

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

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CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
a civil society think tank

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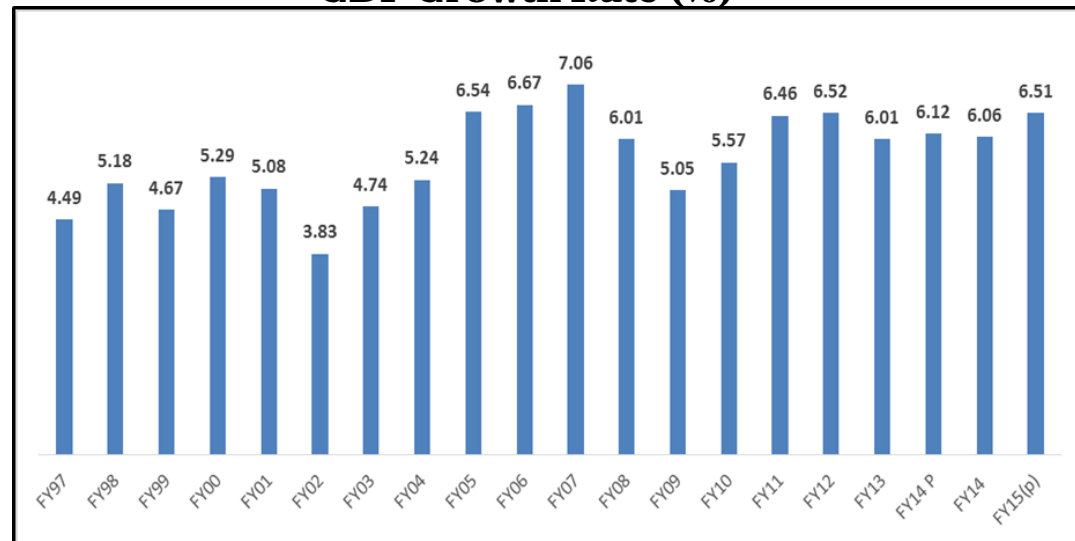
- Notwithstanding continued prevalence of an atmosphere of “democratic discomfort” fiscal year 2014-15 (FY2015), in Bangladesh economy closing with a number of macroeconomic advantages
 - lower inflation
 - declining interest rate
 - stable exchange rate
 - manageable fiscal deficit
 - positive balance of payment
 - augmented foreign exchange reserve
 - low level of global commodity prices including that of oil
- The developing Asia managed to accelerate their growth but the major advanced economies are growing at an uneven pace

- Some of the fault lines of the elapsing fiscal year included
 - unachieved revenue targets
 - low flow of foreign assistance
 - sluggish exports to the US market
 - failure to ensure incentive price to the rice farmers
- Acceleration in private investment remained an illusive target
- Admittedly all these opportunities and challenges are going to define the benchmarks for the next fiscal year FY2016
- The upcoming fiscal year is also unique as it will coincide with
 - Seventh Five Year Plan (7FYP)
 - Sustainable Development Goals (SDGs) - national governments, demonstrating ownership, has to be in the driver's seat of implementation

Section II. Macroeconomic Management in FY2015 and Outlook for FY2016

- Provisional GDP growth estimate (6.5 %) was found to be higher than expectations
- Driven by manufacturing growth rate (10.3%)
- Food products, pharmaceuticals and medical chemicals, non-metallic mineral products mainly contributed the high manufacturing growth – not apparel and textile

GDP Growth Rate (%)



Contribution to GDP Growth Rate (%)

Sectors	FY12	FY13	FY14	FY15
Agriculture sector	0.52	0.41	0.70	0.48
Crop Sector	0.18	0.06	0.34	0.12
Other agriculture	0.34	0.35	0.36	0.37
Industry sector	2.47	2.59	2.27	2.72
Manufacturing	1.69	1.80	1.60	1.93
Other industry	0.78	0.79	0.67	0.80
Services sector	3.43	2.88	2.92	3.02
Tax less subsidy	0.10	0.13	0.16	0.28
GDP	6.52	6.01	6.06	6.51

Section II. Macroeconomic Management in FY2015 and Outlook for FY2016

- Per capita GNI is estimated to be USD 1,314
- An increased likelihood that Bangladesh is graduating to lower-middle-income status in next year
 - In FY2014 per capita GNI was USD 1,084
 - Last time the threshold was USD 1,045 (Atlas method)
- But not considered for graduation from LDC in 2015 review
- If Bangladesh can make the final push it is still possible for Bangladesh to meet the graduation thresholds by 2018, graduate out of the LDC group in 2024
- Threshold for graduation –
 - GNI per capita of USD 1,242 (based on Atlas method and average of 3 years i.e. 2011-2013 for 2015 review)
 - HAI of 66 or more
 - EVI of 32 or less.

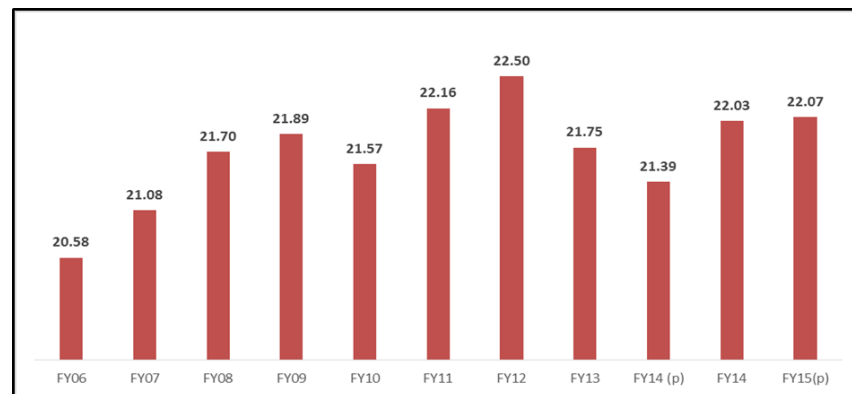
Bangladesh's performance in LDC status review

Year of Review	EVI	HAI	GNI per capita (\$)
2006	25.8	50.1	403.3
2009	23.2	53.3	453.3
2012	32.4	54.7	636.7
2015	25.1	63.8	926.3

Section II. Macroeconomic Management in FY2015 and Outlook for FY2016

- Since FY2012, private sector investment growth has stagnated
- The proxy indicators indicated a mixed picture –
- Credit to private sector: 13.6% (Mar'15)
- Term Loan: 45.2% (Jul-Mar FY15)

Private investment (% of GDP)



- Growth of payments against capital machinery import was also impressive – 23.0% (Jul-Mar FY15)
- Four of the items (in the categories aeroplanes and other aircraft, compression-ignition internal combustion piston engines, and machines for treating metal including electric wire and transformers [power handling capacity 16-500]) show very high growth in their value
- Possibility of illicit financial flow through import of capital machinery
- On a welcome note, following the CPD's repeated assessment, the central bank has recently has started scrutinising bills of entry (BoE) received from commercial banks to unearth possible capital flight in the form of capital machinery import

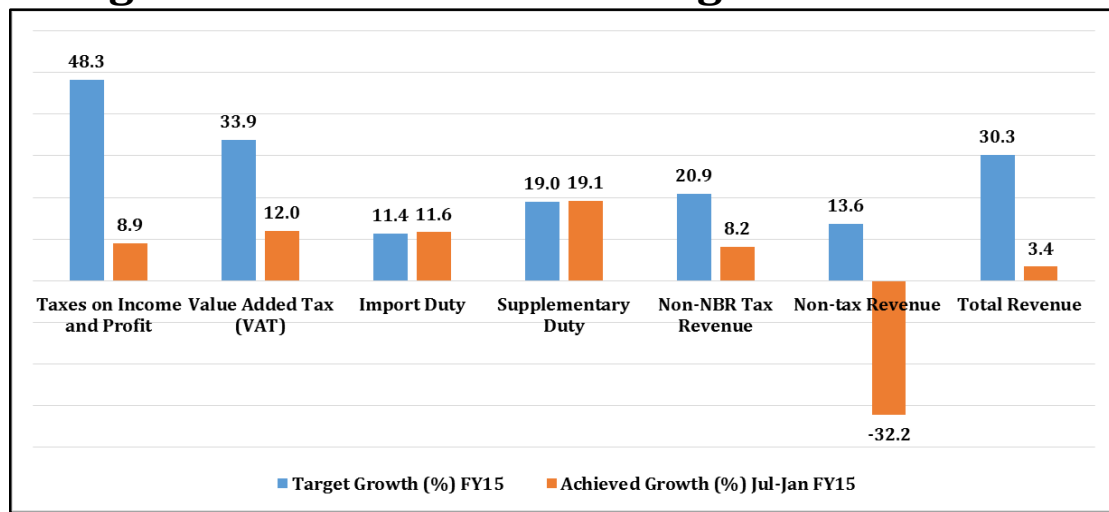
- Results from CPD's rapid business environment assessment survey
- Extensive money laundering was taking place through formal banking system - 62.5%
- Investment environment could deteriorate further – 60.7%
- Pessimistic view -
 - improve infrastructure (67.8%)
 - timely implementation (76.7%)
- Major obstacles –
 - corruption
 - inadequate infrastructure
 - inefficient government bureaucracy
 - government instability
 - limited access to financing

Anticipated revenue shortfall is a reality in FY15, but will the lesson be learnt for FY16?

- NBR's tax revenue collection growth was 12.4% (Jul-Feb FY15; target 34.4%)
 - Import duty and supplementary duty collections are on track
- Non-tax revenue growth was (-) 32.2% (worth Tk. 5,619 crore less)
- Overall revenue collection may fall short by Tk. 30,000 cr. (Target: Tk. 182,954 cr.)

- A realistic revision of the revenue targets for the ongoing fiscal year is warranted.

Targets and achieved revenue growth in FY15



Several policy decisions will determine the public expenditure outlay in FY16

- As of February of FY15, non-development expenditure comprised only 46.9 % of total expenditure planned for the FY15 (only 1.1% growth)
- “Pay and Allowances” recorded 13.4% growth (Target 9% growth)
- Interest payments as well as subsidies and current transfers, remained well below their respective targets
- Overall capital expenditure growth was negative (SoEs received Tk. 1,716 cr.)
- An additional Tk. 13,000 will be set aside to implement the new pay scale for government officials in FY16
- There may potentially be pressure for domestic interest payments in FY16 in view of the buoyant NSD sale in FY15
- Subsidy requirements are expected to remain at downside
- Government should consider a marginal adjustment of electricity and gas prices and keep the petroleum prices as they are in FY16

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

- Amount of subsidy allocations have been significant, reaching Tk. 33.5 thousand crore or 2.8% of GDP in FY13 albeit coming down somewhat to Tk. 26.0 thousand crore or equivalent to 1.7% of the GDP in FY15
- Recently CPD held a dialogue titled ‘Understanding Efficiency and Distributional Equality of Subsidy in Bangladesh’
 - Discussions underpinned the urgency of revisiting the issue of subsidy
 - emphasised the need to inculcate discipline and transparency
 - subsidy as a policy tool should be pursued in terms of its distribution, rationale, sectoral distribution, allocation, targeting and management

It is reckoned that the proposed National Subsidy Policy could consider the following elements:

- a. a clearly articulated definition of 'subsidies' where sectors, forms and modalities will be articulated in a transparent manner;
- b. a comprehensive guideline which will articulate principles for inter-sectoral and inter-agency distribution, allocation and targeting of subsidies;
- c. will have built-in provisions for mid-course correction in view of changing domestic and global contexts, particularly with respect to global market volatilities and shocks, and natural disasters and exigencies;
- d. be tuned to reactive needs in view of subsidy and other support policies pursued by import-source and export-competing countries (with provisions of imposing counter-veiling duties);

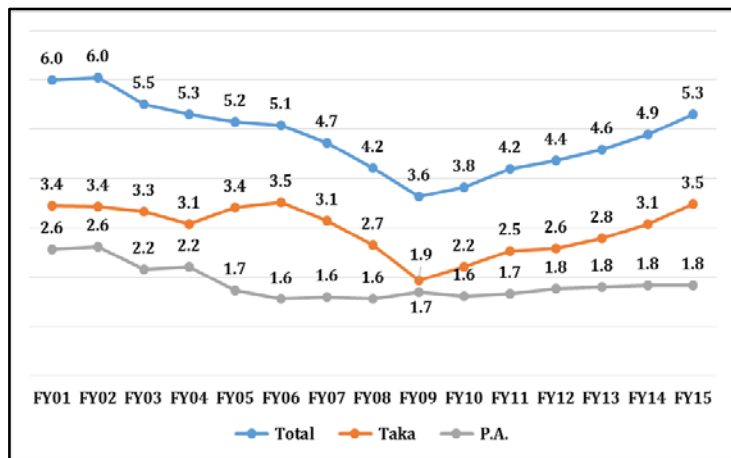
- e. take cognizance of WTO subsidy discipline and rules to ensure compatibility;
- f. take into account positive and negative externalities of subsidies and take cognizance of environmental consequences and second round effects;
- g. where feasible, to propose subsidy-specific time line and phase-out period;
- h. will be informed by advantage of ICT in selection, targeting and monitoring in the context of subsidy management;
- i. maintain a reliable and comprehensive database on subsidy which would help with transparency and accountability and strengthen monitoring of subsidy management.

Section II. Macroeconomic Management in FY2015 and Outlook for FY2016

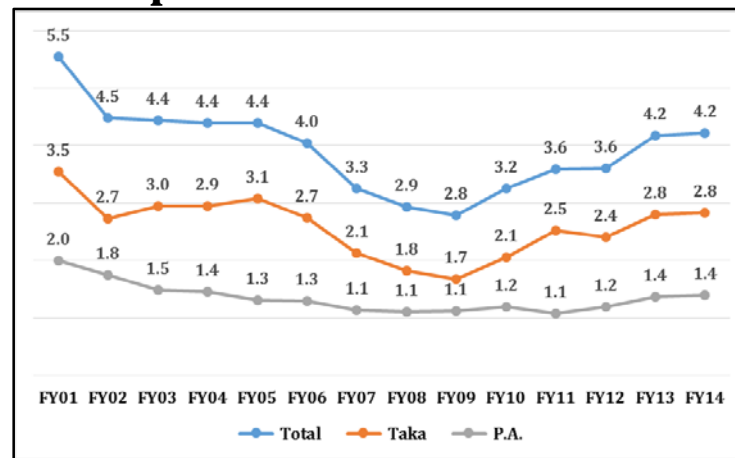
Implementation of the ADP remained business as usual in FY15, hence there is a need for a breakthrough in FY16

- In first 10 months actual spending under the ADP was 51.8% of the originally planned allocation of Tk. 80,315 cr.
- RADP for FY15 downsized to Tk. 75,500 cr.
- The size of the ADP for FY16 has earmarked Tk. 97,000 cr.

Allocation as % of GDP



Expenditure as % of GDP



- as % share of GDP, both allocation and actual spending increased gradually since FY09, reaching the levels of the early 2000s
- Project aid spending has remained consistently below 1.5% of GDP since FY03

Section II. Macroeconomic Management in FY2015 and Outlook for FY2016

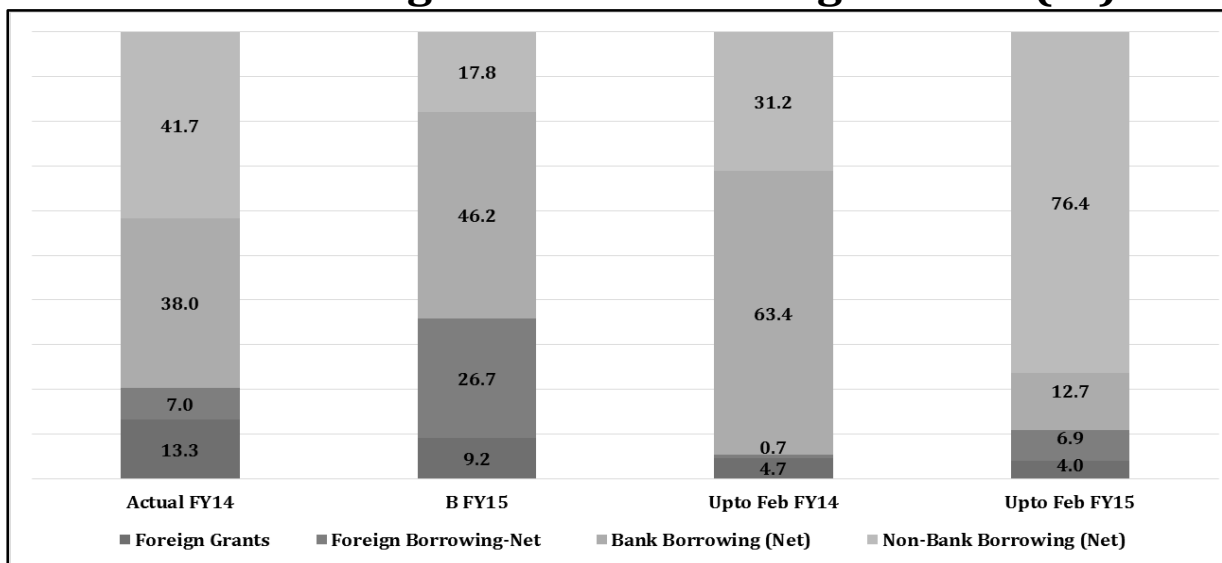
- CPD has selected a set of 26 projects under the ADP for FY15
 - 14 of the 26 projects were supposed to be completed in FY15
- Actual spending on these 26 were 17% during Jul-Nov FY15 (actual spending on all ADP projects were 13%)
- However, only Tk. 5,362 crore was earmarked for 14 completing projects in the RADP FY15 while a total allocation of Tk. 21,392 crore was needed for their timely completion
- Combined financial progress on these 14 projects until November of FY2015 was 41.8%
- It appears almost all of these projects will not be completed in FY15 and will be carried forward to the ADP for FY16

Section II. Macroeconomic Management in FY2015 and Outlook for FY2016

The financing mix for the budget deficit will be a challenge in FY16

- budget deficit was well within the planned limit in FY15
- A significant revenue shortfall will be offset by lower public expenditure
- key feature in FY15 was buoyant sale of high-yield national savings certificates
- lack of utilisation capacity for foreign resources remained a weak area

Share of budget deficit financing sources (%)



- ***Fiscal planning for FY16 requires significant mid-term corrections***
- Since the FY2013 budget, the fiscal framework of the national budget has been weak
- Revenue-GDP ratio will decline for the third consecutive fiscal year in FY15 and may fall below 10% threshold
- CPD estimates, the national budget for FY16 may seek an additional Tk. 59,000 cr. revenue over the actual in-take in FY15 (growth of about 38.5%)
- Revamping revenue mobilisation by widening the existing tax net and finding new sources of revenue should be a priority

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

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

Section II. Macroeconomic Management in FY2015 and Outlook for FY2016

- Before introducing new provisions and regulations (i.e., property tax, the Value Added Tax and Supplementary Duty Act of 2012, etc.), economy-wide implications and the reality on the ground should be assessed.
- The government should consider expanding the scope of presumptive taxes.
- The performance of SoEs needs to be strengthened to increase dividends and profit.
- Land development tax should be rationalised on a regular basis.
- The rationalisation of public tolls and fees should be done on a regular basis.
- Auction on spectrum bands should be held without delay.
- Offloading of SoEs' shares to the capital market can be considered.
- Privatisation of SoEs needs to be reconsidered.
- The operationalisation of an alternative dispute mechanism for settling revenue-related disputes should be a priority for NBR

The expenditure side of the national budget also suffers due to lopsided planning

- Dependence on domestic financing has increased, while foreign aid utilisation remains weak
- Planning development expenditure also requires drastic improvement
- CPD identified that 36 projects were allocated Tk. 1 crore or less to keep them alive in ADP for FY15. Such symbolic allocations should be abandoned
- Timely implementation and avoidance of cost overruns should be strictly maintained
- Besides the quality of fiscal planning, the quality of public expenditure also requires further improvement.
- It is important to provide adequate attention to investment in infrastructure
- Allocations to health and education are also important for medium-term growth and attainment of the demographic dividend and SDGs.
- Without improving subsidy management, a sound fiscal framework cannot be established

Section II. Macroeconomic Management in FY2015 and Outlook for FY2016

- The quality of fiscal planning is deteriorating over the last four years
- The weakest link among all the indicators is net foreign borrowing
- ‘Statistical fiscal space’ is estimated to be about Tk. 10,000 crore – a result of rebasing of national accounts estimates

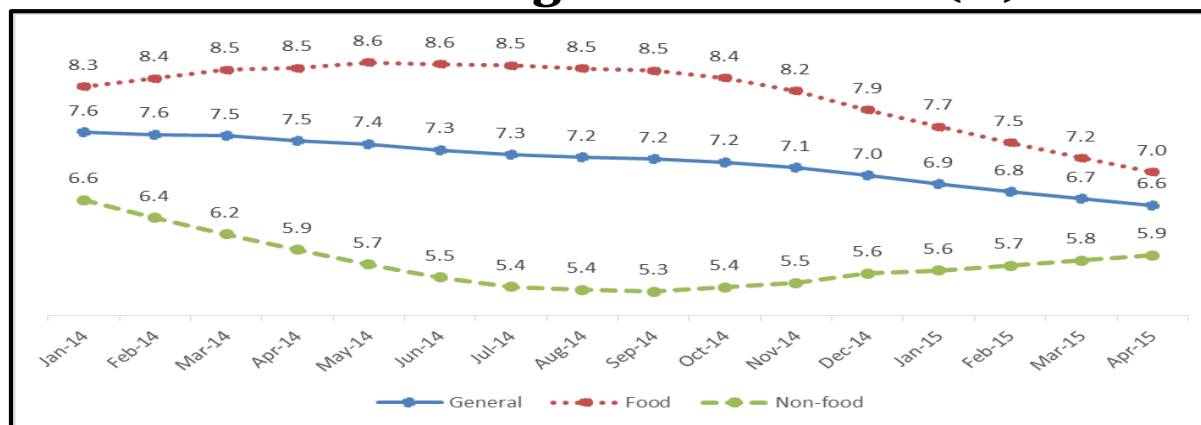
Fiscal gap as percentage of budget (%)

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

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

- Inflation appears to be stable at about 6.6 per cent:
 - Annual average food inflation decreased from 8.6 per cent in June 2014 to 7 per cent in April 2015: largely due to lower prices of rice at the retail level.
 - Non-food inflation increased from 5.5 per cent to 5.9 per cent during the same period.

Annual average inflation rate (%)



- The global prices of almost all commodities declined sharply throughout FY2015. The world commodity price outlook is currently stable.

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- Having large foreign exchange reserves will allow the Bangladesh Bank to avoid volatility in exchange rates during the next fiscal year.
- As mentioned, the growth of broad money supply was lower than the programmed target throughout FY2015.
- very low demand from both the public and private sectors kept broad money supply growth well within target.

Growth of monetary indicators (outstanding as of March 2014)

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

- Overall, the outlook for inflation for FY2016 appears to be stable.
- A major challenge in FY2016 will be to take advantage of the declining trend in commodity prices and opt for more growth-friendly expansionary economic policy.

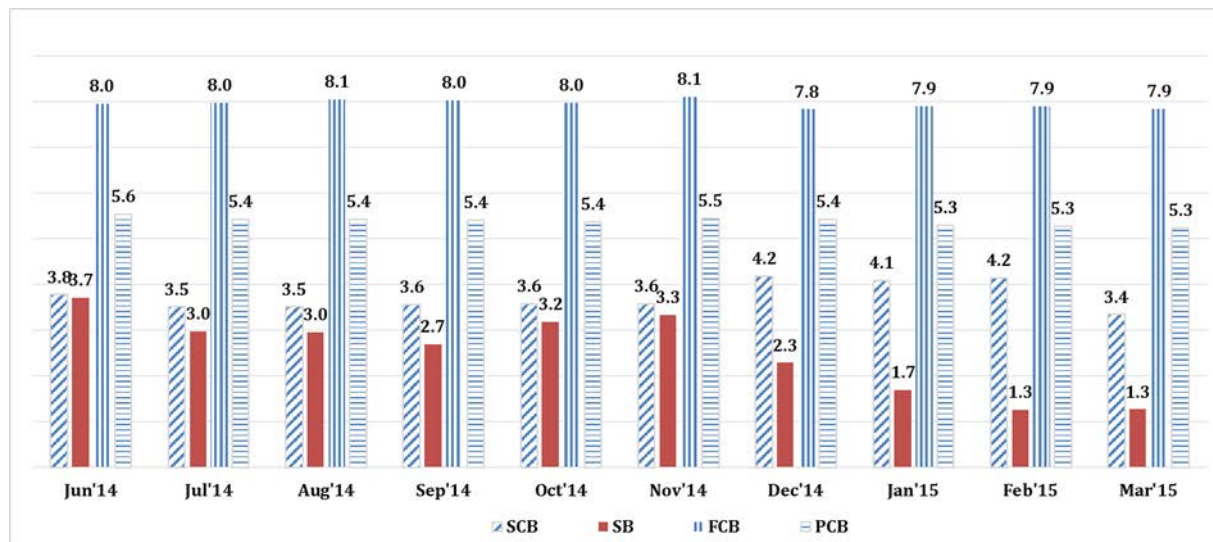
Headline indicators have improved after flexible rescheduling policy for large loans was allowed, but no major reform of banking sector management was initiated

- Banking sector is entrenched with large and uneven interest rate spreads, NPLs, and inadequate capital adequacy with repeated recapitalisation.
- The performance of the banking sector is largely tied to the performances of PCBs and FCBs.
- Spread between deposit and lending rates is a major impediment to ensure low cost of investment.
- The average interest rate spread decreased from 5.3 percentage points in June 2014 to 4.9 percentage points in March 2015.
- Nevertheless, the interest rate spread in Bangladesh remained high compared to those in many of the country's export competitors – in China and Vietnam, 2.9 percentage points in 2014

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- Declines in interest rate spreads were most significant for Bangladesh's SBs (2.5 percentage points), followed by SCBs (0.4 percentage points), PCBs (0.3 percentage points) and FCBs (0.1 percentage points).
- Traditionally, FCBs maintain the highest interest rate spread, followed by PCBs, SCBs and SBs.

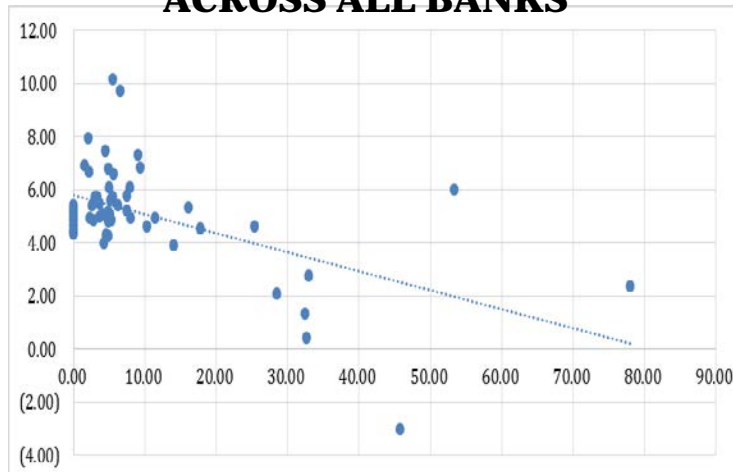
INTEREST RATE SPREAD BY TYPE OF BANK



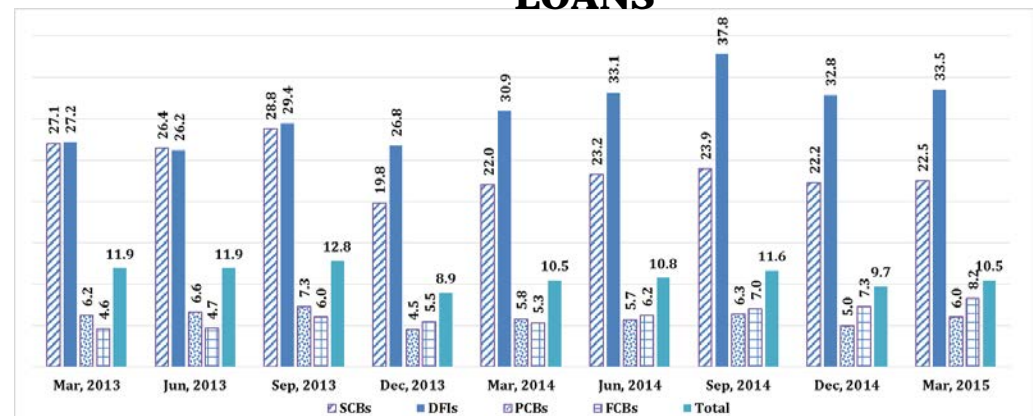
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- Policy debates in Bangladesh often relate the high incidence of NPLs to high interest rates. But empirical evidence does not support positive relationship between the two.
- There are many other factors responsible for high interest rate spread like institutional inefficiencies, market power etc.
- The fallout of a number of scams by SCBs followed by several fraudulent activities by PCBs caused NPLs as a share of total outstanding loans to rise as high as 12.8 per cent as of September 2013.

**NPLS AND INTEREST RATE SPREADS
 ACROSS ALL BANKS**



**RATIO OF NPLS TO TOTAL OUTSTANDING
 LOANS**

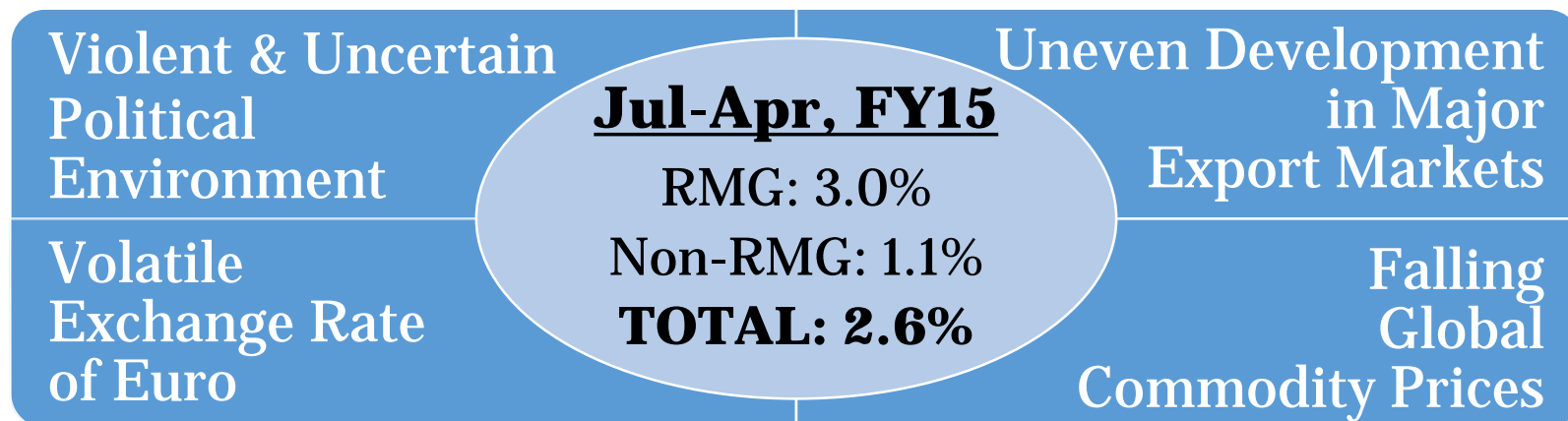


Section II. Macroeconomic Management in FY2015 and Outlook for FY2016

- The relatively low figure of NPLs as a share of total outstanding loans in December 2014 reflects the recent flexible large loan (more than Tk. 500 crore) rescheduling policy.
- The share of NPLs in the total outstanding loans of FCBs has increased systematically over time and remains above that of PCBs.
- Regrettably, no serious policy efforts were put in place to counter these issues in the medium term.
- The central bank should institutionalise good governance in the banking sector.
- The performance of newly established PCBs needs to be monitored with special attention.
- Ensuring fair competition in the sector is equally critical.
- The central bank needs to establish **an independent banking commission** to conduct necessary analytical exercises and undertake an appropriate reform agenda.

Section II. Macroeconomic Management in FY2015 and Outlook for FY2016

Export earnings, against all odds, held their ground as competition intensified in major markets



- **Targeted USD 33.2 bn. will not be achieved: hardly USD 31 bn. will be earned in FY15.**

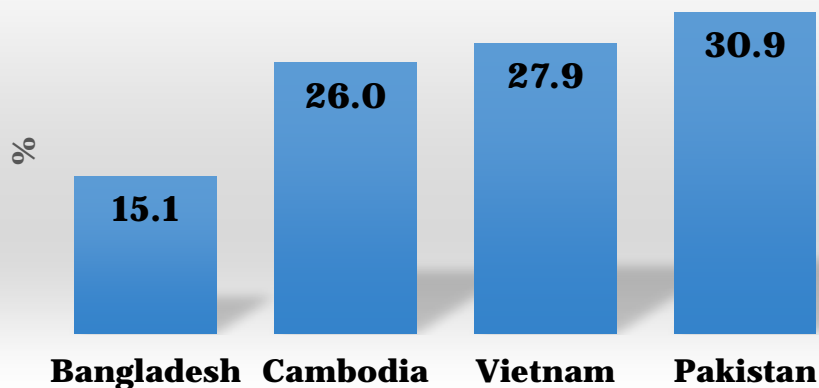
Export Growth to Major Markets Jul-Apr FY15

Type of Exports	United States	EU	Non-traditional markets	Total
RMG	0.1	3.6	4.1	3.0
Non-RMG	9.5	4.3	-1.3	1.1
Total	0.9	3.7	1.1	2.6

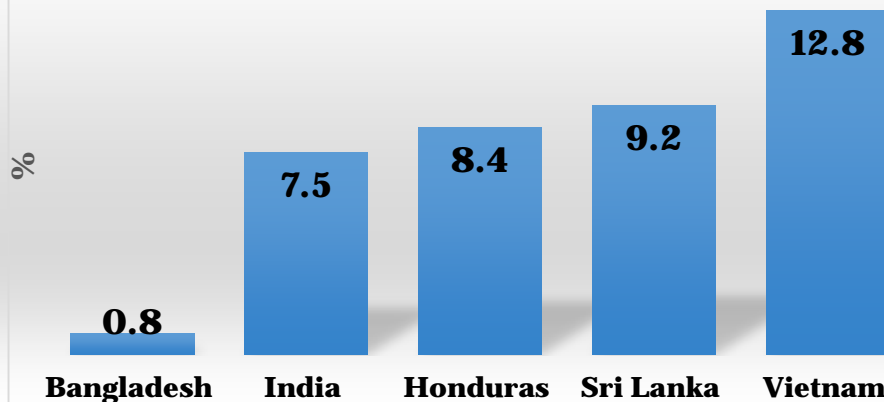
Section II. Macroeconomic Management in FY2015 and Outlook for FY2016

- Little progress in product and market diversification (Non-RMG: 1.1%, Non-Traditional Markets: 1.1%)
- RMG, particularly Woven, shifting from the US to the EU market: *during Jul-Apr of FY15, woven fell by 1.6% in the US but rose by 7.0% in the EU.*
- Major competing countries performed better than Bangladesh in terms of increasing their Apparel Export during Jul-Mar of FY15:

EU Market



USA Market



Challenges Ahead

- Competing currencies' exchange rate should be observed carefully while taking policy decisions on this matter.
- Preference erosion as competing countries are getting preferential market access offer in major markets.
 - After getting **GSP+** facility in the EU, **Pakistan** gained
 - **Vietnam**, closest competitor of Bangladesh in RMG export, will hugely benefit if the **Trans Pacific Partnership-TPP** is realized :
 - share will increase 4 per cent to 11 per cent by 2024 vis-à-vis from 5% to 7% for Bangladesh
 - In absence of TPP share of countries will be 8% by 2024
 - CD on RMG in US market: 7.6%-16.5%
- GSP facility for RMG in the US market should be bargained for by the Bangladeshi policymakers.
- Fully compliant status must be attained from ACCORD and Alliance as Bangladesh will have an edge in terms of competitiveness:
 - Buyers will be comfortable to source from a formally compliant country.

Will the balance of payments surplus be sustained in FY2016?

- In Jul-Mar of FY15, surplus in overall BOP was \$ 2.9 billion.
- However, due to significant increase in trade deficit (\$4.6 bn. to \$ 7.1 bn.), amount of surplus fell by 25.7% compared to Jul-Mar of FY14.

CURRENT ACCOUNT BALANCE

Import Payments

- In 3rd quarter of FY15, growth in import payments slowed down (1.5%) after significant rise in the first half of the fiscal (18.3%).
- Import of Rice (483%), POL (40.7%) Fertiliser (53.8%) and capital machinery (23.1%) increased significantly in the Jul-Mar of FY15.

Remittance Inflow

- 7.3% increase in remittance earnings (\$ 10.4 bn. to \$ 11.2 bn.) in Jul-Mar of FY15 compared to same period of FY14.
 - Only 1.3% growth if compared to same period of FY13.

Manpower Export

- Manpower export in Jul-Apr of FY15 grew by 11.3% as opposed to same months of FY14.
- Saudi Arabia has been reopened for manpower export after a long seven years of embargo: number of workers going to KSA has increased this year.
- Still manpower export to major destination (i.e. UAE, Malaysia) is almost at a halt.

Illegal Migration

- Illegal migration on the rise due to negligible scope of legal migration in the traditional countries. Other reasons include:
 - High cost of legal migration, Lack of knowledge about the legal procedure of job application, Extreme poverty and Unemployment among others.
- This needs to be stopped at any cost immediately as it possess a serious threat to Bangladesh's image and it may endanger legal migrants in the foreign countries as well

FINANCIAL ACCOUNT

- In spite of the \$ 1.1 bn. deficit in the CAB, surplus in the Financial Account (\$ 3.8 bn.) kept the overall balance in surplus.
- Without attracting significant amounts of FDI and foreign aid, it will be difficult to maintain a surplus in this account in the future.

Recommendations for Keeping BOP in Surplus:

- Export should be promoted to reduce trade deficit: depreciation of BDT's exchange rate can help achieve this target.
- The central bank can mop up US Dollar through Open Market Operations to create higher demand for dollar that will depreciate BDT.
- Since the supply of Broad Money is well below the target, the inflationary pressure is supposed to be negligible from this action.
- This will enhance the level of reserve further and it is now time to check out whether at least parts of it can be invested in more rewarding instruments or not.

Reform initiatives need to be prioritized

- Reform agenda has stalled –
 - Public services act
 - PPP act
 - Privatisation
 - Financial Reporting Act
 - Implementation of VAT and SD Act 2012
- Set up five independent commissions –
 - An independent statistical commission to validate the macroeconomic correlates
 - A permanent agriculture price commission
 - A permanent local government financing commission
 - An independent public expenditure review commission
 - An independent financial sector reform commission
- It is time to put in place these initiatives towards better macroeconomic management

Problematic

- Rice accounts for about 97 per cent of the total foodgrains produced and about 73 per cent of the calories consumed in the country.
- Suspicion of demand-supply miscalculation
 - Achievement of self-sufficiency in rice production as indicated by the current set of official statistics
 - Increasing amount of rice imports, particularly from India, despite bumper productions in certain years.
- Unsatisfactory performance of the domestic procurement programme has also emerged as a major concern
- Recent government imposition of 10 per cent duty on rice imports is a positive move

Mismatch in the Data for Demand and Supply of Rice

- Since the existing practice is based on some ad hoc values of the critical parameters, the estimated food gaps invariably give rise to a paradox resulting from mismatch of demand and supply.
- Gross production of rice increased from 28.93 million metric tonnes in FY2008 to 34.41 million metric tonnes in FY2012 and was projected to increase to 38.96 million metric tons in FY2016
- The series of adjustments as recommended in the study by Yunus et al. (2012) in both the demand and supply side indicates that the country was deficit in rice, ranging from 2.05 million metric tons in FY2008 to 0.13 million metric ton in FY2010.
 - It may be noted that the total imports of rice were 2.05, 0.6 and 0.08 million metric ton in FY2008, FY2009 and FY2010 respectively.

Incentive Price for Rice Production: Role of Domestic Procurement Programme

- Unsatisfactory performance of the domestic procurement programme in the past has been due to
 - excessive public sector imports, particularly in years when there were good harvests (even in some flood years) which occupied warehouse space thereby severely restricting the ability to procure in the next harvest;
 - limited access of farmers to procurement centers so that they were obliged to sell to private traders at a lower prices.
- The uneven nature of procurement over the years, ranges from as high as 12.89 lakh tons in FY2014 to as low as 5.63 lakh tons in FY2011.
- The share of paddy directly procured from the farmers is less than 10 per cent of total rice procurement.

- Farmers are deprived of fair price of their produce because the millers (from whom bulk of rice is procured by the government) do not pay the farmers the procurement price of paddy fixed by the government.
 - The much anticipated “Trickle Down Effect” does not usually take place due to superior bargaining position of millers who has emerged as a major player in the rice market.
- Unplanned and excessive rice import has emerged as a threat to the local paddy market, forcing the farmers into selling their paddy at lower prices – lower than their cost of paddy production and thereby incurring huge losses
- NBR has recently (effective from May 11, 2015) imposed a 10 per cent regulatory duty to give cushion to paddy farmers in the wake of soaring rice imports and the fall in prices of the staple in the domestic market
 - The prices of all types of paddy have increased by Tk. 50-Tk. 60 per maund in the producing regions after the government announcement

Competitiveness of Rice Markets in Bangladesh

- There are a number of studies that have shown that rice markets in Bangladesh are moderately integrated and highly competitive.
- Mahmud and Wadood (2012) examine different segments of the rice market separately regarding market competitiveness.
 - The first segment of the rice market, one that involves primary growers, can be considered to a large extent competitive, although the benefits of competition do not reach small and marginal farmers.
 - The second segment of the market consists rice millers and the wholesalers. Given that an entrepreneur has to have large financial resources as well as business connections to be able to survive in the rice wholesaler market, entry into this market (segment) is rather difficult. Overall, in the second segment of the rice market, one may argue that competition is to a large extent restricted.
 - The third segment (of the retailer firms) mostly acts as a channel for prices set in the second segment (of the rice wholesalers).
- The major beneficiaries of such differentiation are the millers and other participants in the downstream supply chain e.g. wholesalers, retailers and the supermarkets

Major Recommendation

- The alternative set of estimates of per capita consumption needs updating in view of changing income, price, and food habit. The task can be accomplished by appropriate adjustments of the food consumption module of the HIES in a regular manner. This will obviate the need of conducting a nationally representative survey for food gap analysis.
- A rigorous study needs to be undertaken to assess the strategic stockholding behaviour of the private sector agents and their reaction and adjustment behaviour to public intervention in the foodgrain market.

- Regular and continuous monitoring of world food market scenario is a pre-requisite for early planning of procurement of foodgrains from the global market, especially for coping in times of natural disasters.
- If the procurement operations can be further decentralised at the local level, the transaction costs that are involved can be minimised and thus provide incentive for farmers to participate in the public procurement programme.
- The mode of procurement should be transparent and competitive enough to create expectations among traders that a fall in prices would be prevented. Procurement through open tenders involving competitive bidding may be explored in this context.
- For enhancing and sustaining the benefits of supply chain management, rice productivity needs to be continuously increased through adoption of improved technology and other measures.

- The idea of development of ‘fast track projects’ was first mooted at the government level during 2013
 - After taking office in January, 2014, the incumbent government has identified six projects as ‘fast track projects’; in January, 2015 another two projects were included
- Padma Multipurpose Bridge Project, Dhaka Mass Rapid Transit Development Project (Metro Rail), Rooppur Nuclear Power Plant,
- 2x660 MW Moitree Super Thermal Power Project (Rampal),
- LNG terminal project, Deep Sea Port at Sonadia,
- Matarbari coal-fired power project and Paira Port Project.
- Present study assesses the progress of implementation of the fast track projects from the perspective of success of project management.

- The project management success is categorised into two components
 - Project success: meeting time, cost and quality
 - Product success : meeting the project owner's strategic organisational objectives, satisfaction of users' needs and satisfaction of stakeholders' needs
- Using the logical framework method (LFM) different components of fast track projects have been critically reviewed: analysis focuses on project success



Source: Baccaarini, 1999

- **Institutional Structure of Fast Track Projects**
- ‘Concept of Fast track projects made a link between implementing agencies with the Prime Ministers’ office.
 - institutional structure for fast track projects intend to improve allocative and operational efficiency.
- Fast Track Projects have been monitored by the newly formed ‘Fast Track Project Monitoring Committee (FTPMC)’
 - A task force has been formed under the FTPMC with the chair of the principle secretary
- The committee could meet only thrice to discuss about the projects
 - Task force met five times during this period
 - Ensure transparency and accountability in the process of implementation

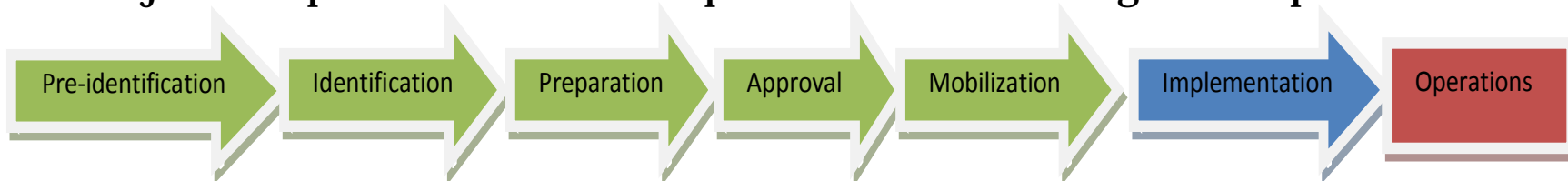
Section IV. Assessment of Progress of Fast-Track Projects

Fast Track Projects

Project Name	Project Cost	Sources of Funding	Target date
Padma Multipurpose Bridge Project	Tk. 28,793 crore	92 Per cent from local fund and the rest 8 per cent from grant received from India	2018
Dhaka Mass Rapid Transit Development Project (Metro Rail)	Tk. 21,985	JICA-Tk.16,59 Crore (75 %) and Government-Tk.5,390 Crore (25 %)	2024
Rooppur Nuclear Power Plant	Tk.5242 crore	The Russian Government (90%) and the Government of Bangladesh (10%)	Unit 1: 2017 Unit 2: 222
Rampal Power Project	Tk. 14510 crore	30% India-Bangladesh equal partnership, 70% loan	2019
LNG terminal project	N/A	N/A	2016
Deep Sea Port at Sonadia	Tk. 55,000 crore	N/A	2055
Matarbari coal-fired power project	Tk. 36000 crore	JICA (loan), CPGCBL, GoB	2023
Paira Port Project	N/A		2023

Project Cycle

- Padma Bridge is now at the executive phase after completion of all activities related to the planning phase.
- Project comprises five main components: different stages of implementation



Major Issues and Concerns in the Implementation Process

- *Major timelines have been revised*
 - Construction of the main bridge: from 36 months to 48 months, river training: 36 months to 48 months, construction of Maowa approach road: 33 months to 42 months and Janjira approach road: 34 months to 36 months
- *Major Costs have been revised*
 - Resettlement works (516%), construction of roads (448%) and land acquisition (195%)
 - A number of recent revision of the budget is justified
- Such overrun of time and cost of different components need to be revisited.

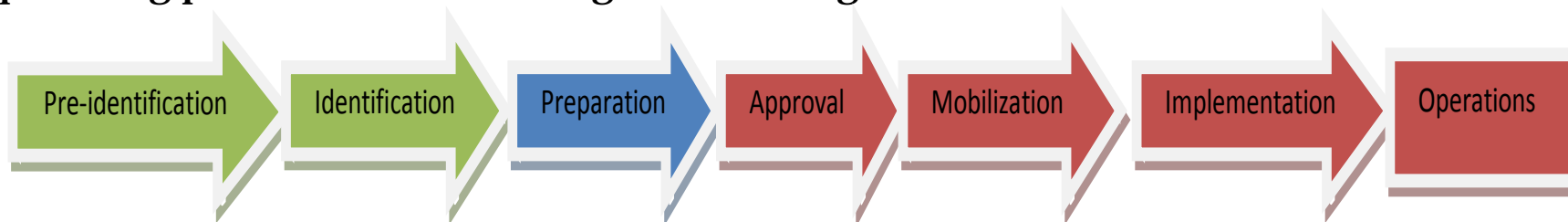
- *Procurement issues:* The selection of contractors was a concerning issue over the whole period of the project.
 - Given the fluctuating exchange rate, particularly against the USD, the government needs to be prepared for changes in overall expenditure.
 - Of the total employment of 35000 of workers and professionals, about 15000 workers have so far been employed.
 - Out of which a large portion are foreign engineers and advisers.
 - Need to examine procurement guideline

Project Management Success/Failure

- Project success appears to be difficult to be ensured. But, product success may exceed the below the level of performance of project success and may make the project a success

Project Cycle

- The project is also at executive phase after completing all activities related to planning phase. A number of agreements signed.



Major issues and concerns

- Underground electricity line need to be abandoned and also acquisition of land in the area of National Parliament may cause damage to the date garden
- The area selected for construction of depot, viaduct and rail line may not be suitable for those infrastructural facilities
 - Shifting the underground lines of utility services from their existing locations
 - Running by the bureaucrats although DMTCL is a company
 - No contractor has been appointed for the eight packages of this project

Project Management success/Failure

- The project is well positioned in terms of project success

Project Cycle

- It is at the early phase of planning where only pre-identification and identification related works have been completed
- Only a techno-feasibility study has been completed



Major Issues and Concerns

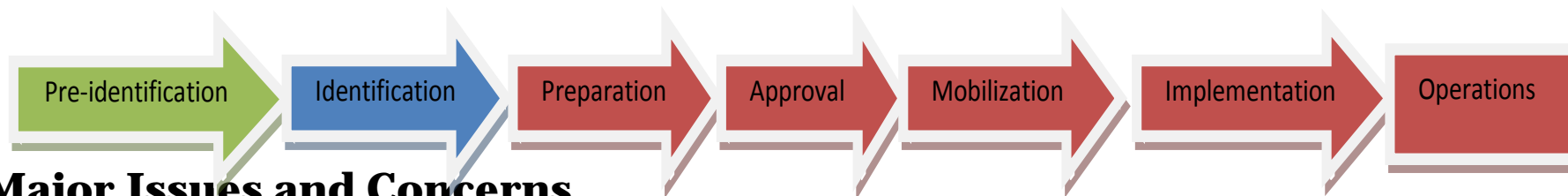
- Government has decided to establish a port at Paira which is not far from Sonadia
 - Government needs to decide which of the two ports to prioritise
- Future construction of the Deep Sea Port at Sonadia is in jeopardy

Project Management Success/Failure

- The Deep Sea Port at Sonadia is stuck in planning phase and poor state in terms of project success

Project Cycle

- The project is at early stage of planning; only pre-qualification related activities were carried out.
- At this stage feasibility study has been ongoing.
- A number of preparatory works have been carried out to make the port operational from 2015.



Major Issues and Concerns

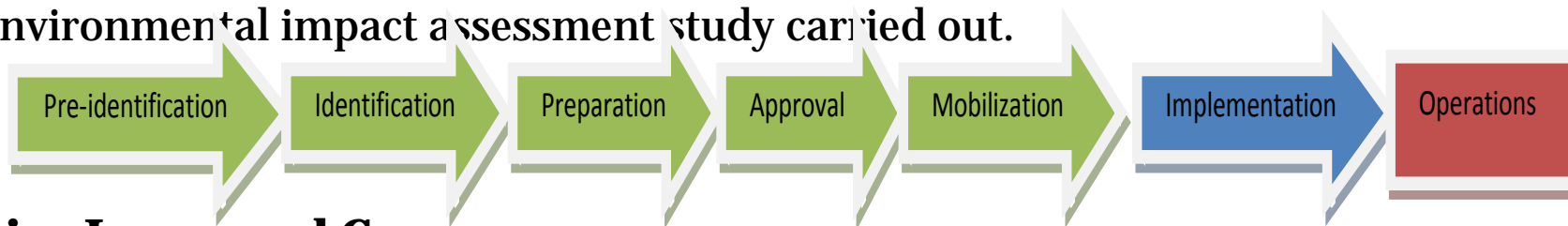
- The project is planned to be established under a G-G scheme.
 - How transparently and efficiently government signed contract with countries interested for the project is a major concern now.

Project management success/Failure

- The success of Paira Project depends on a number of conditionalities

Project Cycle

- The project is currently at the executive phase. The pre-feasibility study and environmental impact assessment study carried out.



Major Issues and Concerns

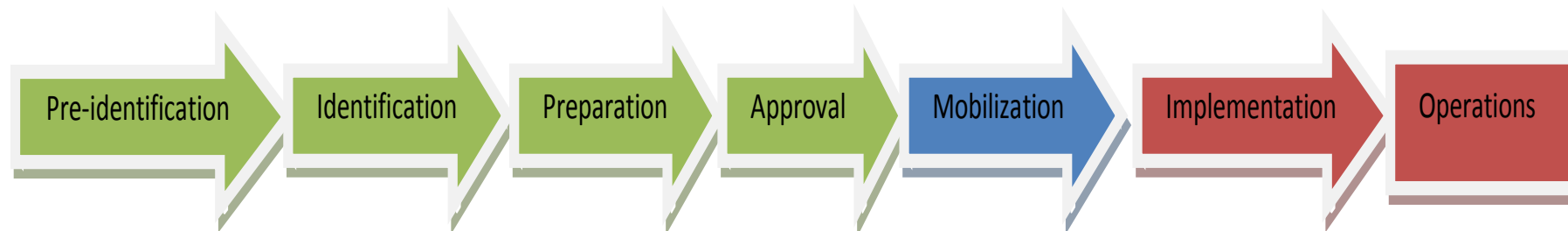
- No specific information on the 70% of cost that will be borrowed from Banks.
- Environmentalists expect a severe threat to the mangrove forest of Sundarbans
- Deviation in the approval process: DoE is not the appropriate authority to give approval for a project located in an environmentally critical area.
 - Such approval is usually given by the Department of Forest
- Earth filling at the site appears to happen contrary to law.

Project Management Success/Failure

- Project success will depend on how effectively the company would follow the rules and regulations: Product success would be much more difficult

Project Cycle

- It is at the executive phase. Feasibility and EIA studies have been completed
- The project will be delayed and timeline for completion of both the plants has been extended till 2023



Major Issues and Concerns

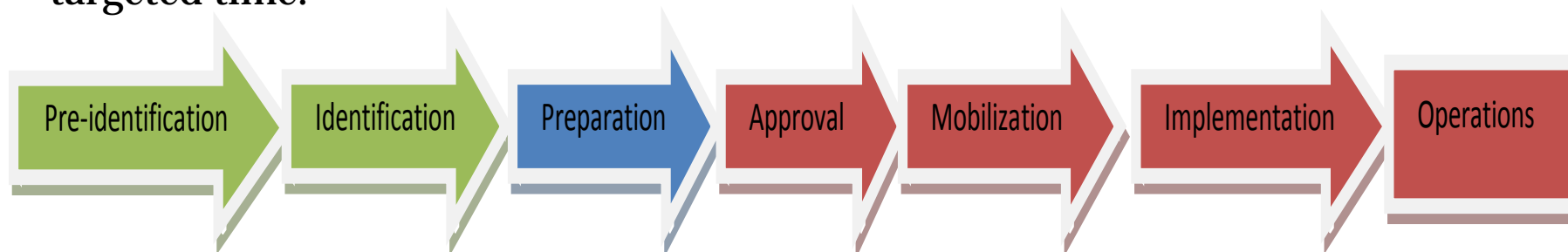
- The project site is found not suitable for constructing heavy infrastructure
 - Close to the sea level: needs to be elevated
 - The operational cost of generating power will be high; expected to have limited impact on tariff at consumers' level

Project Management Success/Failure

- The project success can be ensured given the recent progress.

Project Cycle

- The project is at very early stage in the planning process and well behind the targeted time.



Major Issues and Concern

- There should be a guideline regarding the rental charge
 - The contractors will finance the FSRU and as per proposal it will recover the cost from the rent
- There is little possibility to complete the remaining works by 2016

Project Management Success/Failure

- Delay in implementing the project has partly reduced the project success
- Product success may exceed the average level of project success and may make the project a success.

Project Cycle

- The project is at the planning phase, with pre-selection, identification, preparation and approval works having been completed



Major issues and concerns

- Lack of sufficiently skilled workforce at the domestic level is a major concern
 - Question is how the GoB is planning to develop the domestic workforce
- Since project monitoring and supervision lacks competitiveness, it will be difficult to ensure a favourable price
- The interest rate charged on the loan is quite high.
- The expenditure and quality of the project may be questioned at later stage
 - No third party involved for monitoring and inspection

Project Management Success/Failure

- Project success appears to be difficult to be ensured

Major issues and concerns

- Overall progress of the supposed “fast track” projects is unsatisfactory
- Distinction between fast track projects and other projects is not so apparent and visible in terms of project implementation point of view
 - Two Projects are at stage of “Implementation”, Three -“Mobilization”, two - “Preparation” and the last one is at the “Identification”
 - Only two projects made visible progress; most of the projects are behind the schedule and even some of the projects are stalled
 - Role of FTMC to facilitate the implementation process is questionable
 - A number of projects have concerns related to overrun of both cost and time, a number of the projects are being implemented without adequate competition in the bidding process; concerns regarding environmental safety;
 - There are projects which would become redundant due to lack of proper policy planning

Status of Fast Track Projects

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

Major Issues and Concerns with regard to Implementation of Fast-Track Projects (Continued)

- A better selection of fast track projects from the list of infrastructure related ADP projects could ensure better outcome.
 - A number of ADP projects could be taken as fast track; Timely implementation of those projects could ensure better outcome.
- There are a number of other infrastructure related projects located either at the same location or in regions nearby to the fast track projects
- Such projects, located across the southern belt of the Bay of Bengal, will make the region important as well as more critically sensitive.
- It is of vital importance to identify and understand all positives and challenges associated with developing such infrastructural facilities in the southern part of Bangladesh, with the support of a range of development partners.

Introduction

- FY2015 is the last fiscal year under the Sixth Five Year Plan (SFYP)
 - Policy instruments to realise ‘Vision 2021’
 - Currently, in the process of finalising 7FYP (2016-2020)
 - Proper benchmarking is important for setting targets and strategies
- There remains a vacuum in examining the outcomes of SFYP implementation
- The present study seeks to analyse the benchmark condition of the 7FYP
 - analyse the gaps for a range of macroeconomic indicators, and the sectoral strategies and to what degree those have been realised
- A series of key interviews have been carried out with personnel from selected ministries

Overall Achievements of the Targets of the SFYP

- Targets under nine areas: conservative projection based on the data of FY13/14
- Considerable progress: health, education and population
- Progress in most of the indicators is rather off-track
 - Indicates lack of robustness in the process of implementation in different areas

<p>Showed considerable progress</p>	<ul style="list-style-type: none"> • Poverty (though behind the target), net enrolment in primary education, reduction in fertility rate, coverage of electricity, proportion of elected female representatives and number of bills passed etc.
<p>Progress found far behind the track</p>	<ul style="list-style-type: none"> • Real income growth, percentage of cohort reaching grade 5, immunization, maternal mortality ratio, births attendant by skilled staff, water and sanitation related indicators, electricity generation, transport related, environment related, ICT related and governance related indicators.
<p>The highest gap between target and achievement</p>	<ul style="list-style-type: none"> • overseas employment (14 per cent), adult literacy rate (23.2 per cent), cohort reaching grade 5 (24.7 per cent), maternal mortality (27 per cent), access to sanitary latrines (40 per cent and 24 per cent), electricity generation (7776 MW), per capita electricity consumption (1155 kwh) and number of cyclone shelters (1582)

Section V. Analysis of Implementation of the Sixth Five Year Plan (SFYP): Examining the Benchmark Condition for FY2016

GDP Growth

- Targets failed to be achieved throughout the Plan period.
- Gaps have widened
- Not so distinctive compared to that in the immediate past no medium-term plan period.
- Popular perception of Bangladesh as one of the ‘fastest growing economy’ is not valid - ranked 43rd out of top growing 45 economies
 - Reached the minimum threshold level: lower middle income country

GDP Growth Performance in the Five Year Plans

Plan Period	Annual average GDP growth rate (%)		Gap between target and actual growth rates
	Target	Actual	
First five year plan (FY73-FY78)	5.5	4.0	1.5
Two year plan (FY78-FY80)	5.6	3.5	2.1
Second five year plan (FY80-FY85)	5.4	3.8	1.6
Third five year plan (FY85-FY90)	5.4	3.8	1.6
Fourth five year plan (FY90-FY95)	5.0	4.2	0.8
Fifth five year plan (FY97-FY02)	7.0	5.1	1.9
FY02-FY06		5.5	
FY06-FY10		6.3	
Sixth five year plan (FY11-FY14)	7.3	6.3	1.7

Section V. Analysis of Implementation of the Sixth Five Year Plan (SFYP): Examining the Benchmark Condition for FY2016

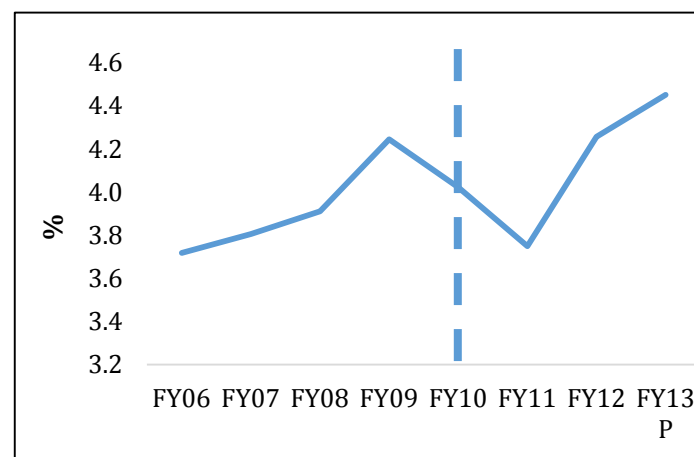
Performance of Major Macro Indicators

- Low level of GDP growth was largely due to slow growth of a number of key macro indicators, such as private investment and export.
- Slowdown in private investment against huge public investment raises questions about crowd-in effect
 - ICOR in the non-Plan years preceding SFYP (FY2006-10) was lower than that of the Plan period (FY2011-13)
- Lack of infrastructure, high cost of bank borrowing, lack of reform in public institutions and corporate governance are the reasons for poor private investment

Performance of Major Macro Indicators

	CAGR FY2011-14 (target)	CAGR FY2011-14 (actual)
Public investment	24.7	30.9
Private investment	19.9	17.9
Export	20.2	16.4
Import	21.2	14.6

Trend in ICOR: Plan vs. Non-Plan Periods



Section V. Analysis of Implementation of the Sixth Five Year Plan (SFYP): Examining the Benchmark Condition for FY2016

Public Finance

- On numerous occasions the MTBF has been revised; revisions indicates an overall downward adjustment of macroeconomic framework

Resource Mobilisation

- Gap between target and achieved revenue-GDP ratio has increased over time
- Successfully implement strategy of gradual reduction from import stage
- Broad-based reduction of SD is likely to have mixed impact on local industries
- Progress of reform in tax administration is rather slow.

Public Expenditure

- Public expenditure was in general below target.
- Priorities in non-development expenditure for top 5 sectors remained same
 - Interest payments exceeded target mainly due to high domestic borrowing
 - Rise in expenditure for subsidy payments was a key concern
- Composition of development expenditure has changed during the Plan period.
- Low allocation levels for social infrastructure sectors remain a concern
- Limited project management success: cost, time and quality
- Financing budget deficit: foreign finance management has been in line with the target, domestic financing has slightly exceeded its target

Monetary Management

- Growth of overall broad money has met its target; growth in all other indicators concerning monetary management was below target.
- Weak governance in the financial sector has emerged as a major concern (CPD, 2014).
 - Scams in the banking sector; capital market debacle, high NPL, problems in management and operation of NCBs – are major concerns
- Despite various institutional and operational reforms, poor performance of the banking sector raised questions about the efficacy of IMF-inspired reforms.

Rate of classified loans (%)

Institutions	June 2011 (FY2010-11)	March 2015
NCBs	14.1	22.5
PCBs	3.5	6.0
FBs (9)	3.1	8.2
DFIs (5)	21.8	33.5
TOTAL	7.1	10.5

Section V. Analysis of Implementation of the Sixth Five Year Plan (SFYP): Examining the Benchmark Condition for FY2016

- Allocation by priority was not maintained as per the SFYP.
- Because of the changing priorities, a number of social sectors such as health, population and nutrition and public administration have received lesser allocations.
- Sectoral strategies are not necessarily followed all the time
 - Changes in policies, rules and regulations
 - Focus is more on horizontal expansion

SFYP Public Investment Allocation by Sector

Sector (SFYP classification)	Total period (target) Tk.cr.		Total period Tk.cr. (actual/budgeted)	
	Total Period	Share (%)	Total Period	Share (%)
Agriculture, rural development and water resources	27,095	8.7	54,433	21.4
Manufacturing	4,650	1.5	7,561	3.0
Energy	53,588	17.3	48,110	18.9
Transport	48,783	15.7	50,736	19.9
Physical planning	58,839	19	25,582	10.1
Knowledge economy	3,060	1	5337	2.1
Education	45,641	14.7	34,922	13.7
Health, Population, and Nutrition	28,560	9.2	18,602	7.3
Poor and Vulnerable	3,006	1	3,191	1.3
Environment and Disaster Management	12,324	4	0	0.0
Public Administration and Others	24,363	7.9	5,998	2.4
Total	309,907	100	254,473	100.0

Section V. Analysis of Implementation of the Sixth Five Year Plan (SFYP): Examining the Benchmark Condition for FY2016

▪ **Lessons from the Implementation Process of the SFYP**

Political commitment

- Well acknowledged. Public sector was not always found to be well equipped in implementing the strategies
- Lack of strong linkage between vision framework, resource framework and allocative priorities: Deviation from MTBF

Planning process

- Global and local issues impacted the implementation process
- Overall target setting of the macroeconomic framework appeared fixed at the upper bound level.

Operational issues

- More emphasis on allocative (or generating) priorities
- Line ministry capacity in regards to implementation needs to be reexamined.
- Reforms to a large extent did not get priority in the SFYP
- Effective connection between the public and private sectors remain weak

Section V. Analysis of Implementation of the Sixth Five Year Plan (SFYP): Examining the Benchmark Condition for FY2016

- **Target set for major macroeconomic indicators for FY16 under the 7th FYP**
- The targets set on major macro indicators for the first year of the 7FYP is less ambitious and moderate.
 - Given the experience of the SFYP, setting moderate targets is justifiable.
- It is expected that the implementation of the 7FYP will be focused and targeted taking the experience of the SFYP
 - Linkage between vision, resource framework and allocative priorities
 - Need flexibility in implementation process to accommodate shocks/crisis.
 - Equal priority should be given on allocational and operational efficiency
 - Capacity of line ministries and local level administration need to be improved
 - Linkage between public and private investment need to be strengthened
 - Necessary reforms need to be initiated

Thank You