significantly increased. Some of the current trends can be summarised here (Figure 7.2).

First, annual growth of outward migration in FY2016 was 48.2 per cent. *Second,* during the first half of FY2017 (July-December), growth of migrant workers was 23.5 per cent over the corresponding months of the previous fiscal year. In November 2016 the number of migrants going abroad has reached 81,483, a record high since July 2008 when outward migration flow was 88,202. *Third,* during the reported period, growth of migrant workers to the Middle East continued to rise, accounting for 78.5 per cent of the total number. Key destination of migrants from Bangladesh were Saudi Arabia, Oman, Qatar and Bahrain. Notably, Bahrain has regained its importance as a major destination of migrants from Bangladesh. *Fourth,* following the boost in migrant workers in FY2016, growth of female migrants however, started to decline from the beginning of FY2017 and posted (-) 12.5 per cent growth at the end of the first half of current fiscal year. After Saudi Arabia, the maximum number of female migrants went to Jordan and Oman.

Figure: 7.2: Outward Migration Growth (%) in Bangladesh



Source: BMET data.

7.4 Understanding the Paradoxical Situation

Since the secular fall in remittances to Bangladesh, despite increase in migration, an investigation into the factors for this paradoxical situation is called for. CPD has conducted telephony

[57] Indeed a number of factors influence the stock of migrant workers abroad. (i) illegal migration, (ii) irregular migration, (iii) death in work place, (iv) returnee migrants (registration of returnee migrants at Bangladesh airport is not mandatory), (v) changed residency status abroad, (vi) circular migration are amongst the others. Accounting for all these factors are required to come up with a reliable estimate of migrants' stock. Unfortunately, Bangladesh does not have any such mechanism to underscore these.

interviews of a number of exchange houses at various migrant destinations to acquire relevant information from them. Moreover, the CPD research team communicated with several officials of commercial banks in the country and of the Ministry of Expatriates' Welfare and Overseas Employment (MoEWOE). Discussions were also held with some private institutions and experts engaged in the migration process and financial services. Information were also solicited from a few remittance-recipient households to understand the current trends of remittances.

In order to explore the factors for the sharp decline in remittances, two hypotheses can be examined. First, there is no change in remittance receipts; a large portion of income is channelled through informal mechanism. A number of indicators support the hypothesis such as the increase in exchange rate of USD, supply shortage of cash dollar and significant expansion of mobile banking services. The second hypothesis is that remittances income of Bangladesh has declined due to economic slowdown in the GCC countries and Europe, which has consequently affected the employability and wages in these countries. However, this phenomenon may be destination-specific, and may also have different characteristics and mechanisms in different places.

7.4.1 Hypothesis 1: Increase in informal channel transfer

Broadly, the increase in transfer through the informal channel is directly linked to monetary benefits at the individual levels. Specifically, informal transfer service is used for various illegal activities including money laundering, capital flight, terrorist financing and illegal/arms trade. Because of its intractable nature, this mode is used to perform illegal activities. However, in case of remittance transfer, small remitters use the channel to have lower transfer time in emergency, to reduce cost of sending money, and to gain higher benefit of their hard earned money. As a result, the economy of the home country is deprived of the necessary foreign currencies earned through remittances (Table 7.3).

Table 7.3: Cost Benefit Features of Informal Channel Transfer

Benefits	*Loss*	*Risks*
• Better exchange rate • Little or no transaction cost • Express delivery • 24 hour delivery service/ payment at home	• Illegal service, not accountable in the economy • Pressure on BoP • Pressure on forex reserve • Impact on foreign-financed development projects	• Not traceable • Terrorist financing • Minimum KYC/ compliance • Trust-based operation

Source: CPD elaborations.

Transfer through informal channel or *hundi* services have been in place alongside formal financial services for decades. Its intensity increases when a special situation arises such as periods of festivals and political instability. Introduction of a new financial mechanism or policy changes may also lead remitters to resort to *hundi*. Often, volatility in currency exchange rates can increase the momentum of informal financial activities including informal money transfer. Over time, different mechanisms of *hundi* services have been evolved. Sometimes walk-in passengers carry undeclared money. All these changes may influence both money inflow to, and outflow from the economy. An interesting hypothetical case illustrating how *hundi* operates is presented in Box 7.1.

Box 7.1: *Hundi* Transfer Mechanism: A Hypothetical Case from the Field Survey

Mr Elias, a non-resident Bangladeshi (NRB), has permanent residency in the United States. He has two children, both are born and brought up in New York city. He wants to sell his inherited property, a 5-storey building in Dhaka, and transfer the money to New York to buy an apartment there. He sold his property to 'Generous Developers' for Tk. 5 crore. They have mutually agreed to register the value of the property for Tk. 2 crore to avoid some additional registration charges that the developer may incur.

'Generous Developer' has deposited Tk. 2 crore to Mr Elias's bank account in Dhaka and transferred the remaining amount of Tk. 3 crore through his agent, 'Agent Y' in India to the USA at Mr Elias's bank account in New York. The Developer could not transfer the money to the USA from Bangladesh, as capital account is not convertible in Bangladesh.

Then the question comes, how the remaining amount be transferred to Mr Elias's New York account from his Dhaka account. He contacted the 'Amusing Services' in Dubai who collects remittance money from Bangladeshi and other nationals to send them to their home country. Correspondents from Amusing Services made a deal with 'Agent X' in Dhaka, an agent of Mr Elias who has the authority to operate his bank account in Dhaka. Correspondents of 'Amusing Services' collected Tk. 2 crore equivalent remittances from Bangladeshi migrants in Dubai and Mr Agent X delivered the equivalent sum in Bangladeshi Taka to remittance-recipient households at different destinations in Bangladesh through mobile money transfer services. When everything has been done smoothly, 'Amusing Services' transferred the Tk. 2 crore equivalent USD to Mr Elias's New York account.

Recent developments

The difference between dollar's bank rate and the curb market rate has been on the rise for the last six months (since July 2016). One may explain the hike in the curb market in two ways – increased demand of cash dollar or supply shortage. Supply shortage of cash dollars was found in the money exchange houses in recent times. Indian currency ban forced the Bangladeshi travelers to bid away cash dollars instead of taking Indian Rupees they used to take with. That has created a high demand for cash dollars. On the other hand, trend analysis shows that, USD is getting stronger against all major currencies following the US election. That creates an expectation that USD will remain resilient in the coming months and may further appreciate against BDT. Small investors, thus, may feel encouraged to hoard foreign currency for some short-term return. This would create further shortage of dollars in the money market.

Interview with some exchange houses in Oman, Malaysia and Singapore supports the assumption of increase in informal channel transfers. In Oman, depreciation of local currency forced some small remitters to informal channel transfer. Oman agents reported that, there is hardly any sign of job crisis in migrant workers from Bangladesh. In Malaysia, transaction amount by formal exchange houses has dropped by 50 per cent in last six months. Malaysian Ringgit depreciated against BDT during that period and *hundi* traders offered better exchange rate with no transaction fees. Mainly the small remitters, who send Tk. 30,000 – 40,000 per transaction have moved to informal channels for better monetary benefits. *Hundi* traders have expanded their network freely and have their agents at general stores near every household. They are using mobile banking flyer of a popular bank of Bangladesh which provides mobile banking services in Bangladesh. However, they supposedly do not have any permission to expand their network overseas. It is apprehended that, some of the agents of the mobile banking services may be involved in this. Similar scenario is observed in Singapore and the *hundi* traders are one step ahead there. They introduced a scratch card of different denominators which an aspirant remittance sender could buy. What the sender has to do is just buy a card and provide the recipient mobile number and address in Bangladesh. It may be worth mentioning that the same exchange houses also transfer money to countries such as Nepal and India. However, they do not find any such major problems in those markets.

The above situation needs case by case investigation. Bangladesh Bank has formed a committee to investigate the issues. The central bank has also directed the commercial banks to find ways to attract foreign remittances through the formal banking channels. Bangladesh Bank has also relaxed some policy spaces and reduced the security deposits of establishing exchange houses abroad and also sanctioned loan opportunities for remittance-recipients against available wage earners' bonds. However, these measures, until now, have proved to be inadequate.

7.4.2 Hypothesis 2: Economic slowdown in the GCC countries

Steep fall in oil prices in the oil-exporting GCC has taken a toll on remittances in Bangladesh from its expatriates. Since 2012, oil prices has declined by as high as 63 per cent.[58] This region is a major source of remittances for Bangladesh. As mentioned earlier, many of these countries including Saudi Arabia, Oman, Qatar and Bahrain are the top destinations for Bangladeshi migrant workers. Hence, though Bangladesh has benefitted from lower global oil prices in terms of lower subsidy requirements of the government, the flip side of this fall is being reflected through lower remittances. Lower income level in the oil-exporting countries due to cyclic low oil prices has led respective governments to undertake economic reforms to scale down government spending including lowering of public and private investment programmes and adopt austerity measures. Fiscal deficit as percentage of their GDP has declined in most of these countries (Table 7.4). These countries have also witnessed a sharp slowdown in their GDP growth during the last few years. Such strains on the economy may have led to cutting down on wages of migrant workers by employers which in turn has reduced the amount of remittances.

Table 7.4: Country-wise GDP Growth, Fiscal Balance and Investment

GDP growth (%)					
Year	**2011**	**2012**	**2013**	**2014**	**2015**
KSA	10.0	5.4	2.7	3.6	3.5
UAE	5.2	6.8	4.7	3.1	3.8
Oman	-1.1	9.3	4.4	2.5	5.7
Qatar	13.4	4.7	4.4	4.0	3.6
Kuwait	9.6	6.6	1.1	0.5	1.8
Fiscal balance (% of GDP)					
KSA	11.6	13.6	6.5	-2.3	-15.0
UAE	6.3	10.9	10.4	5.0	NA
Oman	-0.4	-0.3	0.9	-3.4	-18.6
Investment (Annual variation in %)					
KSA	15.6	5.0	5.6	7.5	-1.5
UAE	1.8	13.2	8.3	3.6	NA
Oman	1.3	26.2	5.1	4.1	NA

Source: WDI, World Bank, 2016; Central Department of Statistics and Information (Saudi Arabia), National Bureau of Statistics (UAE), National Center for Statistics & Information (Oman).

In view of continuing fall in oil prices and slow down of their economies, the Gulf countries have also begun to nationalise their labour market by replacing foreign workers with their own workers. Government policies of these countries have favoured national workers to the low

[58] Retrieved from http://www.opec.org/opec_web/en/ (Accessed on 29 December 2016).

skilled labour market which used to be the niche jobs for migrant workers from Bangladesh. This is viewed as a bigger threat than the fall in oil prices (World Bank, 2016). The other plausible factor could be the substitution of high paying workers from India, Indonesia or the Philippines with cheaper Bangladeshi workers in the face of economic pressure in the GCC. Capital flight could also be a factor for lower remittance flow. Due to strong capital account restrictions remittances could be diverted from the country of origin to other countries.

7.5 Concluding Remarks and Recommendations

A slowdown in remittances has serious ramifications on the economy of Bangladesh as it is a major source of foreign exchange reserve. A continuous slowdown in remittances will also have impact on the progress of SDG implementation. A number of SDGs underlined the importance of migration and remittances. SDG target 8.8 refers to promotion of decent conditions for migrant workers, including women migrants. SDG target 10.7 explicitly calls for facilitating orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies. SDG target 10c highlights to reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent. Therefore, Bangladesh needs to delve into the issue of falling remittances more seriously and take appropriate steps to address this. In the short- to medium-term a number of measures may be undertaken.

First, cost of sending money should be reduced further to bring the remitters into the formal channel. *Second,* in order to prevent capital flight, conducive environment for prospective remitters who would like to invest in the country is essential. Better investment opportunities and benefits may be offered to both the diaspora and remitters. *Third,* Bangladesh Bank Committee that has been formed to investigate malpractices on remittance-related issues needs to strengthen its monitoring mechanism through involving experts and use of technology. They may investigate whether any mobile banking institution or their unscrupulous agents are involved in diverting remittances from coming into the country. If needed regulatory measures and policy framework may be revisited on such operations. *Finally,* there should be a reliable estimate of the migrant workers' stock. To bridge the gap and to collect information from various sources, a coordinated approach should be undertaken among Ministries, missions abroad, Wage Earners' Welfare Board (WEWB), immigration police and other relevant stakeholders.

SECTION VIII: CONCLUDING REMARKS

In the face of formidable challenges, Bangladesh economy continued to show signs of resilience in the early months of FY2017. Global environment continued to pose new set of challenges including slowdown in international trade, tepid global recovery, Brexit, the likely opting out of USA from the TPP, renewed protectionism in global trade, and continued security and refugee concerns. It may be recalled that, at the national level while political conflicts were limited, FY2017 kicked off with a rise in terrorist activities. This could have serious medium- to long-term impact on the economic prospects in Bangladesh.

The economy enjoyed a number of advantages from the perspective of macroeconomic management which were sustained from the previous fiscal year (FY2016). BBS national account estimates for FY2016 brought an optimistic outlook showing strong recovery of private investment and acceleration in GDP growth, backed up by strong manufacturing output. Maintaining this momentum needs to be the key objective of macroeconomic management in FY2017. On a welcome note, the macroeconomic stability was also restored with lower inflation, sliding interest rate and rising foreign exchange reserve during the early months of FY2017.

As regards the downsides, declining trend of remittance inflow remained a nagging concern. Divergence in the pace of urban and rural inflation has been on the rise in spite of the overall decline in headline inflation rate. Both revenue collection and public expenditure fell short of the target, making implementation of the national budget of FY2017 more challenging. However, revenue collection showed signs of improvement in the early months of the current fiscal year compared to that of the last year. ADP expenditure had recovered to a certain extent, but could not surpass the historical trend. Indeed, both resource mobilisation efforts and efficacy of resource use will need to be significantly raised in the remaining two quarters of the current fiscal year, if growth momentum is to be sustained and further strengthened.

The present report shows that debt situation, over the next five years, is expected to remain comfortable; however, the country should not be complacent. Indeed, while opting for financing mechanisms for public sector projects, it is important to consider the maturity period, conditionalities, tied nature of debt, risk of currency mismatch, internal rate of return and quality of the project.

Banking sector continues to suffer from inherent weaknesses. A key concern is the rising amount of NPL, growing excess liquidity and weak governance. Export has been showing resilience over the first months of FY2017 despite bleak global trade prospect. However, the decline in export earnings in the month of December 2016 raises concern.

Remittance flows continue the prevailing negative growth trend contrary to formidable migration growth. Over the medium term, the sustainability of remittance inflow will not only depend on developing skilled manpower, but also on governance issues such as dealing with 'hundi', as it would require measures beyond macroeconomic policies.

The report has presented a review of the newly initiated 'Food-Friendly Programme for the Ultra-Poor', where it urged that corrective measures will need to be placed for addressing selection bias, dealing with problems of 'inclusion and exclusion', and raising the effectiveness of implementation and monitoring of the programme. The programme may also include the workers of RMG factories in future.

The report in a separate section has argued in favour of a comprehensive approach in dealing with transit issues, as against the currently pursued discrete and episodical manner of dealing with user charges and fees, as also the infrastructure, logistics and investment infrastructure that will need to be put in place. The report recommends benefit sharing as the guiding principle for Bangladesh in dealing with connectivity issues to ensure win-win outcomes.

While Bangladesh battles with its immediate challenges, the policymakers should not lose sight of the reform and governance issues in hand, which will be critical in order to attain the envisaged accelerated development targets in the 21st century. To attain the aspired targets, a set of institutional and policy reforms in the areas of revenue mobilisation, public expenditure management, financial sector, private investment will need to be rigorously pursued, if needed, by taking bold steps. Particularly, in view of Seventh Five Year Plan of Bangladesh and the 2030 Agenda for Sustainable Development as well as preparing for graduation from the LDC group, these steps demand immediate attention of the policymakers.

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ANNEXURE

Annex Table 3.1: Implementation Status of 22 Priority Projects under ADP for FY2017

Sl. No	Project Name	Project Cost	Implementation rate Jul-Oct FY17	Cumulative Progress up to October 2016	Maximum possible completion by FY17	End date
	Transportation					
1	Padma Multipurpose Bridge project	28,793	10.4	40.3	59.1	31/12/18
2	Dhaka-Chittagong 4-Lane	3,817	25.8	82.1	89.5	31/12/16
3	Joydebpur-Mymensingh Road Development	1,815	42.3	98.6	100.0	30/06/16
4	Construction of Third Karnaphuli Bridge (Revised)	683	0.8	70.1	78.9	31/12/18
5	Support to Dhaka Elevated Expressway PPP Project	3,217	2.1	57.0	93.5	31/12/16
6	Dhaka-Chittagong Railway Development Project	2,121	2.9	90.7	98.3	30/06/16
7	Construction of Bypass Road in Satkhira town connecting Bhomra Land Port	142	0.0	62.7	80.3	30/12/17
	Power					
8	Ashuganj 450 MW CCPP	3,400	72.8	52.7	54.8	30/06/17
9	Construction of Bibiana-3,400 MW Combined Cycle Power Plant	3,358	3.4	13.3	32.0	30/06/16
10	Construction of Ghorashal 365 MW Combined Cycle Power Plan	2,512	56.8	45.1	54.1	31/12/16
11	Siddhirganj 335 MW PP	4,144	4.7	58.4	62.5	30/06/17
12	Shahjibazar 330 MW Combined Cycle Power Plant	2,844	7.1	71.1	97.4	31/12/16
13	Shikalbaha Dual Fuel 225 MW Combined Cycle Power Plant	2,022	135.3	53.9	52.3	30/06/16
14	Chapainawabganj 100 MW HFO based Power Plant	1,113	70.0	64.3	73.8	30/06/17
15	Veramara Combined Cycle Plant (360 MW) Development	4,140	71.3	60.8	66.0	31/12/17
16	Providing Electricity Connection to 18 lakh clients through Rural Electricity extension	6,426	50.0	85.3	91.0	30/06/18
	Industry					
17	Shahjalal Fertilizer Project	5,054	0.0	94.2	94.4	30/6/17
18	Production of Electricity by Co-generation and Establishment of North Bengall Sugar Mill	73	0.0	5.7	73.8	31/12/18
19	Tannery Industrial Estate, Dhaka (Second Revised)	1,079	16.3	48.5	71.0	30/06/16
	Oil, Gas and Mineral Resources					
20	Establishment of Gas Compressor Station in Ashuganj and Elenga	1,494	20.6	67.4	73.8	30/9/17
	Rural Development & Institutions					
21	Construction of 950m long PC Guarder Bridge over Dharla River at Phulbari Upazila of Kurigram District	227	0.3	35.3	74.8	30/6/16

Sl. No	Project Name	Project Cost	Implementation rate Jul-Oct FY17	Cumulative Progress up to October 2016	Maximum possible completion by FY17	End date
22	Construction of 520m long bridge in Nagarpur-Mirzapur via Mokna over Dhaleswari River under Nagarpur Upazila of Tangail District	76	21.4	71.0	100.0	30/6/17

Source: Author's calculation from the Implementation, Monitoring and Evaluation Division (IMED) data.

Annex Table 3.2: Implementation Status of 'Fast Track' Projects for FY2017

Sl. No	Project Name	Project Cost	Implementation rate Jul-Oct FY17	Cumulative Progress up to October 2016	Maximum possible completion by FY17	End date
1	Padma Multipurpose Bridge	28,793	10.4	40.3	59.1	31/12/18
2	Dhaka Mass Rapid Transit Development Project (Metro Rail)	21,985	2.0	4.3	14.2	30/6/24
3	2x1200 MW Ruppur Nuclear Power Plant (Phase-I)	5,087	25.5	93.9	102.9	30/6/17
4	Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project	35,984	4.0	1.8	8.2	30/6/23
5	2×660 MW Moitree Super Thermal Power Project (Rampal)	16,000	0.3	1.8	17.7	30/6/23
6	LNG gas terminal for importing liquid gas	No allocation in FY2017				
7	Deep Sea Port in Sonadia	Halted				
	Deep Sea Port at Paira	1,128	2.9	28.3	45.5	30/6/18
	Padma Bridge Rail Link	34,989	13.8	1.6	11.7	30/6/22
	Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border	18,034	66.9	9.4	10.5	30/6/22

Source: Author's calculation from the Implementation, Monitoring and Evaluation Division (IMED) data.

Annex 5.1: Flow Chart as regards FFP Process

Formation of Union and Upazilla Committee

Benchmark Criteria for selection of beneficiary

Capabilities

1. Permanent resident of union parishad.
2. Head member of the ultra- poor family.
3. Holder of National ID Card.
4. Especially this programme targets poor women, widows and women with disabilities as beneficiaries.
5. The extreme poor families with children will be given preference as well.

Incapabilities

1. Only one member from a family can be included in the list, not all of them.
2. Those under the Vulnerable Group Development (VGD) programme of the government's social safety net scheme will not be included.

Dealer Appointment

1. Appointment of dealer should be done through circular and verifying skills.
2. Dealer should have a permanent selling shop in the market or "hatt".
3. If any Ward does not have market of its own, an appropriate place should be fixed considering beneficiary's convenience.
4. The floor of the corresponding dealer's shop should be concreated so that food grain could be stored perfectly.
5. Dealers should be capable to store minimum 15 metric ton food grain in their specific shop. 6. Dealers should be solvent enough to store and distribute rice.
6. Any dealer who is already listed in black list, temporarily fired, experienced canceled dealership by Food Division or punished or penalized by the general court of Bangladesh could not be considered as a dealer in this food friendly programme.
7. Any government officials or representative could not be a dealer in this special ultra-poor friendly programme.
8. Corresponding Upazilla committee only have the privilege to provide the consent to appoint dealer.
9. Committee appointed dealer have to pay 20,000 taka (twenty thousand) as a refundable security deposit money (pay-order) and have to attach a non-judicial promissory note of 300 taka.

Procurement of Rice

1 According to the list, dealer could procure half of the monthly allotted rice yet dealer could also procure whole allotted rice if he has enough storage facility
2. .For preparing demand letter, dealer should accumulate all undistributed food grain.
In the first week of supply, dealer will procure the food grain from storage through treasure invoice of payment to specific sector of governmental fund.
3. Dealers have to maintain a register for keeping record of daily distributed and undistributed food grain.

Quantity, Price and Distribution

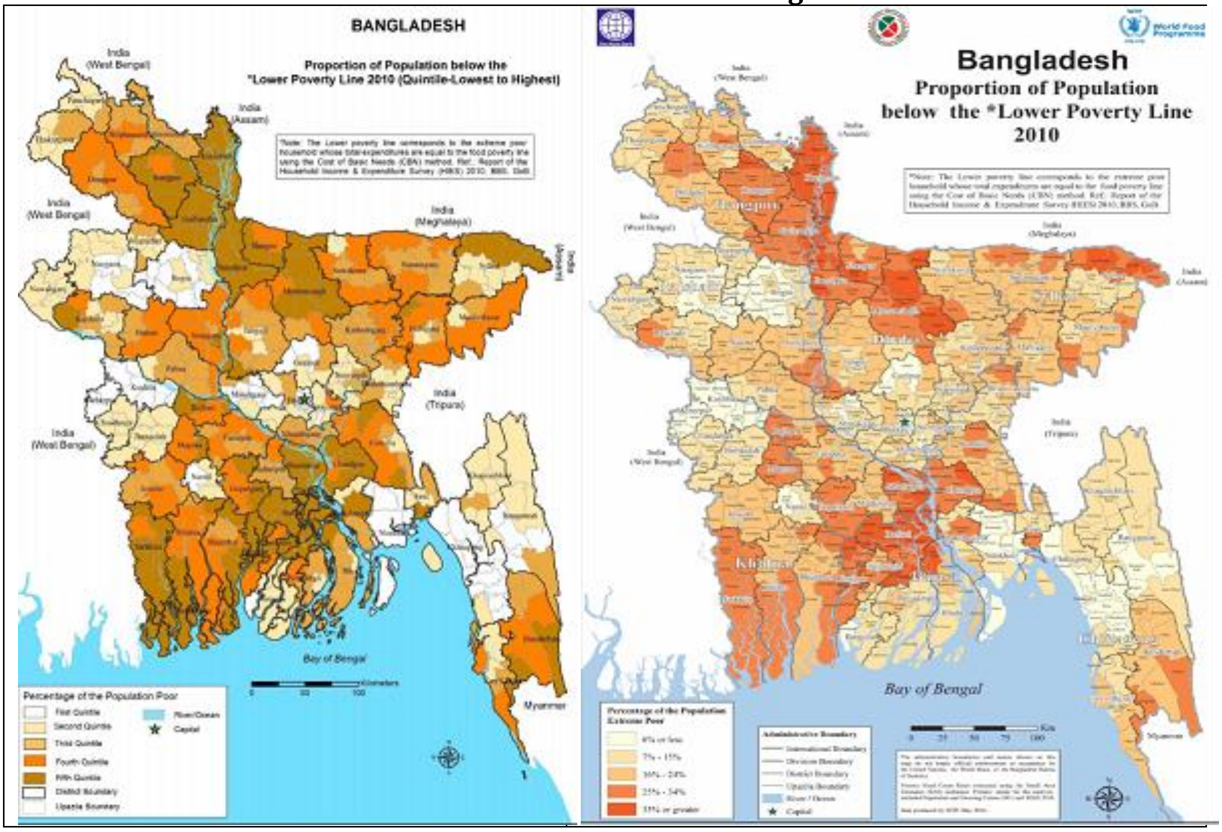
1. The government will sell rice at Tk 10 per kg to 50 lakh ultra-poor families across the country under the "Food friendly Programme".
2. The rice selling programme at Tk 10 per kg will continue for five months which includes the months of September, October, November and March to April in each year. The months have been selected in view of non-availability of work for the day laborers.
3. All substantial decisions including ex-storage price, selling price, distribution period and commission of dealer and direction cost will be determined by government.

Source: CPD elaborations.

Annex Table 5.2: Newspaper Reports on the FFP: Major Issues and Concerns

District	Coverage	Beneficiary Identification	Dealer selection	leakages	Quality of rice	Political Influence	Trafficked in black market	Stock shortage	Bribe
54 Upazilla in **Rangpur**	8,82000	Y	Y						Y
Bancharapur Upazilla of **Bramanbaria**	420 (two wards)								
7 Upazilla of **Gaibandha**	1,17,000	Y	Y						
Nilphamari	48041	Y	Y	Y					
Kahalu Upazilla at **Bogura**	8,334 (9 Union)	Y	Y	Y					
Kurigram	1,25,279				Y				
9 upazilla in **Khulna**	83944 (68 union)								
Magura	36,640	Y							
Shariatpur: Sadar Upazilla:	1344 (Angra)	Y	Y						
Comilla: Burichong Upazilla	6050 (9 Union)	Y							
Kishorgonj	59,652								
13 Upazilla in **Dinajpur**	1,36, 288	Y	Y			Y			
Shariatpur District	38000 (65 union)			Y			Y		
Shirajgonj				Y	Y				
Potuakhali, Baufall Upazilla									
7 upazilla of **Natore district**									Y
Shakhipur Upazilla in **Tangail**	11,048 (8 union)		Y	Y			Y	Y	Y
Chatmohor Upazilla of **Pabna**	301 (5 union)		Y			Y	Y		
Jhalokathi			Y	Y					
Fatikchari, **Chitagong**	12725						Y		
Ramgonj Upazilla in **Laxmipur**	42,500 (10 Union)						Y		
Aditmari Upazilla at **Lalmanirhat**	10541 (8 union)			Y					
Nandail Upazilla in **Mymanshing**	26000 (12 union)	Y							
Gobindagonj upazilla in **Gaibandha zilla**	1050 (Sapmara union)								
Narshingdi	63000								
Badagachi Upazilla in Noagon				Y					
Naliatbari Upazilla in Sherrpurr	14,717			T				Y	
Jaipurhatt		Y		Y					

Annex 5.3: Location of Extreme Poor and Ultra Poor of Bangladesh



Annex Table 5.4: Comparative Coverage of FFP and Flood Affected Districts

Flood Prone Area	Coverage of Food Friendly Programme (Yes or No)	Flood Prone Area	Coverage of Food Friendly Programme (Yes or No)
Nilphamari	Y	Madaripur	Y
Lalmanirhatt	Y	Shariatpur	Y
Kurigram	Y	Manikganj	Y
Rangpur	Y	Dhaka	Y
Gaibandha	Y	Munshigonj	Y
Bagura	Y	Chadpur	Y
Sirajgonj	Y	Shunamgonj	Y
Jamalpur	Y	Rajshahi	Y
Tangail	Y		
Kushtia	Y		
Rajbari	Y		
Faridpur	Y		