



বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of Bangladesh Economy and Upcoming National Elections *Priorities for Electoral Debates*

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Section I. Introduction

- This report has been prepared in the backdrop of the upcoming national elections scheduled to be held on 30 December 2018

Objectives of the report

- Give voice and raise awareness
- Promote an informed electoral debate
- Accountability exercise
- Measures for consideration and actions by the newly elected government

Section II.

Revenue Mobilisation:

A Prerequisite for Development Financing

Raise revenue-GDP and tax-GDP ratio

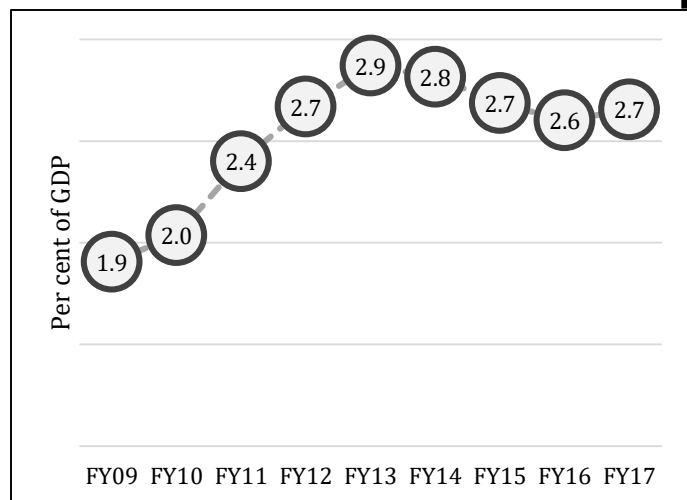
- The revenue–GDP ratio in FY17 was 10.2%, which was 9.2% in FY09
- While it showed signs of improvement between FY15 and FY17, it is still below the level attained in FY12, when the corresponding share was 10.9%
- 7FYP had proposed to raise the revenue–GDP ratio to 16.1% and tax–GDP ratio to 14.1% by FY20
- Bangladesh is not only lagging behind comparator countries but also vis-à-vis its own programmatic targets

Revenue as share of GDP (%)

Source	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
a. Total revenue	9.2	9.5	10.2	10.9	10.7	10.4	9.6	10.0	10.2
a.1. Tax revenue	7.5	7.8	8.7	9.0	9.0	8.6	8.5	8.8	9.0
a.1.1. NBR tax	7.1	7.5	8.3	8.7	8.6	8.3	8.2	8.4	8.7
a.1.2. Non-NBR tax	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.3
a.2. Non-tax revenue	1.7	1.7	1.5	1.8	1.7	1.8	1.1	1.2	1.2

Source: Authors' calculation based on Ministry of Finance (MoF) and Bangladesh Bureau of Statistics (BBS) data.

Income tax-GDP ratio (%)



Focus on raising share of direct tax

The role of income tax collection from the perspective of establishing a more equitable economy must be put at the centre of policy, particularly in view of the rising income inequality

- This ratio was 1.9% in FY09, which rose to 2.9% in FY13, and fell to 2.7% in FY17; 5.4% target in FY20 (7FYP)
- Improvement in income tax collection was the most significant contributor in raising the tax-GDP ratio between FY09 and FY13

- A recent CPD study found that 68% of the eligible taxpayers did not pay income tax
 - Income quartile-wise analysis revealed that more than one-third of the top earners did not pay income tax
 - Along with this, there is also the issue of tax evasion, which is no less prevalent
- Taxpayers' convenience should also be accorded the needed attention
- The proposed Direct Tax Act must encompass issues regarding ease of tax payment and return submission by taxpayers

Introduce wealth and property tax

- In the backdrop, growing concentration of wealth, particularly of property in the form of land and housing, there is a need to streamline the acquisition of these assets
- In FY2000, a tax was proposed to this effect but was later withdrawn, and was thus never implemented
- Wealth tax will also contribute towards economic and social justice and promote the cause of inclusive growth
- Resources which could potentially be invested in the productive sectors are being increasingly diverted towards investment in land holdings and real estate, in the absence of a well-crafted property tax
- An inheritance tax, in line with international practices, could be introduced

Give attention to non-tax revenue

- Non-tax revenue, as shares of both GDP and total revenue, suffered a significant decline since FY15
- Government should formulate a ‘leasing policy of public property’
- This policy could consider a minimum annual increase of leasing fees, while taking into account inflation and other relevant factors
- At the same time, the efficiency of public enterprises, particularly that of financial entities, must be enhanced to ensure higher revenue from dividend and profit

Non-tax revenue scenario of Bangladesh

Non-tax revenue	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
As share of GDP (%)	1.7	1.7	1.5	1.8	1.7	1.8	1.1	1.2	1.2
As share of total revenue (%)	18.1	17.7	14.5	17.0	16.1	17.3	11.8	12.2	11.5

Source: Authors' calculation based on MoF and BBS data

Implement tax reforms in a participatory manner

- A recent study by CPD found that 75% of the eligible taxpayers believe that the taxation system in Bangladesh is favourable towards the rich and the elite sections of the society
- While undertaking major reforms, ex-ante impact analysis should guide the policy design
- The experience from the implementation of the VAT and SD Act, 2012 is pertinent in this connection, and needs to be taken into cognizance
- Indeed, the current electoral debates should be geared towards getting concrete commitments from the political parties concerning the pending tax related reforms, including the VAT and SD Act, 2012, the Customs Act, and the Direct Tax Act

Commit to curb illicit financial flows and black money

- Bangladesh loses a very high amount of resources as a consequence of IFF
- Significant part of IFF was on account of trade misinvoicing – for Bangladesh 80%
- Coordinated efforts by several policy actors including the Bangladesh Bank and the NBR will be required to rein-in such IFF
- There is an urgent need to strengthen and operationalise the Transfer Pricing Cell under the NBR
- The long overdue data integration process (e.g. NBR data centre) should be established to reduce trade misinvoicing and revenue leakages through analysis of the quality of disaggregated trade data
- To carry out its responsibilities in an effective manner, the NBR's transfer pricing cell should be adequately endowed and vested with the required financial, technical and human resource capacities
- To tackle the problem of black money, a *Benami Property Bill* may be introduced

Section III.

Public Expenditure: Make the Myth Reality

Prioritise planning and delivery capacity of public expenditure

- Inability to deliver on the planned budgetary allocations highlights the weakening state of macroeconomic management in recent years
- Budget implementation rates declined considerably between FY13 and FY17
- In FY17, only 79.1% of the total budgetary allocation was spent while for development expenditure the corresponding figure was 75.3%, the lowest in last decade
- Development component of public expenditure has generally trailed the non-development component by a considerable margin

Implementation rate of public expenditure (%)

Sectors	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Total expenditure	89.3	89.3	97.0	93.2	90.8	84.6	81.6	80.8	79.1
Non-development expenditure	98.3	94.7	96.6	93.7	93.4	90.0	84.0	85.0	81.5
Development expenditure	75.9	82.0	83.5	80.3	88.4	81.8	73.7	79.4	75.3

Source: Authors' calculation from MoF data.

- Public expenditure as a share of GDP declined to 13.6% per cent in FY17 from the peak of 14.5% in FY13 (7FYP target: 21.1% in FY20)
 - Curiously, between FY09 and FY13 public expenditure as a share of GDP had increased by 1.8 percentage points

Expenditure as share of GDP (%)

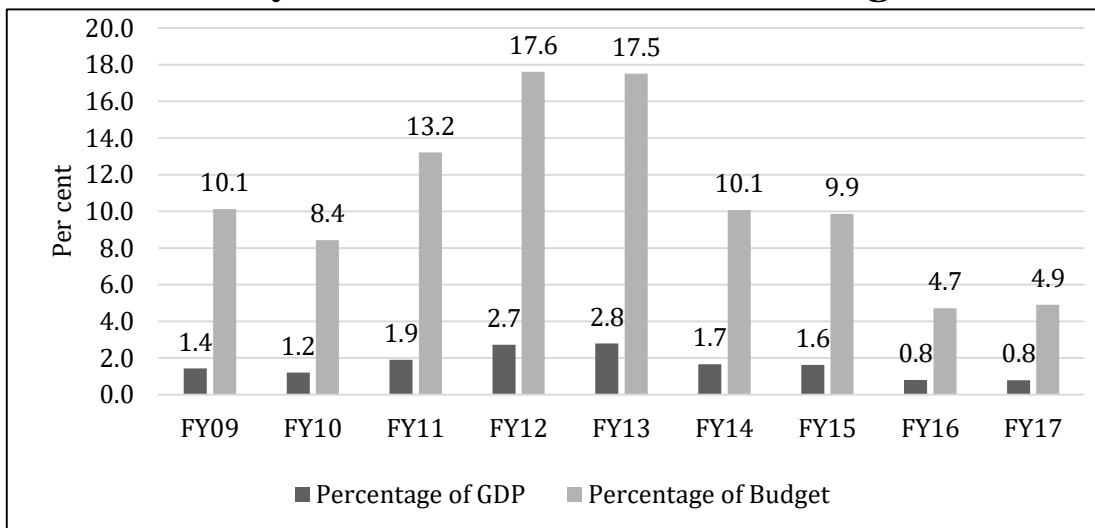
Sectors	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Total expenditure	12.7	12.7	14.0	14.4	14.5	14.0	13.5	13.8	13.6

Source: Authors' calculation from MoF data.

Consider reforms in subsidy provisions

- Subsidy provisions, both as share of budget and GDP
- Rising between FY09 and FY13
- Declined between FY14 and FY16, thanks to falling international prices of oil leading to zero subsidy requirement from BPC

Subsidy as share of GDP and total budget (%)



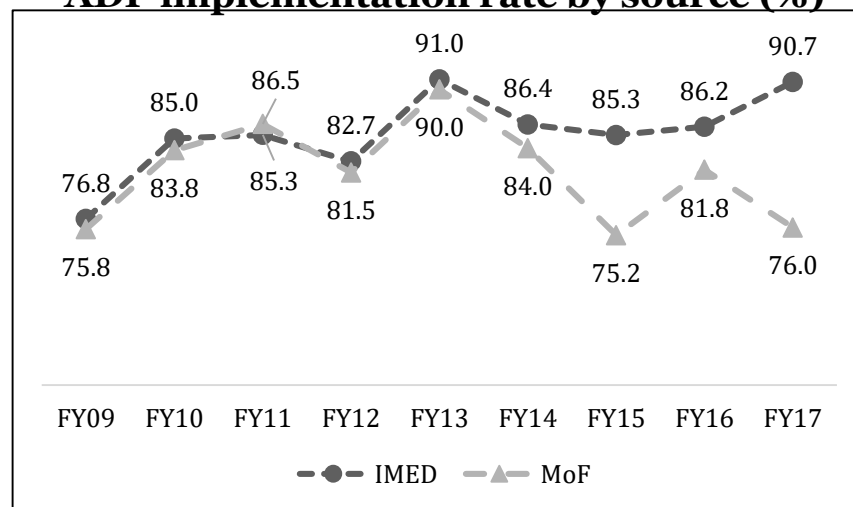
Source: Authors' calculation from MoF and BBS data.

- During the low oil price regime, the government missed the opportunity to initiate a reform process
- Power generation through LNG import and upward pressure in global oil and fertiliser prices may increase the subsidy requirement in the coming days
- To ensure transparency in allocation, efficiency in delivery and accountability in the management of subsidies, the government should consider **formulating a National Subsidy Policy**

Improve capacity of development administration

- While IMED data suggests the implementation rate has improved since FY2014, the MoF data suggests that it has deteriorated – reflecting discrepancy of data between two government sources
- Such large discrepancy during the post-FY14 period between data from public accounts system (iBAS++ used by MoF) and data provided by the project directors (used by IMED) calls for immediate policy attention with an aim for consolidation
- Misreporting of data for use of public money use is likely to undermine the quality of development expenditure.

ADP implementation rate by source (%)



Source: Calculated by authors from IMED and MoF data

Key challenges in the area of ADP

Overcapitalised projects

Time overrun (delay)

Cost overrun (escalation)

'Fourth quarter syndrome'

'Zombie' projects

- Set up an independent Public Expenditure Review Commission (PERC)**

Bring back balance in financing ADP

- One can observe a notable shift in the financing pattern of ADP during FY09-FY17
 - Between FY09 and FY14, ADP was mainly financed from bank borrowing followed by foreign aid and grants
 - High cost bearing net sales of NSD has emerged as the major source since FY15
 - In FY09 only 18% per cent was financed by NSD; 61.6% in FY17
 - Curiously, in the budgetary planning, bank borrowing and foreign aid remain the major sources of financing suggesting a large gap between aspiration and reality
 - On a positive note, revenue surplus helped to financing the ADP since FY13
- The growing dependence on NSD sales may put pressure in the currently comfortable public debt portfolio in the coming years
 - It is critically important to consider a *downward revision of the NSD rates* along with maximum ceiling on purchase
 - Establishing an *integrated electronic database for the NSD* certificate purchase is an urgent need so that the purchase limit clause can be enforced without harassing the small investors

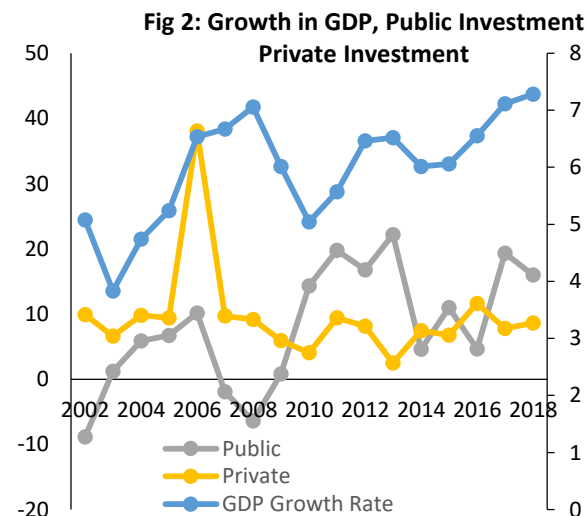
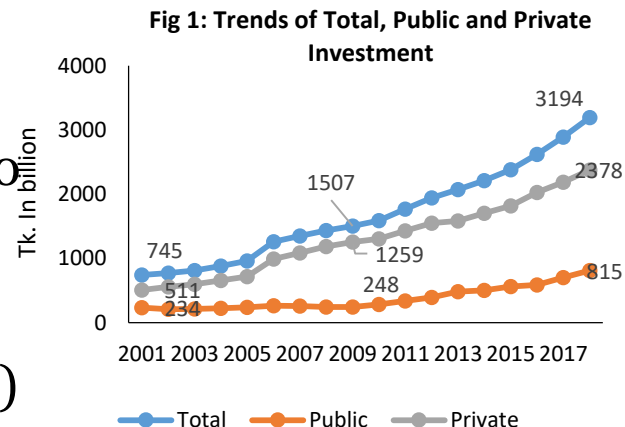
Improve foreign aid utilisation capacity and identify new sources of external development finance

- External debt-GDP ratio has declined from 24.4% in FY09 to 12.8% in FY17
- A recent CPD study has stressed that, although foreign aid has no significant impact on economic growth of Bangladesh at macro level (which is due to the country's declining dependency on foreign aid), several critical development sectors have benefitted from foreign aid
- Regarding the inflow of increased volume of foreign aid from several non-OECD Southern providers (especially from China, Russia and India), it should be noted that, both in terms of commitment as well as disbursement, the share of loan element in the total aid is very high
- Lessons from experiences of several developing countries, like Sri Lanka, Zambia, Tanzania and Pakistan tells that, pursuing excessive foreign aid associated with higher loan elements without considering the reforms to address the underlying risks, may steer the economy towards the vicious cycle of macroeconomic instability

Section IV.

Private Investment in Bangladesh: Challenges for Development of the SMEs

- ❑ Private investment was somewhat of an outlier.
 - Unlike some of the other indicators of macroeconomic performance, which tended to be highlighted by policymakers
- ❑ The performance of the private investment between 2009 and 2018 was at best modest (Fig 1)
 - In 2018: BDT 2378 billion (23.2% of GDP)
 - In 2008: BDT 1259 billion (21.9% of GDP)
- ❑ Public investment failed to crowd-in private investment, rather it had a ‘crowding out effect’
 - GDP growth did not have a significant impact on the private investment (granger causal relationship) (Fig 2)
- ❑ Overall, private investment has maintained a ‘business as usual’ scenario in terms of growth.



Performance of Private Investment

- ❑ Over the last one decade, the performance of private investment is found to be at two levels during two periods.
 - Growth of Private investment in FY 14-18 was higher compared to FY 09-13 (Fig 3)
 - However, ICOR wasn't consistent during FY 09-13 but gradual improvement in FY 14-18
- ❑ The distribution of industrial term loan during the last decade reflects major compositional change.
- ❑ Gradual rise in the share of term loans taken by large scale enterprises (from 62% to 74%) (Fig 4)
 - Share of medium scale enterprises has consistently declined (from 31% in FY2012 to 14% in FY2018)
- ❑ A growing 'missing middle' is emerging in the disbursement of term loans to industries
 - The problem was partially addressed (21.7% of total credit disbursed to SMEs in last one decade)

Fig 3: Trends in Private Investment

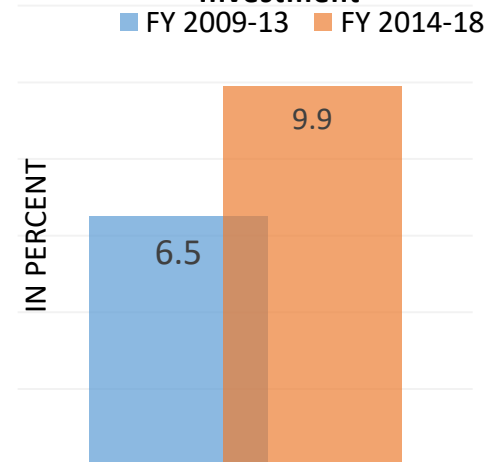
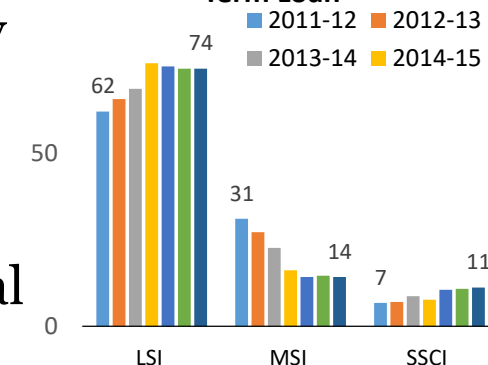
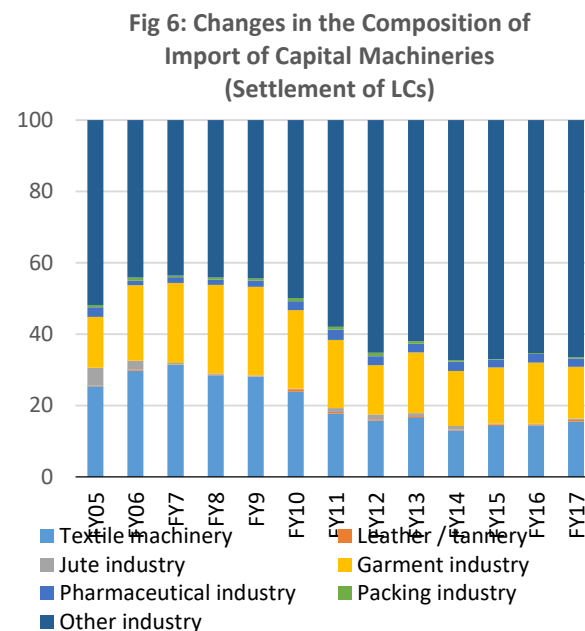
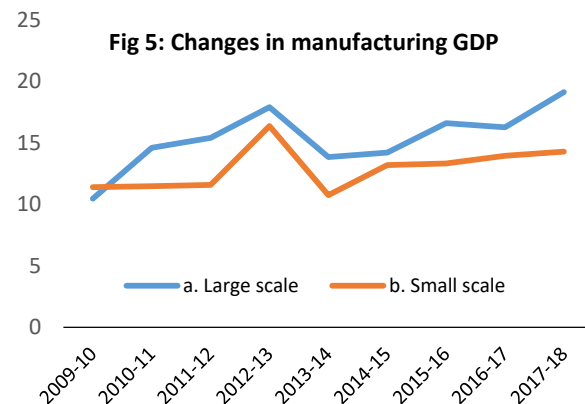


Fig 4: Share of Industrial Term Loan

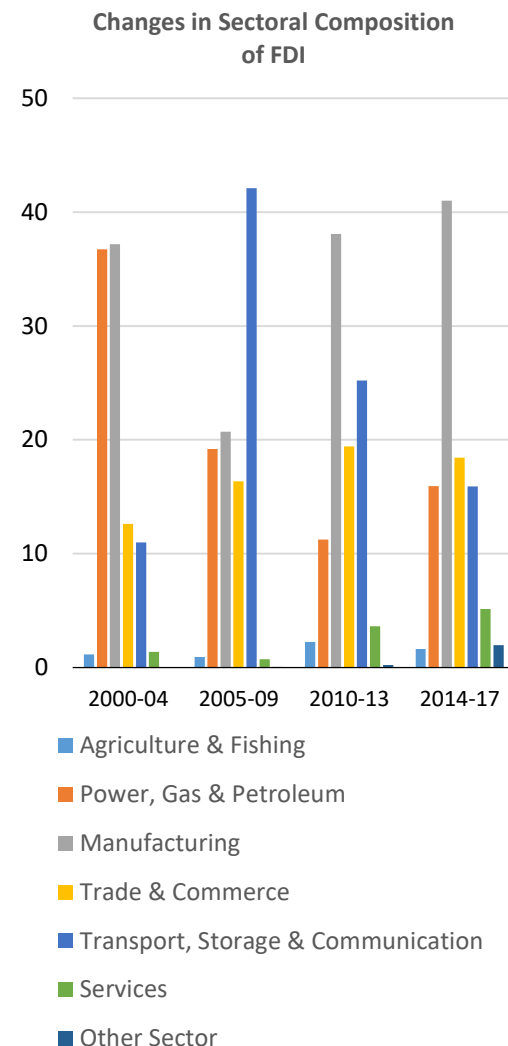


- ❑ Growth in manufacturing GDP of SMEs lagged behind Large & MSEs (Fig 5)
 - Sluggish credit growth as also various other challenges are adversely affecting the growth of the SMEs
- ❑ There is a growing tendency of a dual-nature in country's industrial enterprises
 1. Fast growing large scale export-oriented manufacturing enterprises
 2. Moderately growing medium and SMEs domestic market oriented manufacturing and service enterprises
- ❑ Share of import of machineries for traditional leading industries declined (from 55.6% to 33.6%) (Fig 6)
 - Growing import of other machineries is reflective of growth of non-traditional manufacturing and services enterprises



Foreign Direct Investment

- ❑ Despite various attempts to attract FDI, the overall FDI inflow has increased only at a modest pace
 - FDI share has declined over time (from 3.36% of total investment in FY09 to 2.82% in FY08)
- ❑ Share of domestic market-oriented FDI has been rising.
 - Export market-oriented FDI invested in EPZs has been declining mainly because of limited availability infrastructural facilities
- ❑ Sectoral composition of FDI has been undergoing changes
 - With shift from energy and communication oriented FDI to more manufacturing sector oriented one
 - Recent inflow target more labour-intensive, domestic and export market-oriented industries
 - This is likely to be reflected in future trends



Investment in the Capital Market

- ❑ Capital market remained in weak state over the last decade and failed to emerge as a major alternate source for financing industries.
 - The collapse of the market in December, 2010 had led to serious undermining of investor confidence.
- ❑ After the failure in 2010, a 21 point market rejuvenation package was undertaken to stabilize the market.
- ❑ The market regained confidence of investors but governance related challenges continue to persist particularly
 - Because of lack of effective monitoring and failure to identify illegal activities and inability to take effective measures to address the anomalies.
- ❑ Since 2010, a total of BDT 5,968 crore had been raised by offering initial public offerings for 110 different industries and mutual funds.

Factors Affecting Private Investment

❑ *No major changes in policies and institutions related to investment and industries*

- The 6th & 7th FYP have focused primarily on traditional industrial sectors
- The Industrial Policy, SME Strategy and Export policy did not come up with major changes in the focus and sectoral priorities
- Lack of enforceability of those policies remained a major weakness
- Few sectoral initiatives can be noted targeting sectors with promise
- Role of public institutions (ex: BSCIC) for promoting SMEs remained very weak & SME Foundation is being able to play only a limited role.
- Various fiscal and budgetary support have not been very effective due to faulty targeting, unpredictable timeline, horizontal nature of incentives, and absence of proper assessment and review mechanisms
- Rent seeking has developed which disproportionately favour a section of business bodies
- Initiative to announce certain products as ‘product of the year’ is yet to generate interest among prospective entrepreneurs in absence of targeted follow-up measures.

❑ *New Institutions are yet to deliver*

- The target to set up 100 SEZs made considerable interest among prospective entrepreneurs and investors, both within and overseas.
 - Some of the private SEZs are already in operation
 - None of the public SEZ has yet been to ready
- BIDA's initiatives of providing 'one stop service' will need more time to deliver
- PPPO is making progress with a modest pace to accelerate private investment
- Establishment of a number of investment promoting agencies, with similar nature of scope of work, has weakened the role of some institutions
 - Coordination among these institutions has proved to be a challenging task.
- The PSDPCC has undertaken a number of positive measures to reduce time and complexity in business processes
 - But much more will need to be done in this regard

- ❑ *Unavailability of full-packaged infrastructure facility*
 - Despite the significant public investment for developing infrastructure, a well-packaged and comprehensive array of facilities, remain a far cry.
 - Despite Bangladesh's ratification of WTO's Trade Facilitation Agreement, the cost of domestic and external trade facilitation remain very high.
- ❑ *Rising cost of doing business*
 - The cost of doing business in the country has been rising
 - This has disproportionate adverse impact on the level of competitiveness of enterprises particularly the SMEs.
- ❑ *Weak enforcement of business related rules and regulations*
 - It has undermined the competitive environment in the market
 - A section of market players has taken advantage of this at the cost of other market players
 - There is widespread allegations of practices of cartels, collusion, mergers, predatory pricing, price discrimination, refusal to deal/sell, and exclusive dealing both in private and public sectors

Way Forward

- ❑ *Need to ensure inclusive entrepreneurship development:* There is a growing apprehension that a 'business as usual' trend in the growth of private investment will further widen the gap between large scale enterprises and small and medium scale enterprises.
 - An inclusive pattern of enterprise development needs to be ensured in the value and production chains.
 - A major target should be reduction of cost of doing business and enhance ease of doing business.
- ❑ *Sectoral polices and targeted and predictable incentives are required:* The policy regime should gradually put more emphasis on development of vertical policies along with horizontal ones in order to promote sectoral as well as entrepreneurial development
 - Various incentives to be offered should be well-targeted and of time-bound in nature.

- *Well-packaged infrastructural facilities for different categories of enterprises:* Industrial clusters should be geared to cater to the needs of different categories of enterprises and entrepreneurs.
 - Building infrastructure for development of SMEs located outside of major industrial belts needs to be given special attention.
 - Corruption in public agencies needs to be tackled and timely delivery of their services needs to be assured.
- *Regulatory and institutional reforms are required to ensure rule of law:* Regulatory reforms should focus more on enforcement of rule of law in order to ensure competition in the market.
 - Public monitoring agencies, departments and other relevant entities need to be strengthened.
 - Newly established investment promoting agencies should play a more proactive role to realise the goal of rapid industrialization of Bangladesh.
 - They should be given time-bound targets and held responsible for the results.

Section V.

Balance of Payments Situation: Under Scrutiny and Under Stress

Balance of payment situation: An emerging concern

- Bangladesh's overall balance position entered into the negative terrain at the end of FY2018, for the first time since FY2003
 - In June 2018, overall balance was a negative (-) USD 0.88 billion, a decline of about USD 4 billion from the corresponding period of the preceding year (in June 2017 the matched figure was (+) USD 3.17 billion)
 - The overall balance situation has experienced considerable volatility over the past years depending on the behaviour of the three key sub-balance components: current account, capital account and financial account balances
 - The overall balance in the balance of payments (BoP) stood highest in FY2016, at USD 5.59 billion
 - Thereafter, it experienced some decline in FY2017 when the corresponding figure was USD 3.17 billion

Trends in elements of the overall balance (in million USD)

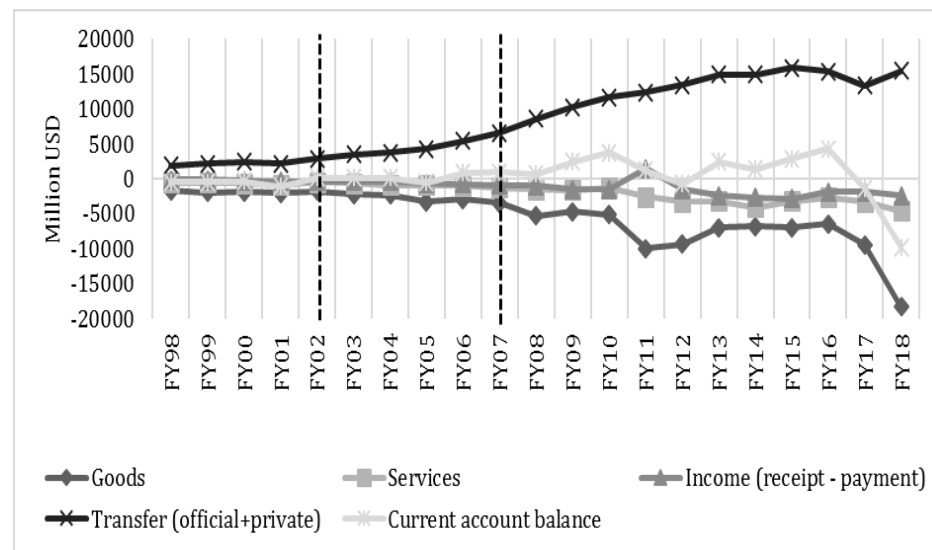
Fiscal Year	Current account	Capital account	Financial account	Overall balance
FY2009	2416.0	451.0	(-)825.0	2058.0
FY2013	2388.0	629.0	2863.0	5128.0
FY2016	4262.0	478.0	1610.0	5592.0
FY2017	(-)1331.0	400.0	4247.0	3169.0
FY2018	(-)9780.0	292.0	9076.0	(-)885.0

Balance of payment situation: An emerging concern

□ The significant fall to (-) USD 0.88 billion in FY2018 was mainly accounted for by the deficit in the current account

- The drastic rise in the deficit in FY2018 was mostly driven by the rise in the trade balance component
- The growing trade deficit is explained by modest export growth of 5.8 per cent in FY2018 as against the robust import growth of 25.2 per cent (import payment stood at USD 54.4 billion in FY2018, against USD 43.5 billion in FY2017; corresponding export figures were USD 36.2 billion and USD 34 billion)

Figure: Trends in current account balance and its sub-components



Source: Bangladesh Bank

- While export earnings rose by USD 2.2 billion compared to the previous year, import payments posted a significant rise of about USD 11 billion
- Consequently, trade deficit rose from (-) USD 9.4 billion in FY2017 to (-) USD 18.3 billion in FY2018, a big jump by any measure

Balance of payment situation: An emerging concern

- ❑ Although remittance income rose by about USD 2 billion in FY2018 compared to the previous year , the overall surplus in the non-trade component (which includes remittance income) of the current account balance rose only by USD 0.35 billion which was insignificant compared to the trade deficit
- ❑ The overall balance situation was somewhat helped, thanks primarily to significant rise in the financial account balance which posted a notable rise of 136.5 per cent
- ❑ This rise in the financial account balance was accounted for by the considerable rise in the flow of medium- to long-term (MLT) loans, which increased from USD 3.2 billion in FY2017 to USD 5.8 billion in FY2018, in combination with other short-term loans (net) which rose from USD 1.03 billion in FY2017 to 1.95 billion in FY2018
 - It is to be noted that, the other two sub-components of the financial account balance, the (net) foreign direct investment (FDI) flows and (net) portfolio investment, experienced a decline over this period (from USD 1.65 billion and USD 0.46 billion respectively in FY2017 to 1.58 billion and 0.37 billion in FY2018).

Balance of payment situation: Likely consequences

- ❑ The rising demand for forex arising from the BoP situation has led to a fall in the value of the BDT
 - The BDT experienced a depreciation of 7.5 per cent vis-à-vis United States Dollar (USD) over the past three years; in FY2018, Taka depreciated by 3.9 per cent compared to the previous year
 - The Bangladesh Bank has resorted to large-scale sale of foreign currency to arrest further depreciation of the Taka
 - This, in conjunction with other factors, has led to some depletion of the forex reserves – reserves came down from USD 33.5 billion in FY2017 to USD 32.9 billion in FY2018
 - In terms of months of import equivalent, reserves experienced a drawdown from 6.3 months' equivalent to 5.5 months' equivalent over the corresponding period
- ❑ Whilst the depreciation may have helped exporters and remittance earners, there has been contrary implications for import prices and debt servicing
 - Bangladesh Bank has tried to ease the pressure in the forex market by selling Dollars, in absence of which, Taka would have depreciated further with consequent implications for the economy
 - A forward-looking exchange rate management has emerged as an important task for the concerned policymakers

Balance of payment situation: Likely consequences

- ❑ Bangladesh's debt servicing situation would change in the backdrop of the aforesaid BoP trends
 - Because of (lower) middle-income graduation, borrowing liabilities of Bangladesh is expected to rise
 - Bangladesh's borrowings from Southern providers, such as China and India, have been on the rise in recent years
 - Since the interest rate on these loans are significantly higher than the traditional IDA -type loans, the repayment liabilities will be higher further down the line
- ❑ With building up of repayment pressure from the growing borrowings, debt servicing liabilities will rise in near- to medium-term future
 - Debt servicing liabilities of private sector borrowers who have borrowed from foreign sources and will be repaying from returns accruing from the domestic market, is also expected to rise with consequent pressure on domestic forex market
 - External balances will also face the pressure emanating from Bangladesh's dual graduation – higher borrowing costs and more competitive market access scenario

Balance of payment situation: Going forward

□ *Arrest the Growing Current Account Deficit*

- Bangladesh will need to pursue a forward-looking strategy to avoid a worsening of the current trends and move towards a healthy BoP situation
- A renewed effort to energise export growth, through product and market diversification, will be needed to reduce the growing trade deficit
- Current initiatives towards better transport connectivity and trade facilitation should be geared to exploit opportunities of the growing regional market
- There is a need to prepare adequately for signing Comprehensive Economic Partnership Agreement (CEPA) with regional countries
- Now that the BIMSTEC -FTA negotiations have made significant progress, appropriate strategies must be put in place to take advantage of the new market openings, particularly to make use of the potential ASEAN market foothold
- Vigilance against illicit financial flows, particularly because outflows are perceived to be taking place predominantly through the trading channels , must be strengthened, and better coordination between the National Board of Revenue (NBR), Transfer Pricing Cell, customs, dealing banks and the central bank must be ensured

Balance of payment situation: Going forward

□ *Continue Remediation Work*

- Despite the remediation measures led by the Accord and Alliance are likely to come to an end in near future, the work on better compliance assurance must continue, and the unfinished agendas must be addressed with due earnest
- The role of the remediation coordination cell (RCC) set up by the GoB should be strengthened for it to be able to do its mandated tasks
- The transitional coordination committee (TCC) set up to ensure smooth transition from Accord-Alliance initiatives must be vested with the required authority, functional capacity and adequate resources to ensure that buyers' compliance requirements are fully met
- Some modality of partnership with Accord and Alliance, till RCC and TCC are adequately encapacitated to take up the compliance enforcement responsibilities independently, may be thought of in this regard
- The monitoring capacity of government institutions must be strengthened, and the concerned policies enforced

Balance of payment situation: Going forward

❑ *Prepare for Higher Debt Servicing*

- Already Bangladesh's debt servicing liability has been showing a rising trend.
 - In view of this, Bangladesh must be well-prepared, with appropriate strategies, to avoid any likely debt trap in the medium-term future
 - From this perspective, selection of projects to be undertaken, sourcing of funds, terms and conditionalities, costing of projects, generation of expected returns, all these must be carried out with more care and due diligence
- Attracting more FDI, through appropriate infrastructure, one-stop support and other measures could be crucial in terms of changing the structure of the financial account favouring non-debt generating forex flows
- Key BoP correlates such as exchange rate movement, debt and debt servicing liabilities and forex reserves, among others, have all witnessed varying degree of pressure in recent times
- In this backdrop, policymakers will need to apply their mind to ensure that the BoP situation remains under control and trends in the relevant correlates do not undermine the cause of maintaining macroeconomic stability and stimulating economic growth of the country

Section VI.

Youth Unemployment: Whither the Demographic Dividend?

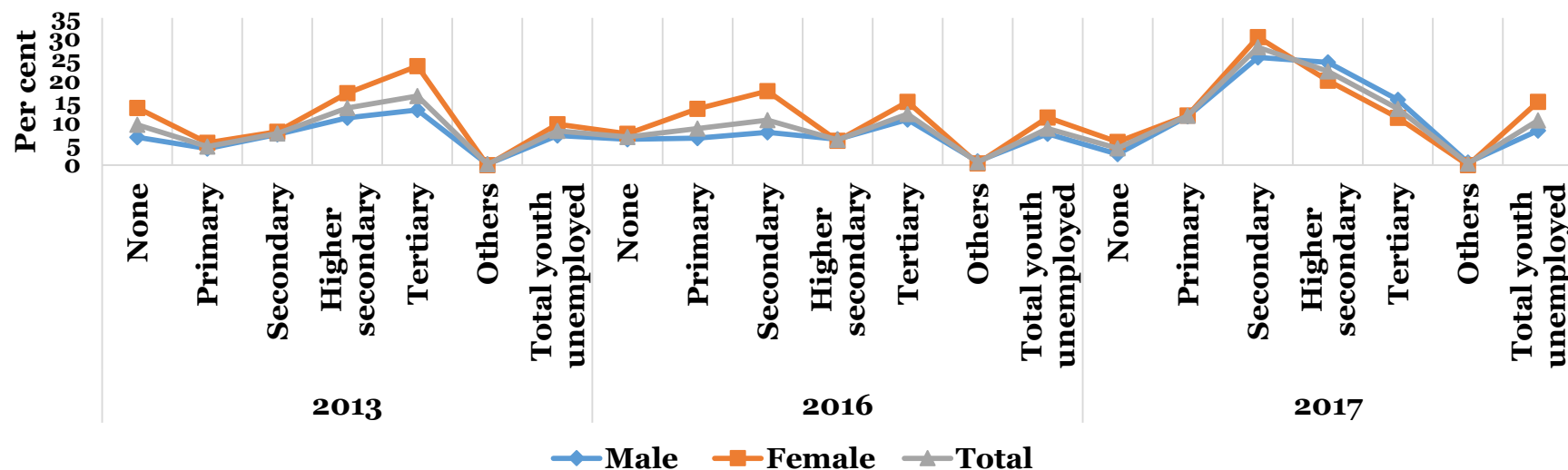
The challenge of addressing youth unemployment is becoming increasingly evident in Bangladesh.

- ❑ Between 2015-16 and 2016-17, a total of 1,296 thousand jobs were created in Bangladesh, of which 420 thousand jobs went to the male workers and 876 thousand jobs to the female workers (BBS, 2018).
- ❑ Despite the increase in employment, the jobs created were not adequate to meet the market demand.
- ❑ Estimates suggest that 2.1 million people were expected to enter the country's labour force every year during the period 2013-2023 (World Bank, 2013).
- ❑ This implies that even if approximately 1.3 million jobs are created each year (BBS, 2018), about 800 thousand newly unemployed people will join the already significant amount of unemployed in the country each year, provided all other factors are held constant.

Youth unemployment – a product of a failing education system

- ❑ Ironically, a positive relationship was found between education and unemployment in Bangladesh (BBS, 2018), implying that the higher the level of education, the greater the likelihood of being unemployed.
- ❑ This disturbing trend of high unemployment among educated youth can also be observed from past surveys which show that unemployment rates among educated youth were higher than among uneducated youth for both genders.

Figure 1: Proportion of unemployed youth (aged 15-29 years) in total unemployment, by education level and gender

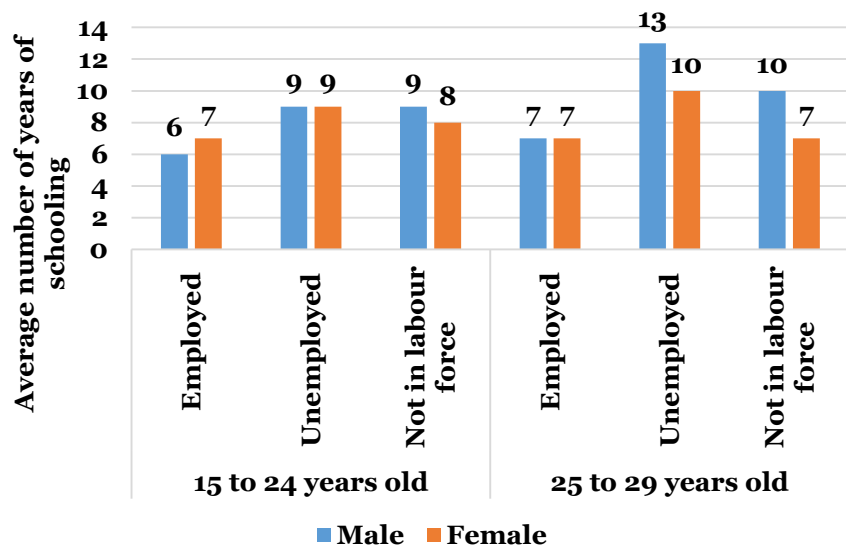


Source: Bangladesh Labour Force Survey (various years), Bangladesh Bureau of Statistics (BBS).

Youth unemployment – a product of a failing education system

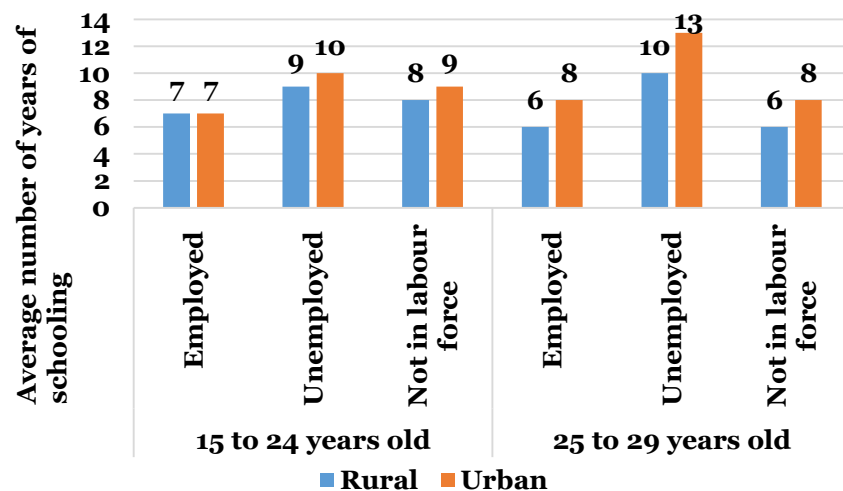
- ❑ The average number of years of schooling was higher for unemployed individuals compared to employed individuals, across all age groups
 - for both genders
 - for both rural and urban areas

Figure 2: Average number of years of schooling, by age group, labour force status and gender (2016-17)



Source: BBS (2018).

Figure 3: Average number of years of schooling, by age group, labour force status and region (2016-17)



Source: BBS (2018).

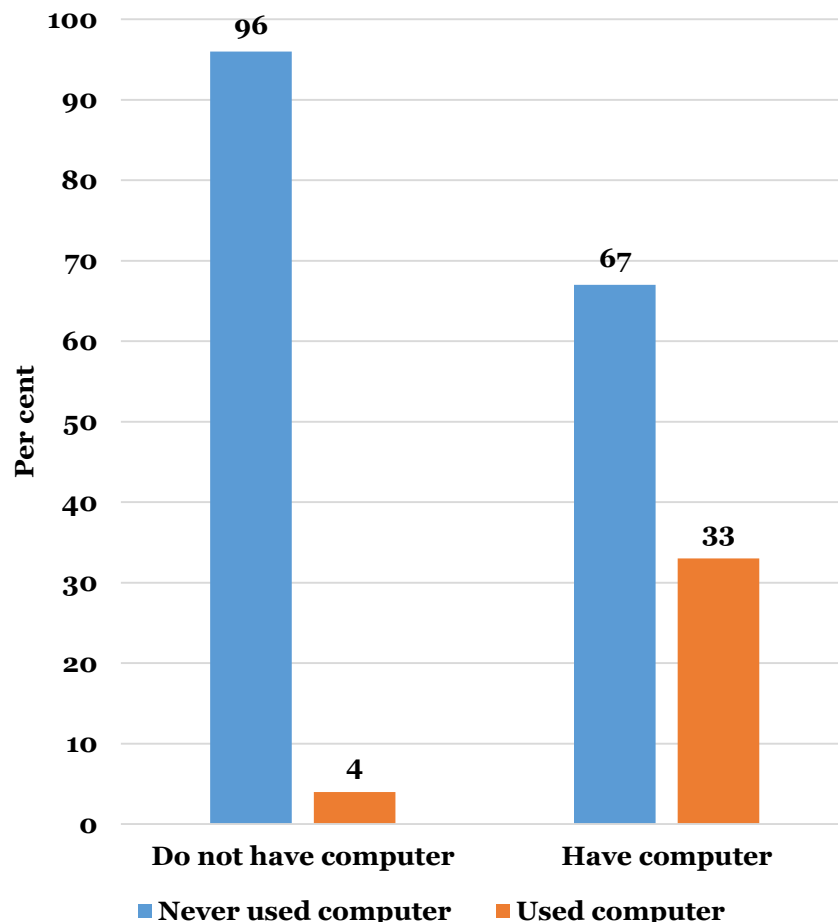
The positive link between higher education and unemployment could be explained by the nature of the nexus between education enrolment, education quality and employment.

- ❑ If education enrolment increases, but education quality does not, then the labour market will experience the influx of a large number of poorly educated youth.
- ❑ If the marginal learning from each additional year of education is zero, then employers will be indifferent between hiring less educated and more educated workers. However, since more educated workers tend to claim higher wages than less educated workers, employers will likely prefer less educated workers for hiring, since they have the same level of skills, but will work for less wages (Rahman, 2014).
- ❑ This means that, if the quality of education cannot ensure sufficiently high marginal level of learning with each additional year of education, then more educated workers will be less employable compared to less educated workers.

Skills gap and access to computers: Is digital Bangladesh digital enough?

- ❑ Data from the Bangladesh ICT Use and Access Survey 2013 (BBS, 2015a) shows that only 4 per cent of individuals who do not have computers in their household can use computers.
- ❑ This means that access to computers is still limited to individuals whose families can afford to buy a computer. It also implies that educational institutions in the country are not adequately equipped with computers, and some students may graduate from school without developing computer skills.
- ❑ Additionally, the data also shows that even in households that own a computer, only 33 per cent of individuals can use a computer.

Figure 4: Computer ownership and computer use



Source: BBS (2015a, 2015b).

Note: Computer ownership is shown at household-level and computer use is shown at individual-level.

Skills gap and access to computers: Is digital Bangladesh digital enough?

- ❑ Data from the Labour Force Survey 2013 and ICT Use and Access 2013 shows that individuals who could use computers earned more than individuals who could not (BBS, 2015a; BBS, 2015b).
- ❑ Average monthly wage for computer literate individuals was higher in every division, as also on national level.

Table 1: Average monthly wage by computer use (in BDT)

Area	Never used computer (in BDT)	Used computer (in BDT)	Wage differential (in %)
Barishal	11343	15731	38.68
Chattogram	11217	14358	28.00
Dhaka	10881	14788	35.91
Khulna	10709	13122	22.53
Rajshahi	10620	13425	26.41
Rangpur	10264	13551	32.02
Sylhet	10320	13401	29.85
Rural	10287	12925	25.64
Urban	11254	14434	28.26
National	10812	14162	30.98

Source: BBS (2015a, 2015b).

Note: Wage differential is calculated as the percentage difference in the average monthly wages of individuals who have used computers and the average monthly wage of individuals who have never used computers.

❑ Based on these findings, the following recommendations are made to address the issue of youth unemployment in Bangladesh:

- *Improved education system*
- *Availability of technology and internet*
- *Skills development through technical and vocational training*
- *Fair opportunity for all in the job market*
- *Access to information at national, regional and local levels*
- *Self-employment through entrepreneurship*
- *Students-to-employers connection*
- *Career counselling from an early stage*
- *Enabling environment for female youth*
- *Employment opportunities abroad*

Section VII.

Agriculture: Performance, Opportunities and Challenges

- ❑ Bangladesh agriculture has come a long way over the last decades
 - Production of food particularly rice, vegetables and culture fisheries, and development of dairy, particularly poultry.
- ❑ There are still challenges against such advancement: old and new ones (climate change)
- ❑ Question is: are we prepare to face those challenges?

Growth in Agriculture and Related Dynamics in the Last Decade

- ❑ Agricultural GDP had been rising far more slowly compared to that of the national GDP.
- ❑ Significant fluctuations in growth for both crops and agriculture as a whole (except fisheries)
 - Crops drive the over-all agricultural changes.

Fig. 1: Shares of Sub-sectors in Total Agriculture GDP

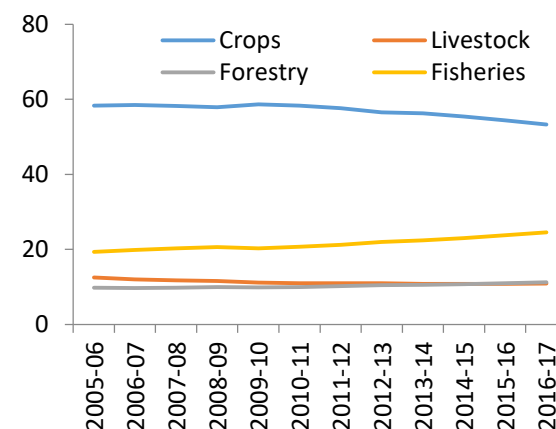
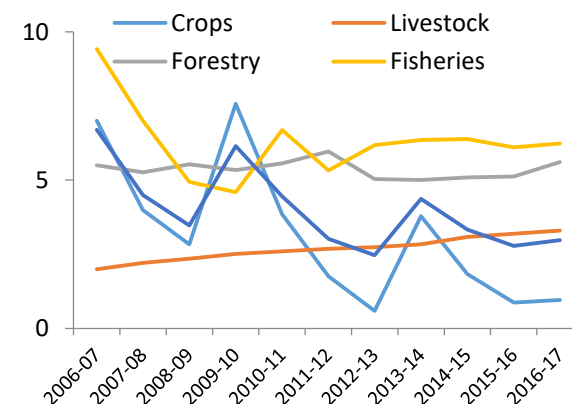


Fig. 2: Year-over-year Rates of Growth in Sub-sectors of Agriculture



- ❑ Rice remains the major crop in terms of not only output but also area (80% of gross cropped area)
 - A general lack of diversification of crops (Simpson's index 0.35-0.36)
- ❑ Bangladesh experienced changes in use of area
 - Fall in wheat and pulses acreages
 - Rise in jute, potato & oil seed acreages
- ❑ Fluctuations in rice output are usually compensatory
 - A fall in aman rice production is more often compensated by boro
 - Amplitudes of the fluctuations in rice production were almost non-existent due to no major natural hazards in last several years (except in 2017)
- ❑ In rice yield, Bangladesh has a long way to go to catch up with others in the region (3 mt vs.7 mt./ha in SEA)

Fig: Rice output

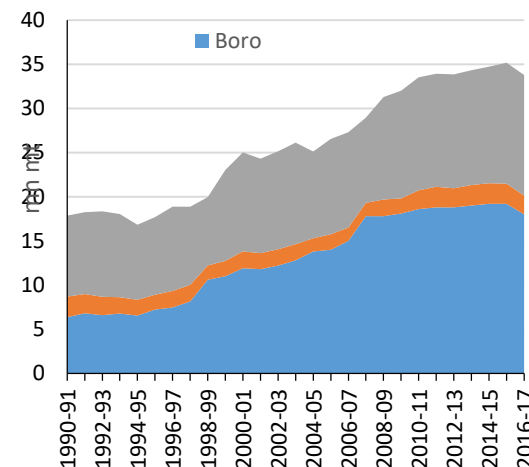
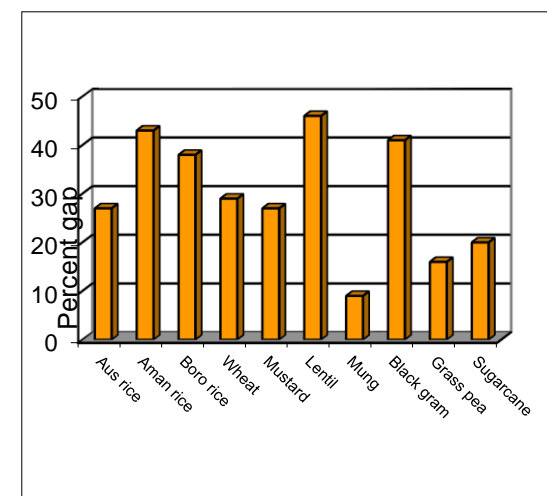


Fig. 3: Yield Gaps (%) between Demonstration Plots and Farmers' Plots



- ❑ Large gap between demonstrations and farmers field.
 - For rice, the yield varies from 25% to over 40%.
 - Even if this yield-gap is filled up by say 20% for boro, the total output increase would be by about 12%
- ❑ Major concerns are: research-extension gap; lack of communication among farmers level; and access to inputs and their prices
 - Huge scope to release land for rice to other crop by reducing yield gap
 - Reducing yield gap of essential crops can reduce the import payment
- ❑ Government initiated 'National Agriculture Technology Program (NATP)' with support from World Bank to reduce yield gap

Fisheries output growth

- ❑ Bangladesh fisheries had been confined to culture fisheries (80%) and that has brought to the country kind of silver revolution
- ❑ In FY2017, 2.2-2.3 mn mt was culture fisheries (4 mn mt of fish produced)
- ❑ Commercialized aquaculture is much more capital and labour intensive
 - Women seem to have low level of employment in these activities

❑ Major problems in the fisheries sector

- Fingerling and feed availability
- Stocking density and feeding knowledge
- Availability of credit
- Water quality and diseases diagnostics
- Extension service and practical knowledge

❑ Marketing, transportation and other related services do pose major risk.

❑ Industrial fisheries is moving at faster rate and may outperform artisanal fishery (labour-intensive)

Livestock and Poultry Output Growth

❑ Livestock sector has grown at the slowest rate except poultry

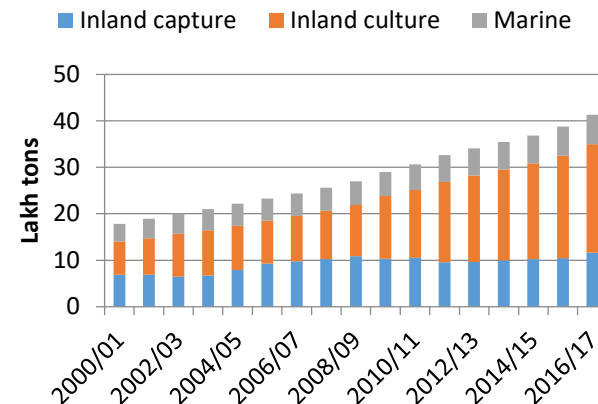
- Commercial dairy and meat industry is still infancy stage

❑ Much of the output is household-based

- Women are heavily employed in rearing and caring of livestock

❑ Major part of poultry output comes from the commercialized farms.

Fig. Output Growth of Fisheries



- ❑ Over the recent years milk, meat and egg production have risen. There are very large increases and yet do not seem to have been captured when it is looked up in the figures for sub-sectoral growth.
- ❑ Challenges of livestock sector: Constraints of proper statistics and poor quality of livestock

The Challenges Ahead

- ❑ Demand side challenges
 - Population growth
 - Rising income
 - Fast urbanization
 - Less consumption of balanced diet
 - Rising food price (non-rice food)
- ❑ Supply side challenges
 - Yield gap of various crops, climate change, poor marketing, agricultural policy and affordability of food

- ❑ **Addressing the supply side challenges**
 - Yield gap of various crops: Deeper understanding and close interaction with farmers will be needed.
 - Proper training for the extension officials and farmers for livestock and fisheries sector is needed
 - Adequate credit facility
- ❑ Climate change: An appropriate pricing system as regards use of irrigated water needs to be put in place.
 - Biofortification to raise nutrition content of food crops
 - Addressing the concern of avian influenza for poultry
 - Milk production and aquaculture may face problems due to heat stress and lack of water
- ❑ Modernizing the marketing system of agricultural product
- ❑ Agriculture Policy 2018 does not seem to give adequate attention to climate change
- ❑ Fisheries and Livestock policies are also quite deficient
- ❑ Affordability of food needs reduction of food production cost, rise in resource use efficiency, modernising marketing and extension etc.

Section VIII.

Banking Sector in Bangladesh: Concentric Circles of Challenges

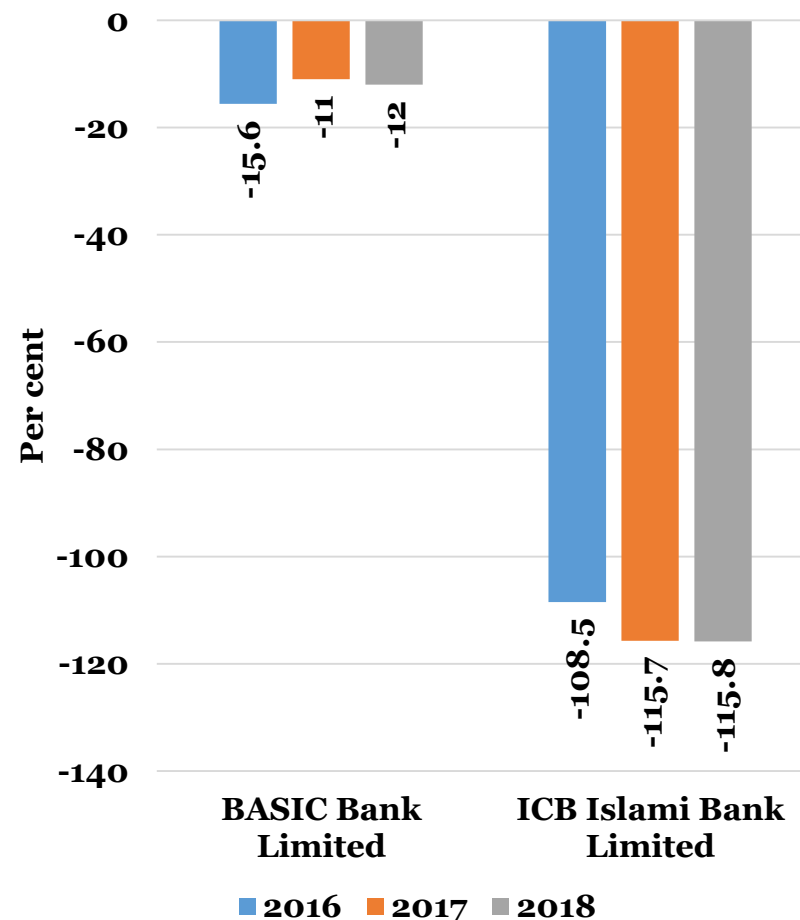
Some Major Reforms in the Banking Sector of Bangladesh during 2008 – 2018

- ❑ Whistleblowers' Protection Act 2011 states that no criminal, civil or departmental proceedings can be initiated against a person for disclosing information in the public interest to the authorities, and his or her identity will not be disclosed without his or her consent (GoB, 2011).
- ❑ Bangladesh Financial Intelligence Unit (BFIU) is established for analyzing Suspicious Transaction Reports (STRs), Cash Transaction Reports (CTRs) & information related to money laundering (ML) or financing of terrorism (TF). (Bangladesh Bank, 2012).
- ❑ Financial Integrity and Customer Services Department (FICSD) department is established in Bangladesh Bank, with a view to minimizing fraud and forgery in the banking industry. (Bangladesh Bank, 2014).
- ❑ Money Laundering Prevention Act is amended to reenact a law regarding the prevention of money laundering and other connected offenses (GoB, 2015).
- ❑ Despite these steps in the right direction, the state of the banking industry of Bangladesh has worsened during 2008-2018.

Capital Adequacy Problems of Banks

- ❑ Both BASIC Bank and ICB Islamic Bank were critically under-capitalised, as of June 2018 (FID, 2018).
- ❑ BASIC Bank has not recovered from its massive scam during 2009-2013
- ❑ ICB Islamic Bank inherited a bankrupt institution from Oriental Bank, although all its problems are not hereditary

Figure 1: Capital to Risk Weighted Assets Ratio in BASIC Bank & ICB Islamic Bank

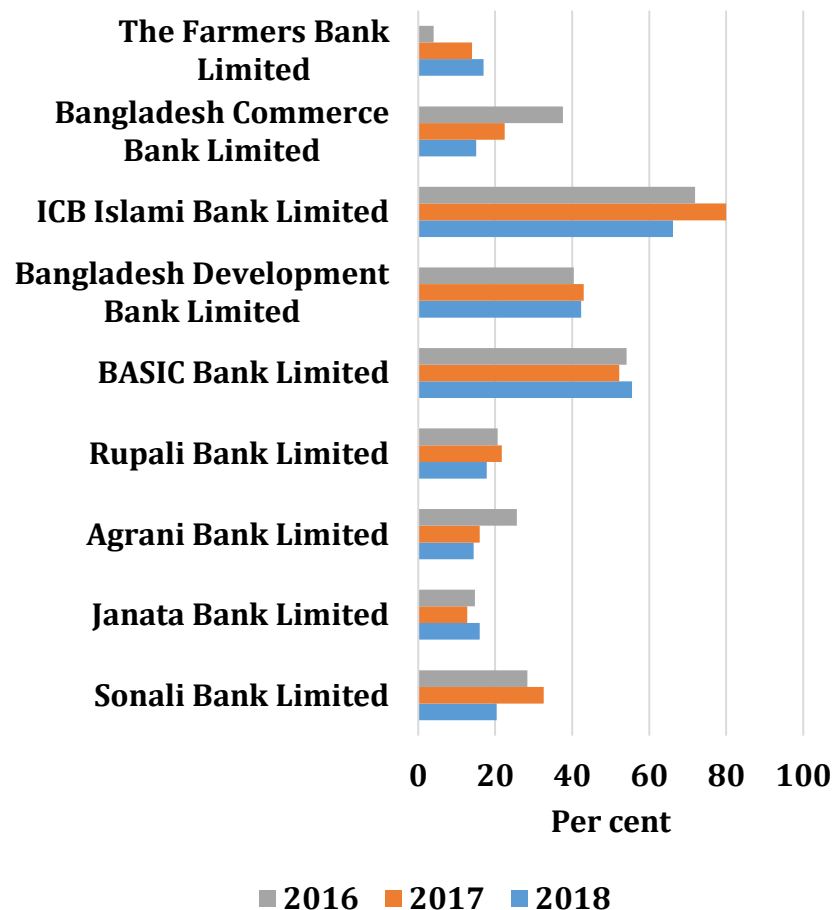


Source: Financial Institutions Division, Ministry of Finance
 Note: Data for 2018 are as of June

Asset Quality of Banks

- ❑ Classified loans as a share of total loans was more than 10% for 9 banks during 2016-2018.
- ❑ ICB Islamic Bank had more than 60% and BASIC Bank had more than 50% classified loans during 2016-2018.
- ❑ The actual percentage of classified loans would be higher if loans were not written off.

Figure 2: Classified Loans as a Share of Total Loans

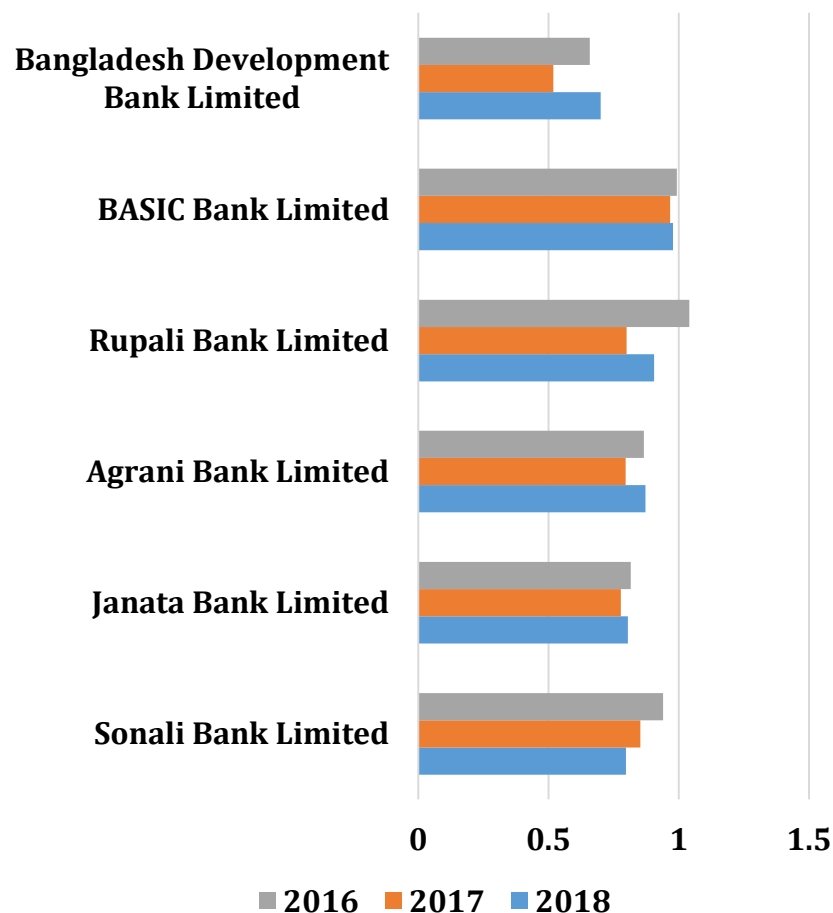


Source: Financial Institutions Division, Ministry of Finance
 Note: Data for 2018 are as of June

Management of State-Owned Commercial Banks

- ❑ During 2016-2018, all SCBs had expenditure-income ratios greater than 0.5.
- ❑ This reveals poor management effectiveness of these banks during this period.

Figure 3: Expenditure-Income Ratio of State-Owned Commercial Banks

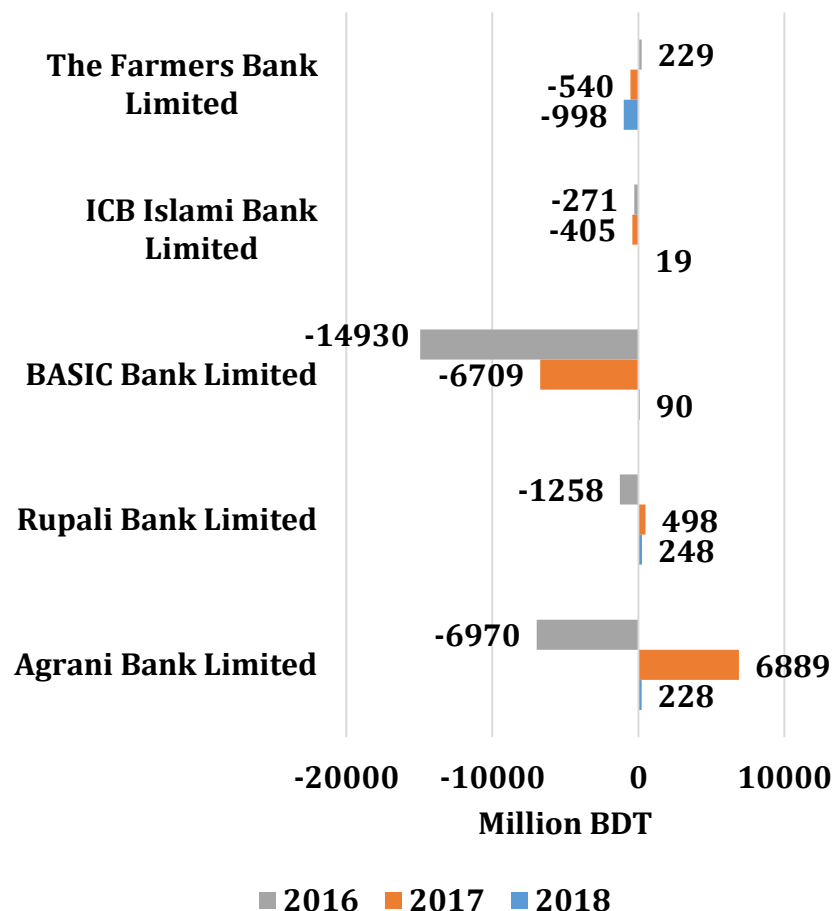


Source: Financial Institutions Division, Ministry of Finance
 Note: Data for 2018 are as of June

Loss Making Banks

- ❑ ICB Islamic Bank and The Farmers Bank have been making losses in the last 3 years.
- ❑ BASIC Bank, Rupali Bank, and Agrani Bank made huge losses in 2016.
- ❑ However, losses made by BASIC Bank alone was greater than the losses of all other banks combined.

Figure 4: Net Profit (in million BDT)

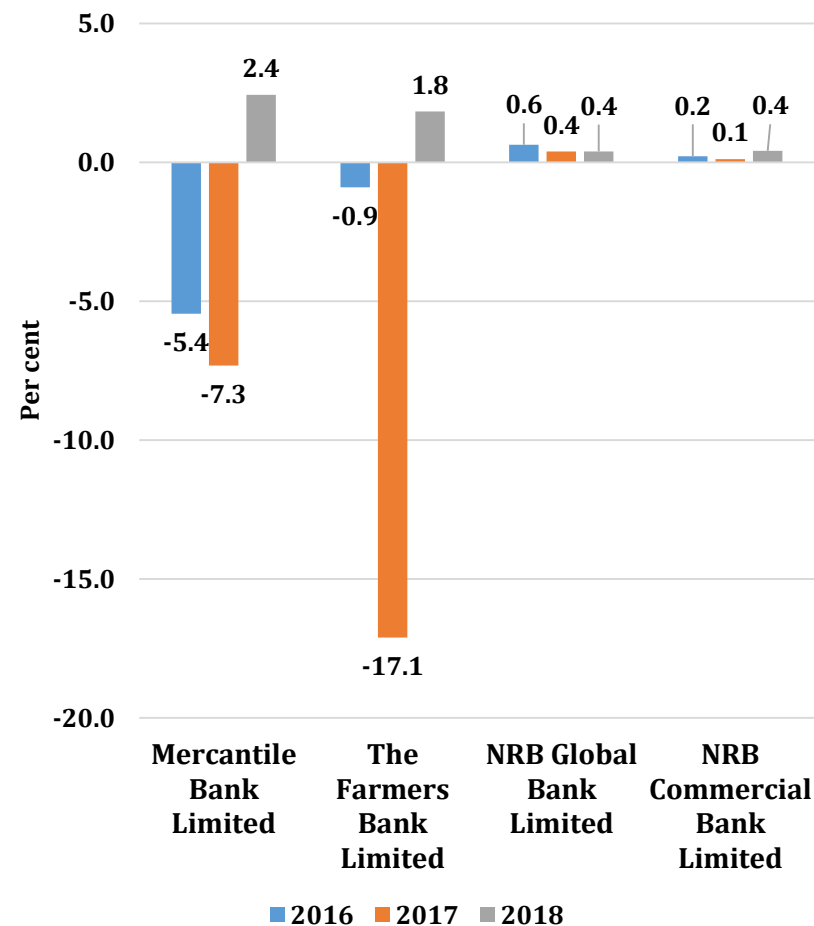


Source: Financial Institutions Division, Ministry of Finance
 Note: Data for 2018 are as of June

Liquidity Crisis in Banks

- ❑ Fourth generation banks such as The Farmers Bank, NRB Global Bank, and NRB Commercial Bank faced liquidity crisis during 2016-2017.
- ❑ The problem was particularly acute in the case of The Farmers Bank, which had to be bailed out by the government.
- ❑ In May 2018, 4 state-owned banks and a financial institution signed share purchase agreements with The Farmers Bank to inject BDT 765 crore into the bank (The Daily Star, 2018).

Figure 5: Liquid Assets as a Share of Total Assets



Source: Financial Institutions Division, Ministry of Finance
 Note: Data for 2018 are as of June

Opportunity Cost of Major Scams, Irregularities, & Heists in Banking Sector

- Cost of major scams, irregularities, & heists in banking sector is equal to:
 - **34% of total allocation for education in national budget of FY2017-18**
- BDT 22,502 crore would be enough for:
 - **Total allocation for health in national budget of FY2017-18 (BDT 20,651 crore)**

Table 1: Media Reports on Total Money Lost through Major Scams, Irregularities, & Heists in Banking Sector, 2008-2018

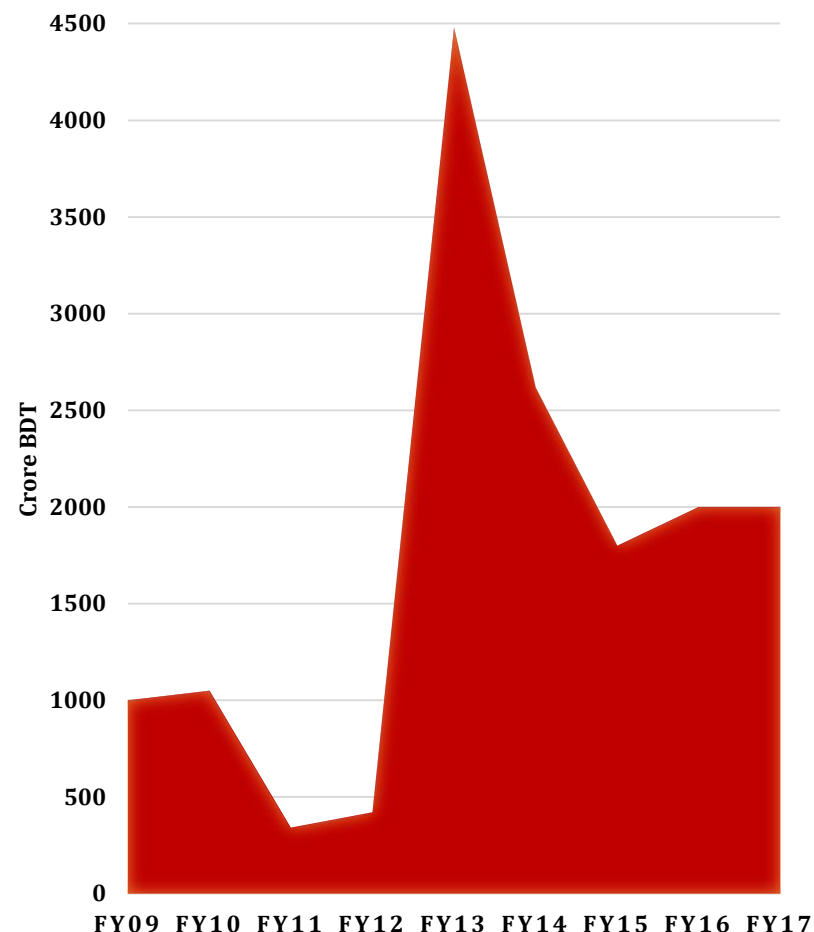
Sonali, Janata, NCC, Mercantile & Dhaka Bank	BDT 4.89 crore
BASIC Bank	BDT 4,500 crore
Sonali Bank	BDT 3,547 crore
Janata Bank	BDT 10,000 crore
Janata Bank, Prime Bank, Jamuna Bank, Shahjalal Islami Bank & Premier Bank	BDT 1,174 crore
AB Bank	BDT 165 crore
NRB Commercial Bank	BDT 701 crore
Janata Bank	BDT 1,230 crore
The Farmers Bank	BDT 500 crore
Bangladesh Bank	BDT 679 crore

TOTAL BDT 22,501 crore

Recapitalisation

- ❑ Recurrent recapitalization of SCBs by the government has emerged as an issue of grave concern, and the government has taken recourse to this measure on a regular basis.
- ❑ It has been estimated that the GoB has spent BDT 15,705 crore in recapitalizing the banks during the period FY2009-FY2017 (Monthly Fiscal Frameworks, Budget Briefs, Finance Division).

Figure 6: Amount of Recapitalisation (in crore BDT)

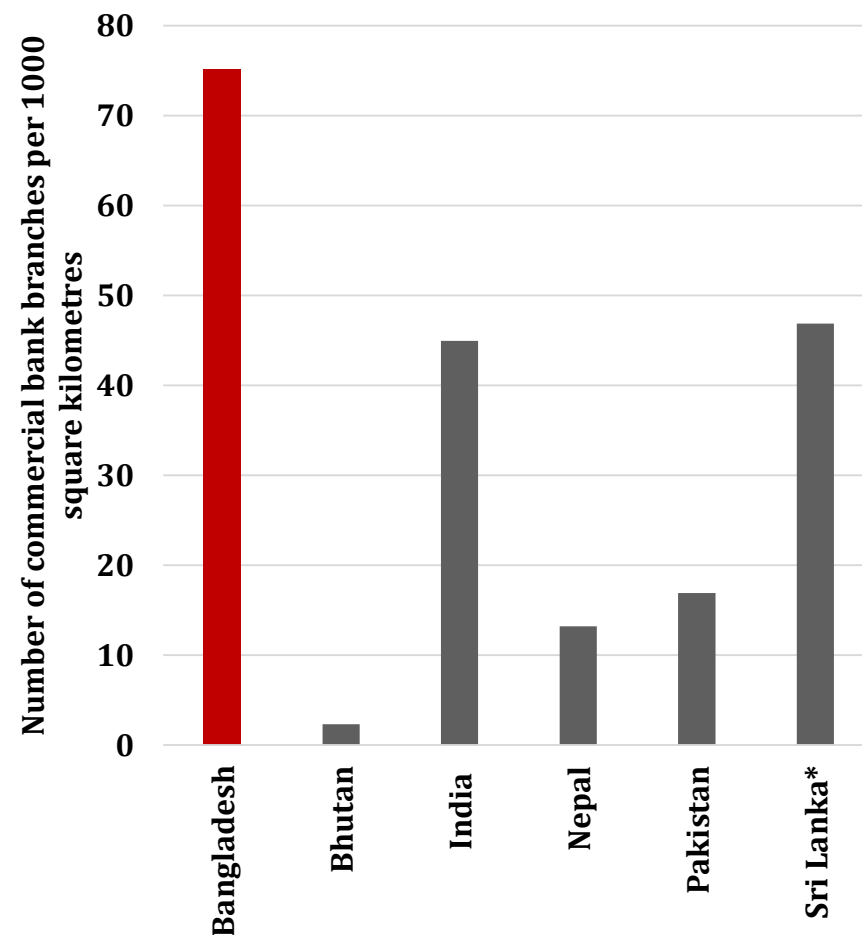


Source: Monthly Fiscal Frameworks, Budget Briefs, Finance Division.

High Concentration of Banks and Bank Branches in Bangladesh

- ❑ Mexico has only 47 commercial banks even though the GDP of Mexico in 2016 was about 7.4 times larger than that of Bangladesh in 2016 and the total surface area of Mexico is about 13.2 times larger than that of Bangladesh (CPD, 2018).
- ❑ Globally, if microstates that have a land area less than 1000 square kilometres are disregarded, Bangladesh has the 8th highest geographic concentration of commercial bank branches (CPD, 2018).
- ❑ In 2016, Bangladesh had 75 branches of commercial banks per 1000 square kilometres of land, which was the highest in the South Asia region (CPD, 2018).

Figure 7: Branches of commercial banks per 1,000 square kilometres in South Asia (2016)



Source: IMF Financial Access Survey Data

Note: * indicates data for 2015

The banking sector of Bangladesh is now faced with concentric circles of challenges. These challenges originate within the bank, pervade into the central bank, and finally proliferate into a broader challenge of political economy.

□ In this context, the following recommendations are made for policymakers:

- **Recognise the problem.** First and foremost, the challenges of the banking sector should be recognised. A thorough review of the state of the banking sector has to be carried out and more transparency should be established on the state of affairs.
- **Stop recapitalisation of SCBs year after year.** The practice of bailing out the losing banks with public money is economically unjustified and morally incorrect.

- **Be selective in keeping government funds in banks.** The decision to keep 50 per cent government funds with private banks goes against the spirit of central bank's monetary policy. Only banks with less than 5 per cent NPLs should be eligible for the additional available funds from government entities.
- **Redesign loan classification norms to identify wilful defaulters.** Wilful defaulters should automatically come under penal actions on the ground of the misappropriation of the public money. Moreover, banks should be given right to change the management in a defaulted company.
- **Strengthen internal control departments.** The internal control department of SCBs is in need of a serious overhaul. During financial scams of the past, it was discovered that the internal control departments either willingly or unwillingly had failed to inform the Board of Directors regarding large losses.

- **Develop human resource.** Lack of capacity building is a perennial problem that besets the SCBs in Bangladesh. Without human resource development through enhanced skills, SCBs will not be able to handle the emerging challenges facing the sector.
- **Do not issue license to new banks.** The culture of giving licenses to new banks on political grounds should be stopped. Given the size of the economy, there is no need for new banks. The market is already saturated and new banks have been performing poorly by extracting public money.
- **Appoint strong administrator to oversee troubled banks.** Bangladesh Bank should appoint a strong administrator to oversee the operation of troubled banks. A proper audit of the bank should be performed to understand its real health.

- **Formulate exit policy for troubled banks.** An exit policy for troubled banks needs to be formulated, particularly taking into cognisance the ineffectiveness of the Oriental Bank model.
- **Initiate reform of judicial process.** Trial of scams and irregularities cases should expedited and exemplary measures should be taken against the involved people. Speedy recovery of default loans should be implemented through special tribunal for bank defaulters. The number of judges dealing with Money Loan Court Act 2003 and Bankruptcy Act 1997 should be increased to ensure speedy disposal of loan default cases and to reduce backlog.
- **Appoint Board Members through Blue Ribbon Committee.** The process of appointing board members should be de-politicised. A highly qualified and experienced committee should be formed to select board members. The culture of selecting board members based on the political loyalty and affiliation must change in order to stop crony capitalism.

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- ***Uphold independence of Bangladesh Bank.*** Interference in Bangladesh Bank's activities goes against the spirit of Bangladesh Bank Amendment Bill 2003, which was geared to guarantee the central bank with autonomy.
- ***Set up Banking Commission.*** An independent commission for the banking sector in view of addressing emerging challenges is a must. The broad terms of reference (ToR) of the commission will be to critically assess the problems and weaknesses of the banking industry. Such a commission will suggest concrete recommendations for prudential banking, and prepare guidelines regarding management, automation, risk management and internal control. The budget should allocate adequate funds for setting up this commission.
- ❑ ***CPD intends to set up a Citizen's Commission for the banking sector to provide recommendations to address the emerging problems.***

Section IX.

Energy and Power Sector: Performance and Future Outlook

Introduction

- ❑ The energy and power sector has passed a long way towards addressing the shortages of supply of gas and electricity in the country.
- ❑ Due to lack of awareness regarding proven and probable gas reserves, and production of energy based on this, a flawed gas-based plan was undertaken in 2005 (Power System Master Plan, 2005).
- ❑ A major shift in plans and operations was called for in order to address the energy shortage.
 - This was undertaken partly during the time of the caretaker government and mainly during the tenure of the current governments.
- ❑ It is important to examine the changes in plans, operations and management related issues of the energy and power sector during the last decades
 - To identify a number of key takeaways for long term energy sustainability in the country.

Generation, Transmission and Distribution of Electricity

- ❑ Bangladesh experienced remarkable growth in the power sector since 2010
 - Total installed power capacity was 18,275 MW in November 2018 and experienced peak production 11,623 MW.
 - Within eight years, the real capacity increased by a significant factor of 3.3, and the energy served, or actual energy generation was close to 60 GWh – a 2.3 times increase within a period of ten years.
 - P/C electricity consumption almost doubled (from 165 kWh to 308 kWh)
 - Reduction of system loss (12% from 17%); started cross border electricity trade
 - Increased access to electricity (from 54% to 90% of population)
- ❑ Major problems in the power sector
 - Shortage of primary energy (1500 MW can not be produced due to gas shortage); Number of ageing power plants (500 MW)
 - Inadequate expansion of transmission (41%) and distribution (83%)
 - Substantially lower demand growth of the industrial sector

Bangladesh Energy Architecture

❑ Major components of the energy architecture are affordability, emission impact, ratio of low carbon fuel in energy mix, level and quality of access, diversity of supply, self-sufficiency, energy intensity and energy's support/detracts from economic development.

- Bangladesh's Energy Architecture Performance Index position is 104 out of 127 (EAPI 2017)

Commitment to a long-term direction for energy sector

❑ Policies discarded or modified within a very short period after these were formulated.

- There is disconnect between planners and the government leadership.
- Demand side management is largely neglected

Fig: Generation of Electricity

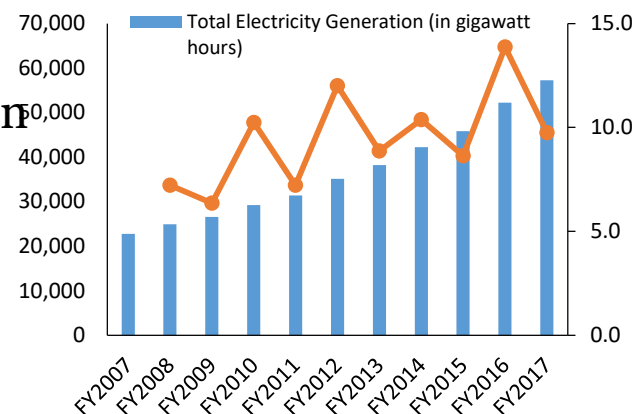
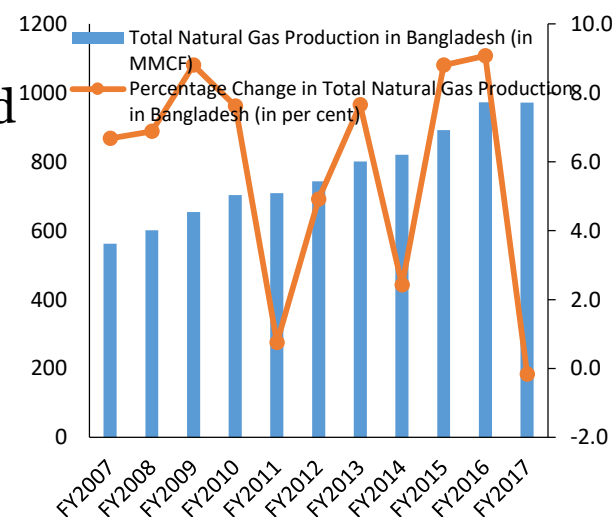


Fig: Generation of Gas



- ❑ Initial affordable coal-based power generation was clearly flawed
 - None of the 23,000 MW approved coal-based power plants has materialized as yet
- ❑ Frequently changing plans for power sector have serious consequences
 - Current shift to LNG based power plants from coal fired ones has completely jeopardized the future of those projects
 - Long term plan will have to have flexibility considering future scenario.

Energy transition must be adaptable and co-designed

- ❑ Bangladesh was largely energy independent for a very long time.
 - Within a span of ten years, Bangladesh is transforming to an import dependent one (90% by 2030)
- ❑ The present power crisis is closely entwined with the gas crisis
 - At least 1,500 MW stranded generation (due to lack of gas supply)
 - Currently 58% of the power generation capacity is gas based after adding almost 4,000 MW oil based capacity.
 - Adding more power plants will not solve the problem

- ❑ Government in 2010 decided to go for liquid hydrocarbon.
 - For long term solution the emphasis was given on coal to replace gas in power sector – LPG for cooking purpose and LNG for industries.
 - All these options are import-based.
 - What was not realized for this transition was the need to build the necessary infrastructure for the energy import.
- ❑ Lack of experience in energy import other than liquid fuel and the zeal for power plant that has a visible political mileage exposed the lack of professionalism in energy planning in this country.
- ❑ Since the 2nd round bidding in 1996, no onshore bidding has taken place.
 - The current government resolved the maritime border dispute very successfully with India in 2012 and with Myanmar in 2014.
 - There was an offshore bidding in 2014 where two companies were awarded four blocks and a third joint venture company was given a block in 2017 under special power without survey.
 - The government never looked serious about the exploration option. The government decided to go only with BAPEX for onshore activity; however, BAPEX has not been able to find any new significant gas field.

- ❑ The import-bias mindset could take the country away from energy independency.
- ❑ Bangladesh must look at exploiting local coal resources although UN has strongly urged all countries to reduce coal-based power plants.
- ❑ All aspects for coal based power plant must be examined in a transparent manner as a preparatory step for designing long term transition plan.

Identifying the most impactful areas and putting emphasis on investment in those areas

- ❑ The most critical puzzle in the electricity value chain concerned the primary fuel import infrastructure.
 - There is also no immediate solution of the infrastructure problem.
 - FSRU experiment has not been very pleasant
 - Land-based LNG regasification plants are robust and are not subject to seasonal operational hazards.
- ❑ Significant investment of resources is needed in human resource development and setting up a central data depository

Way Forward

Bangladesh should switch to Integrated Resource Planning (IRP)

- IRP requires addressing both supply side and demand side management for efficient use of energy in a country
- In many countries, IRP is a requirement by the law but it has been missing in Bangladesh
- SREDA undertook a study on national energy efficiency and conservation plan (EE&C)

Infrastructure and Import Financing

- IFC and ADB have invested in a number of power plants in last five years.
- An estimated \$57 billion will be required by 2030
- Need more FDI in power and energy sector. The government should also ease the rules for takeovers, mergers and acquisitions.
- If the current course of action continues, within next 10 years the country will require at least 20 billion dollars per year to import all its energy requirement.

Energy Pricing

- Leaving aside the oil price adjustments, the current strategy of LNG import poses a major challenge - How a \$12 gas can be incorporated in a \$2.5 market?
- Any gas price increase in power sector will increase electricity price.
- Government should switch to metered piped natural gas (PNG)
- Since all three types of fuel (oil, LNG and LPG) are being imported, CNG should demand the priority.
- LNG can easily replace the expensive 1000 MW diesel fired power plants.
- LNG can be used in gas stranded power plants and a significant number of HFO plants can be retired.
 - Exploring gas (both onshore and offshore) is a cheaper option

Sustainable supply of primary energy

- Diversify fuel source through nuclear power plant (2024/26), along with the start of coal import by 2020 (through Payra sea port).
- Import of electricity can serve as one of the options towards primary fuel replacement

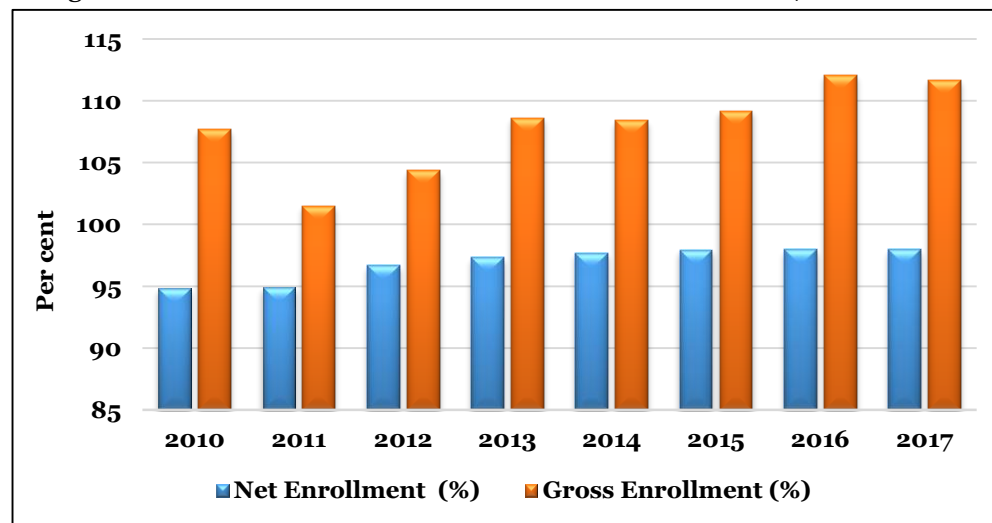
Section X.

Inclusive and Equitable Quality Education: Which Way to Go?

Progress of Education Sector Indicators

- ❑ Since 2000, Bangladesh has experienced notable progress in educational achievements in areas including:
 - Improvement in near-universal access to primary education
 - Increase in adult literacy rate from 56.9% in 2008 to 72.9% in 2017
 - Increase in participation supported by expanding stipend scheme and free textbooks and improvement in student-teacher ratio
 - Increase in teacher salary, implementation of student assessment reforms and improvement in school facilities
 - Elimination of gender gaps in access to primary and secondary education

Figure 10.1: Gross and net enrolment trend from 2010 to 2017

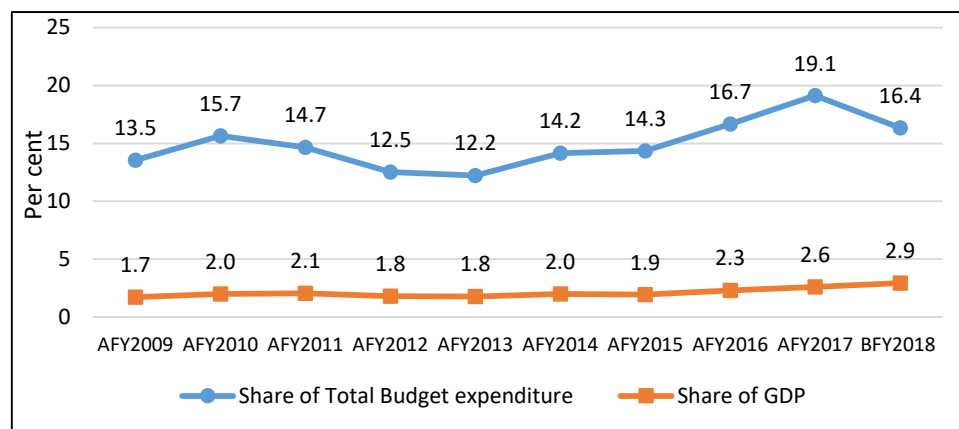


Source: DPE, 2017.

❑ In the budget for FY2018, education received 16.4 % of total allocations. This is a departure from the development in actual expenditure, which was exhibiting an increasing trend from FY2013 to reach 19.1% of total expenditure in FY2017 (Figure 10.2).

❑ Per capita real expenditure on education has increased by Tk. 445 during FY2009 to FY2017 (Figure 10.3).

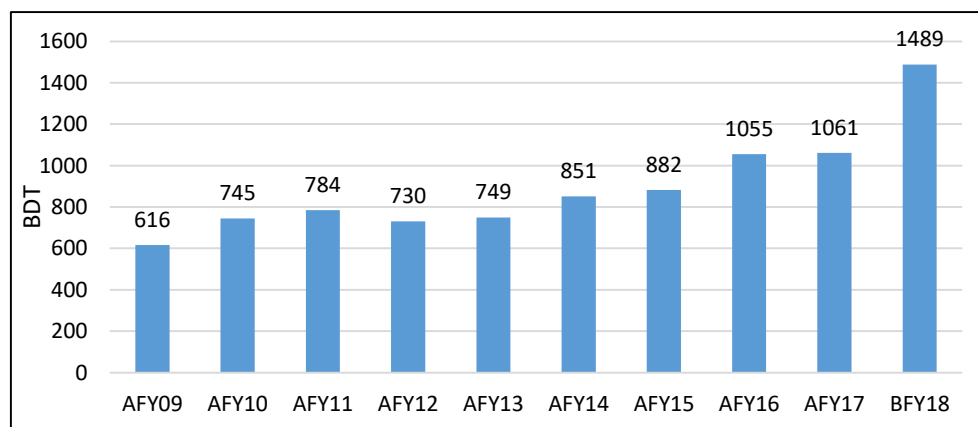
Figure 10.2: Share of education expenditure in Budget expenditure and GDP



Source: Ministry of Finance (MoF), Bangladesh

Note: AFY stands for Actual Budget in Fiscal Year; BFY stands for Budget in Fiscal Year.

Figure 10.3: Per capita real expenditure on Education



Source: Ministry of Finance (MoF), Bangladesh

Note: AFY stands for Actual Budget in Fiscal Year; BFY stands for Budget in Fiscal Year.

□ Major areas that need attention are as follows:

- Increase resource allocation so that in the medium term the allocation for public education budget is raised to at least 4 %, and eventually to 6 % of the GDP and at least to 20 % of the national budget.
- Align education objectives with national plans
- Decentralise education governance and strengthen upazila and district based-planning and management of basic and school education
- Make teaching a prestigious and attractive profession
- Improve quality of degree colleges
- Support non-formal alternatives for out-of-school children
- Promote expansion of quality pre-primary education
- Provide life-long learning opportunity
- Reform the Technical and Vocational Education and Training (TVET)
- Bring all school education under one national administrative jurisdiction

Section XI.

Healthcare for All: How Far to Go?

- ❑ BD's progress in terms of major health indicators are manifested through reduction in maternal mortality and under-five mortality, decline in total fertility, increased immunisation coverage, higher life expectancy at birth, and contraceptive prevalence rate.
- ❑ Some of the key health indicators are presented in Table 11.1

Table 11.1: Trends in major health indicators

Indicator	2005	2007	2011	2014	2017
Life expectancy at birth	65.2	66.6	69.0	70.7	72.0
Crude birth rate per 1000	20.7	20.9	19.2	18.9	18.5
Crude death rate per 1000	5.8	6.2	5.5	5.2	5.1
Infant mortality rate per 1000 live birth	50	43	35	30	24
Under five mortality rate per 1000 live birth	68	60	44	38	31
Maternal mortality ratio (MMR) per 100,000 live birth	348	351	209	193	172

Source: SVRS (2010; 2017).

- ❑ Targeted policies and investment in the sector by major involved players have contributed to these achievements. Some of the policies and initiatives include HPNSDP, National Health Policy 2011, 4th HPNSP (2017-2022), Sector Wide Approach (SWAp), Health Care Financing Strategy (HCFS) 2012-2032, and Community Clinics (CCs).

- ❑ Despite quantitative progress in health indicators, the quality of healthcare in both public and private health services is not satisfactory. Resource constraints, lack of professionalism, poor management and inadequate policy initiatives are the major reasons. Besides, several emerging issues are posing challenges in the health sector of Bangladesh. For example, the burden of non-communicable disease has been on the rise.

Table 11.2: Out-of-pocket health expenditure in South Asia

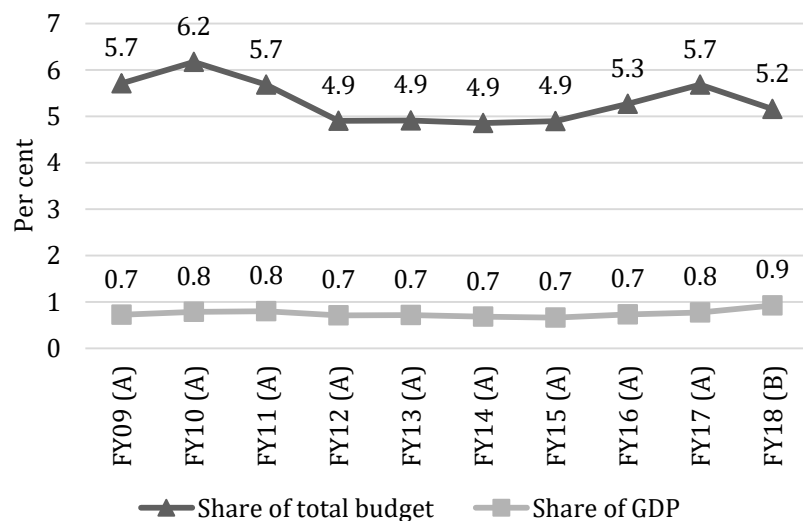
Indicator	2008	2009	2015	2015				
				Bangladesh	India	Pakistan	Sri Lanka	Nepal
Out-of-pocket expenditure (% of current health expenditure)	67.2	67.2	71.8	65.1	66.5	38.4	60.4	19.8
Out-of-pocket expenditure, per capita PPP (current international \$)	36.2	39.0	63.2	143.4	88.9	226.9	91.1	56.9

Source: World Health Organization Global Health Expenditure database. (<http://apps.who.int/nha/database>). Accessed on 25 November 2018.

Note: Out-of-pocket expenditure per capita, PPP (current international \$) is defined as Health expenditure through out-of-pocket payments per capita in international dollars at purchasing power parity (PPP).

- Major challenges include: inequity in health outcomes, insufficient financing and high out of pocket health expenditure, and inadequate human resources for health sector.

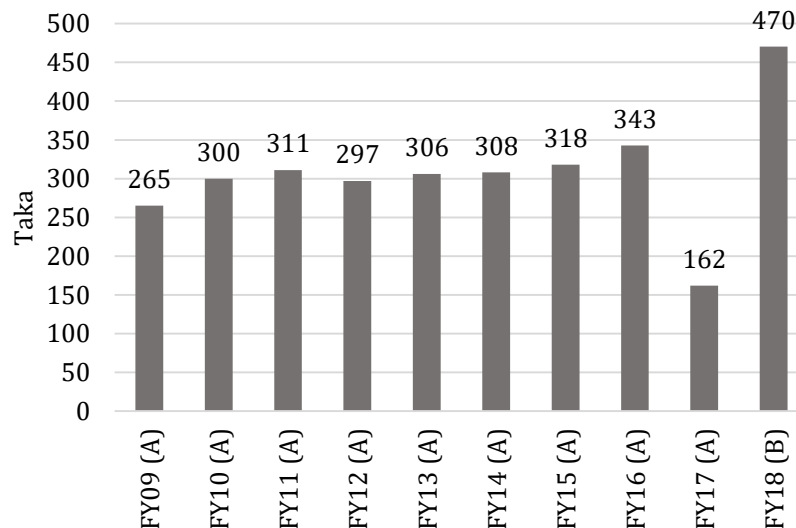
Figure 11.1 Share of health expenditure in budget and GDP



Source: Ministry of Finance (MoF), Bangladesh.

Note: AFY stands for Actual Budget in Fiscal Year; BFY stands for Budget in Fiscal Year.

Figure 11.2: Per capita real expenditure on health



Source: Ministry of Finance (MoF), Bangladesh.

Note: AFY stands for Actual Budget in Fiscal Year; BFY stands for Budget in Fiscal Year.

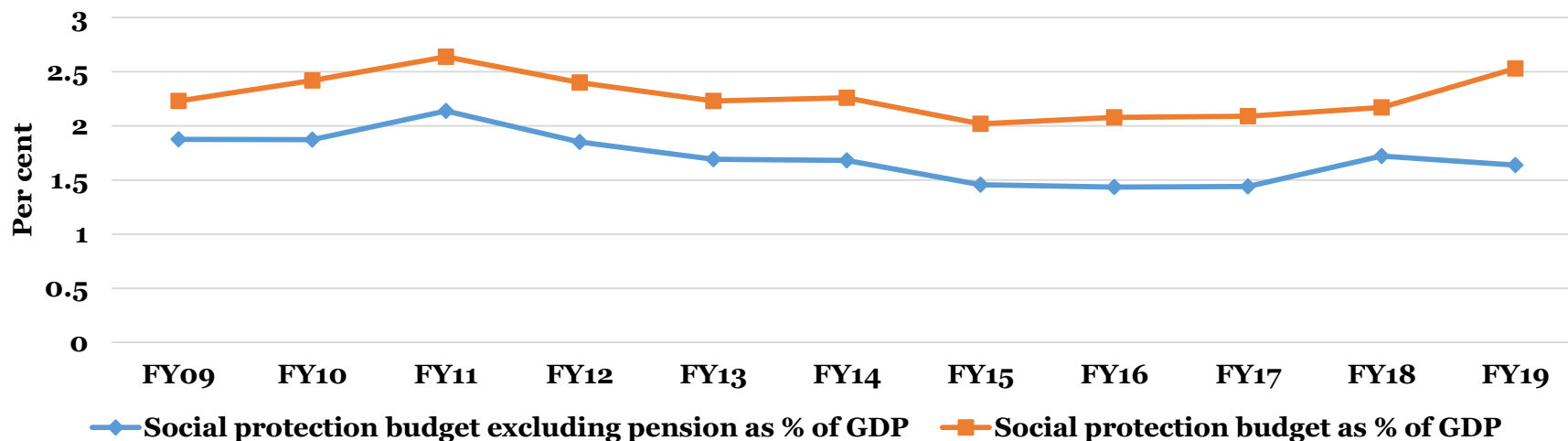
- ❑ Invest more resources on healthcare to reduce health inequity
- ❑ Mobilise resources from new and innovative sources
- ❑ Improve efficiency of resource utilisation
- ❑ Recruit and retain human resources for a better health sector
- ❑ Provide regular training for professional development
- ❑ Regulation and monitoring
- ❑ Encourage preventive and promotive health
- ❑ Improve governance of the health system
- ❑ Invest in advanced health research
- ❑ Develop strong database for the health sector

Section XII.

Social Protection: Is It Adequate for the “Left Behind”?

- ❑ In FY2019, the social security budget was 2.5 per cent of the GDP, which exceeded the target of 2.3 per cent of GDP outlined in the 7FYP.
- ❑ However, a close scrutiny of the allocation for social security indicates that in FY2018, 41.3 per cent of the budget for social security was allocated for the pension of government officials (GED, 2018).
- ❑ As a matter of fact, the social security budget, excluding pension, has been on the decline from 2.1 per cent of GDP in FY2011 to 1.7 per cent of GDP in FY2018.

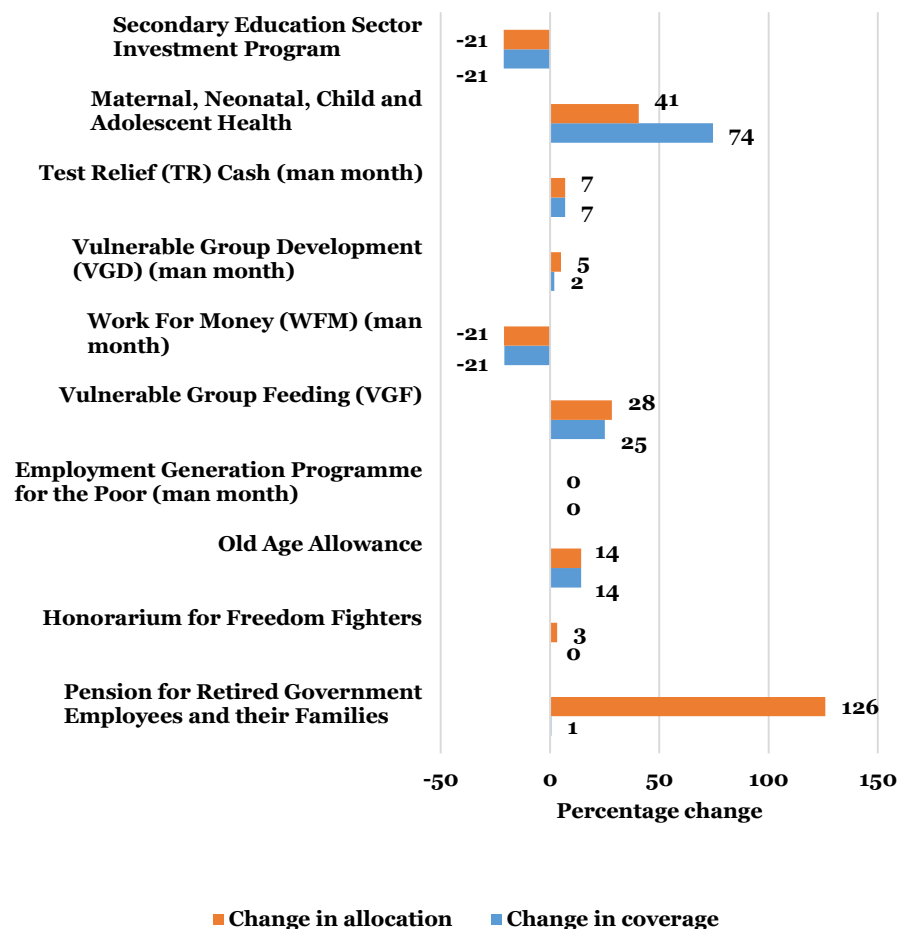
Figure 1: Social security budget as a percentage of GDP



Source: Authors' calculation based on Social Security Policy Support (SSPS) Programme data and budget documents.

- ❑ In FY2019, the coverage and allocation for 8 out of the 10 largest social protection programmes has increased from the previous year.
- ❑ However, per capita allocation for maternal, neonatal, child, and adolescent health programme has decreased by 19 per cent.
- ❑ Per capita allocations for 3 out of the 10 largest programmes increased by only 3%, while per capita allocation for 5 out of the 10 largest programmes remained unchanged.
- ❑ Coverage of Vulnerable Group Development (VGD) programme has increased, with special emphasis on Teknaf and Ukhiya.

Figure 12.3: Change in coverage and allocation of largest social protection programmes between FY2018 and FY2019



Source: Authors' illustration based on data from budget documents, Ministry of Finance.

Addressing income inequality—A tall burden for social protection

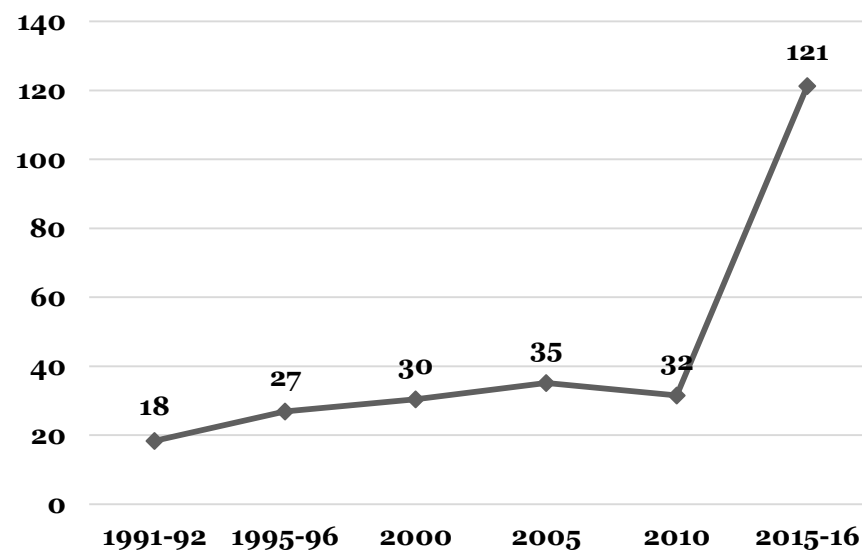
- Data from the period 1991–92 to 2015–16 shows that the income share held by the richest 5 per cent of the households in Bangladesh increased from 18.85 per cent in 1991–92 to 27.89 per cent in 2015–16, whilst the income share held by the poorest 5 per cent of the households in the country fell from 1.03 per cent in 1991–92 to 0.23 per cent in 2015–16.
- In 2010, the richest 5 per cent of the households were 32 times richer than the poorest 5 per cent; however, this difference magnified astronomically in 2015 when the richest 5 per cent was 121 times richer than the poorest 5 per cent.
- Given the persistent increase in inequality, and the widening gap between the top and bottom 5 per cent in the income spectrum, it is difficult to ascertain what role social protection programmes in Bangladesh have played as redistributive mechanisms.

Table: Income share held by poorest and richest

Income Share	1991-92	1995-96	2000	2005	2010	2015-16
Poorest 5 per cent	1.03	0.88	0.93	0.77	0.78	0.23
Richest 5 per cent	18.85	23.62	28.34	26.93	24.61	27.89

Source: Data from Household Income and Expenditure Surveys, BBS.

Figure: Income share held by the richest 5 per cent as a multiple of the income share held by the poorest 5 per cent



Source: Author's illustration based on data from Household Income and Expenditure Surveys, (BBS).

The findings of the several studies on social protection, including the study on “Towards a Social Protection Strategy on Bangladesh” have identified the following issues and limitations that need to be addressed in order to improve the existing social protection programs and measures.

❑ A set of recommendations have been set forth in this regard:

- Review of Social Safety Net Programme (SSNPs)
- Re-evaluation of existing SSNP
- Strategic Prioritization
- Extensive examination and scrutiny
 - Comprehensive Mapping of most Vulnerable Groups
- Skewed distribution of allocation
- Rigorous Monitoring and analysis of programmes
- Better inter-ministerial coordination

□ Recommendations (cont.):

- Effective collaboration for collective goal
- Identification of critical areas- extreme poverty, hunger, and the most vulnerable groups
- Comprehensive policy and programme for poverty-alleviation strategies
- Need for greater emphasis on social protection measures
- Assessment of social protection and safety-net for inclusive growth
- Policy intervention to advance towards a full-employment goal
- Robust growth of private formal sector jobs
- Fiscal stance and optimization of fiscal space

Section XIII.

Recommendations and Outlook

- The foregoing review of the economic performance of the present decade exposes a number of significant achievements in the areas of macro-economy, economic sectors and social sectors.
- The country not only experienced a stable macro-economy during the period, but also recorded a steady and decent economic growth rate.

- Although the tax-GDP ratio did not show tangible rise, the share of direct tax did increase in total tax uptake.
- There was of course opportunity to improve the non-tax revenue component.
- One of reasons for lacklustre performance in revenue mobilisation relates to unabated illicit financial outflow and inaction to tax assets.

Key recommendations

- Raise revenue-GDP and tax-GDP ratio
- Focus on raising share of direct tax
- Introduce wealth and property tax
- Give attention to non-tax revenue
- Implement tax reforms in a participatory manner
- Commit to curb illicit financial flows and black money

- The public expenditure as a share of GDP did go up discernibly during the recent decade, led by the increasing size of the ADP.
- Expenditures, on account of subsidies, remained under control, thanks to fall in international prices of food, fertiliser and fuel.
- Contribution of revenue surplus also went up in ADP financing. However, foreign aid utilisation continued to be a bottleneck.
- Along with overcapitalisation of ADP projects, cost and time overrun systematically undercut ADP delivery. This created the so called a big budget myth.

Key recommendations

- Prioritise planning and delivery capacity of public expenditure
- Consider reforms in subsidy provisions
- Improve capacity of development administration
- Bring back balance in financing ADP
- Improve foreign aid utilisation capacity and identify new sources of external development finance

- Private sector investment turned out to be one of the critical fault lines in an otherwise robust economic growth performance.
- Notwithstanding development of infrastructure, the enterprises were deprived of full support package, causing, among others, increase in cost of doing business.
- All these had a disproportionate impact on the small and medium enterprises.
- Weak engagement of business-related rules and regulations had a discriminatory impact in the manufacturing sector.
- FDI growth was driven by reinvestment of profit and by inflow of new equity.
- Capital market could not emerge as a strong supplement to debt financing and remained in a weak state.
- There was very low momentum in undertaking institutional and market reform measures in the stock market.

Key recommendations

- Ensure inclusive entrepreneurship development
- Devise sectoral policies and targeted and predictable incentives
- Formulate well-packaged infrastructural facilities for different categories of enterprises
- Initiate regulatory and institutional reforms to ensure rule of law

- The balance of payment situation has seen a dramatic change of fortune in the recent months with the overall balance falling into the negative terrain for the first time in almost two decades.
- Two disquieting features have informed the situation: the significant rise in the current account balance in the face of phenomenally high import growth, and the high inflow in the financial account.
- The latter, while somewhat containing the deteriorating overall balance, is also creating considerable future burden arising from growing accumulated debt and rising debt burden.
- In view of the above, a strategic rethinking of external sector management will be needed that will need to focus on export diversification, addressing illicit financial flow, debt management and prudent exchange rate management.

Key recommendations

- Emphasise export diversification
- Address illicit financial flow
- Strengthen debt management
- Ensure prudent exchange rate management

- One of the structural features of employment generation had been shift from traditional (crop sector) to industry and service sector.
- A large part of the relocation of labour force had been in the informal sector.
- On the other hand, there has been a growing trend of youth unemployment, particularly among the educated youth.
- A fundamental reason in this case had been that the nature of economic growth did not create adequate employment demand.

Key recommendations

- Improve education system to help build analytical competence of students
- Increase access to computers and broadband internet, particularly in the rural areas
- Develop skills through technical and vocational training
- Give fair opportunity for all in the job market without nepotism
- Increase access to information on jobs at national, regional and local levels
- Create self-employment through building entrepreneurship
- Connect students with employers
- Start career counselling from an early stage
- Create enabling environment for employment of female youth
- Explore employment opportunities abroad

- Some measure of certain production growth was observed in the crop sector.
- Lack of diversification in crop cultivation, low yield rate, research-extension gap etc. have held back further improvement of the sector.
- Indeed, the farmers suffered from unpredictable price regime of their products.
- Commercialised aquaculture and poultry rearing exhibited visible success.
- Recently, milk and meat production has been growing as well.
- Whatsoever, demand side issues such as population growth, rising income, fast urbanisation, dietary change, change in price regime etc. are yet to be matched by supply growth through productivity improvement.
- Climate change is also becoming a concern for the agriculture sector.

Key recommendations

- Address demand side challenges including population growth, rising income, urbanization and changes in the pattern of food consumption in view of nutrition related concerns
- Address supply-side issues including yield gap for crop sector, adequate credit for small aquaculture and in-depth understanding for livestock sector
- Address climate change issues
- Address other challenges including marketing and updating and implementing sectoral policies

- Banking sector has expanded in terms of numbers and assets during the last few years.
- The sector has also undertaken several reform measures to improve the performance of the sector.
- However, the sector has been plagued with several challenges including large amount of NPLs and classified loans, inadequate capital, weak governance and constant political influences undermining the autonomy of the central bank.
- Given that the financial sector is dominated by banks, the poor performance of the banking sector will have negative implications for the overall development of the country.

Key recommendations

- Recognise the problem of the banking sector
- Stop recapitalisation of SCBs year after year
- Be selective in keeping government funds in banks
- Re-design loan classification norms to identify wilful defaulters
- Strengthen internal control departments
- Develop human resources
- Do not issue license to new banks
- Appoint strong administrator to oversee troubled banks
- Formulate exit policy for troubled banks
- Initiate reform of judicial process for speedy trial of scams and irregularities
- Appoint board members through Blue Ribbon Committee
- Uphold independence of Bangladesh Bank
- Set up Banking Commission

- Energy sector experienced demonstrated success because of targeted policy and actions leading to large scale installation of generation capacity and its operationalisation.
- While access to electricity had improved, shortage of primary energy, ageing power plants, mismatch with transmission and distribution capacities continued to remain as major problems.
- Lower demand growth of industrial sector is emerging as impediments to the sector.
- Import-based power sector planning is becoming predominant.
- Energy pricing, particularly in post-LNG regime, is emerging as a challenge.

Key recommendations

- Switch to Integrated Resource Planning (IRP) from its conventional planning
- Ensure balance between investing in infrastructure and import financing
- Emphasise affordable energy pricing
- Focus on sustainable supply of primary energy

- Successes were reflected in education in areas of achieving gender parity, higher school enrollment ratio and adult literacy.
- Although the allocation to the education sector has increased only marginally.

Key recommendations

- Increase public education budget to at least 4%, and eventually to 6% of GDP
- Align education objectives with national plans
- Decentralise education governance and strengthen upazila and district based-planning and management of basic and school education
- Make teaching a prestigious and attractive profession
- Improve quality of degree colleges
- Support non-formal alternatives for out-of-school children
- Promote expansion of quality pre-primary education
- Provide life-long learning opportunity
- Reform TVET
- Bring all school education under one national administrative jurisdiction

- In case of health sector, infant mortality, under-five mortality, maternal mortality, low birth rate and child immunisation did register commendable improvement.
- Rise of non-communicable and climate-related diseases remain a major concern.
- Inequality in accessing health service and low allocation of budgetary resources impeded further improvement in the health sector.

Key recommendations

- Invest more resources on healthcare to reduce health inequity
- Mobilise resources from new and innovative sources
- Improve efficiency of resource utilisation
- Recruit and retain human resources for a better health sector
- Provide regular training for professional development
- Put regulatory framework in place and monitor for quality health services
- Encourage preventive and promotive health
- Improve governance of the health system through decentralised structure
- Invest in advanced health research
- Develop strong database for the health sector

- Social protection related activities led to higher coverage of target population facilitated by higher allocation of public resources.
- These interventions often lacked coordination and harmonisation

Key recommendations

- Re-evaluate existing SSNPs to improve targeting, reduce leakages and avoid overlaps
- Reorient SSNPs to attain the 2030 Agenda – ‘leave no one behind’ by targeting the most vulnerable groups
- Extensively examine and scrutinise the relative prioritisation of SSNPs
- Carry out comprehensive mapping of most vulnerable groups to design SSNPs
- Consolidate distribution of SSNPs for effective interventions
- Monitor programmes rigorously for transparency of resources and progress
- Improve inter-ministerial coordination and ensure effective collaboration
- Put greater emphasis on moving towards social protection measures from SSNPs
- Allocate resources for capacity building of institutions for better implementation of the NSSS

- Reviewing the decadal performance of the economy reveals an interesting trend.
- First, the performance of the economy had been as a whole more robust during the first half of the decade. The figures in the economy are more evident at the disaggregated level.
- Second, the second half of the decade experienced faster growth inequality in consumption, income and assets, and human development inputs.
- Third, the second half of the decade also demonstrated explicit lack of momentum in pursuing structural and policy reforms.
- Curiously, the second half of the past decade coincided with the period characterised by lack of political competition.

- Given the present nature of national politics, economic issues are yet to figure anywhere in the electoral debates concerning the upcoming elections.
- Indeed, majority of the competing parties are yet to publish election manifestos.
- It is expected that, the political parties will approach issues related to attendant economic challenges with due importance and thoughts.
- The parties not only need to demonstrate their awareness of the issues, but also commit themselves to address the challenges with specific work plans.
- Admittedly, an election manifesto of a party is usually informed by vision for the country, based on the value system and the ideological tenets of the party concerned.
- However, we have observed convergence of overall economic policies of the mainstream parties, notwithstanding their varying reading of our country's history and sources of inspiration.
- Thus, these parties should find the recommendations presented above aligned with their political philosophy.

- Finally, for the political parties to deliver on their electoral promises in the economic front, continuous evidence-based policy analysis coupled with stronger expression of support for the marginalised stakeholders will be necessary.
- The policy interlocutors and activists have to continue to perform this role.

Thank You