Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of Bangladesh Economy and Upcoming National Elections

Priorities for Electoral Debates

(Draft)

Released to the Media on
09 December 2018, Dhaka

CENTRE FOR POLICY DIALOGUE
1993-2018
Giving Voice, Promoting Inclusive Policy
WWW.CPD.ORG.BD

Contents

CPD IRBD 2018 Team

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

Lead contributions were provided by *Dr Fahmida Khatun*, Executive Director; *Dr Khondaker Golam Moazzem*, Research Director; and *Mr Towfiqul Islam Khan*, Senior Research Fellow, CPD.

Valuable research support was received from *Mr Mostafa Amir Sabbih*, Senior Research Associate; *Mr Muntaseer Kamal*, Research Associate; *Mr Md. Al-Hasan*, Research Associate; *Mr Syed Yusuf Saadat*, Research Associate; *Mr Kazi Golam Tashfique*, Research Associate; *Ms Shamila Neemat Sarwar*, Programme Associate; *Mr Mohammad Ali*, Research Intern; and *Mr Fahmid Tawsif Khan Chowdhury*, Research Intern, CPD.

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2018 Team.

Acknowledgements

The CPD IRBD 2018 Team would like to register its sincere gratitude to *Professor Rehman Sobhan*, Chairman, CPD for his advice and guidance in preparing this report.

In preparing the report, the Team has received valuable inputs from a number of distinguished experts including *Dr Manzoor Ahmed*, Professor Emeritus of BRAC University; *Dr M. Asaduzzaman*, former Distinguished Fellow, Bangladesh Institute of Development Studies (BIDS); *Ms Rasheda K. Choudhury*, Executive Director, Campaign for Popular Education (CAMPE); *Dr Shah Md. Ahsan Habib*, Professor and Director (Training), Bangladesh Institute of Bank Management (BIBM); *Professor Rumana Huque*, Department of Economics, University of Dhaka; *Dr Md. Mostafizur Rahaman*, Programme Manager, CAMPE; and *Dr Mohammad Tamim*, Professor and Head, Department of Petroleum and Mineral Resources Engineering, Bangladesh University of Engineering and Technology (BUET).

The Team gratefully acknowledges the excellent support provided by *Ms Anisatul Fatema Yousuf*, Director, Dialogue and Communication, CPD and her colleagues at the Division in preparing this report. In this connection, the Team would like to acknowledge the sincere work of *Ms Nazmatun Noor*, Publication Specialist; *Ms Maeesa Ayesha*, Publication Associate; and *Ms Asmaul Husna*, Publication Associate, CPD. Contribution of the CPD Administration and Finance Division is also highly appreciated. Assistance of *Mr A. H. M. Ashrafuzzaman*, Deputy Director, IT and *Mr Hamidul Hoque Mondal*, Senior Administrative Associate, CPD is particularly appreciated.

Concerned officials belonging to a number of institutions have extended useful support to the CPD IRBD Team members. In this connection, the Team would like to register its sincere thanks to *Bangladesh Bank, Bangladesh Bureau of Educational Information and Statistics (BANBEIS), Bangladesh Bureau of Statistics (BBS), Bangladesh Export Processing Zones Authority (BEPZA), Bangladesh Energy Regulatory Commission (BERC), Bangladesh Garment Manufactures & Exporters Association (BGMEA), Bangladesh Investment Development Authority (BIDA), Bureau of Manpower, Employment and Training (BMET), Bangladesh Power Development Board (BPDB), Bangladesh Securities and Exchange Commission (BSEC), Bangladesh Textile Mills Association (BTMA), Customs Bond Commissionerate (CBC), Department of Agricultural Extension (DAE), Department of Disaster Management (DDM), Dhaka Stock Exchange (DSE), Export Promotion Bureau (EPB), Ministry of Disaster Management and Relief (MoDMR), Ministry of Education (MoE), Ministry of Finance (MoF), Ministry of Health and Family Welfare (MoHFW), Ministry of Primary and Mass Education (MoPME), National Board of Revenue (NBR), NGO Affairs Bureau, and Planning Commission.*

The CPD IRBD 2018 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

Part A
Introduction and Analytical Framework

1. INTRODUCTION

This critical assessment of selected performance indicators of the Bangladesh economy, and what should be done to address some of the emerging and urgent challenges in this regard, comes at an important juncture in Bangladesh's journey. In the run-up to the upcoming national elections, scheduled to be held on 30 December 2018, there is a genuine concern and interest in the minds of the citizens to have a deeper understanding of the developments in the socioeconomic arena and how they are reflected in the election manifesto. Furthermore, there is also emphatic interest and concern regarding direction that the country should take in this connection, when the newly elected government will be in place. Thus, this report has been prepared in the backdrop of the upcoming national elections in Bangladesh.

The overarching objective of the CPD exercise is to give voice to the voters, and contribute to promoting accountability and transparency in macroeconomic management and economic governance in Bangladesh. In view of the above, the purpose of the present report is the following:

(a) to raise awareness amongst the citizens as regards some of the key macroeconomic, sectoral and cross-cutting issues, and to learn more about the challenges facing the economy;

(b) to make available data, information and analyses, based on CPD's own and other research works, with a view to encouraging an informed discussion and debate during the runup to the national elections;

(c) to help voters to examine the manifestos of the political parties and assess whether issues of their priority interests have been reflected and concrete actionable measures have been proposed;

(d) to hold political parties accountable as regards specific steps in light of the measures recommended in the report; and

(e) to put forward a set of recommendations for consideration and action by the newly elected government.

The report focuses on three broad areas where selected issues have been identified for priority attention in the current context and in going forward. These relate to: (i) macroeconomic management, (ii) performance of a select set of economic sectors; and (iii) management of certain areas of social sectors.

Under the cluster of *Macroeconomic Management* four issues have been selected. These are Addressing Revenue Mobilisation Challenges, Ensuring Quality of Public Expenditure, Reenergising Private Investment, and Tackling Balance of Payments Pressure. Under the cluster of *Economic Sectors* four issues have been identified: Educated Youth Employment, Price Incentives for Agriculture, Financial Sector Governance with focus on the banking sector, and Energy Security and Pricing. *Social Sector* cluster focuses on three issues. These are Quality of Education, Access to Health of All and Social Protection.

In carrying out the above exercise, the study puts under scrutiny the performance as regards the selected areas over the past ten years, identifies the emerging concerns and fault lines, and articulates a set of recommendations, for consideration by the government and concerned stakeholders. The presentations on each of the issues have been structured dealing with: (i) importance of the theme in the current context; (ii) major developments, trends and milestones;

(iii) nature of the problematique and its dynamics; (iv) steps and reforms that were put in place to address the attendant challenges; and (v) recommendations as regards new and concrete measures that need to be taken to improve the situation.

Part B

Macroeconomic Issues

2. REVENUE MOBILISATION: A PREREQUISITE FOR DEVELOPMENT FINANCING

2.1 Context

Bangladesh's dual transition, graduation to World Bank's lower middle-income status and upcoming graduation from the LDC group, has implications in terms of higher cost of borrowing for financing development and more difficult conditions for market access. In view of the formidable financing requirement to achieve the ambitious Sustainable Development Goals (SDGs), the issue of domestic resource mobilisation has re-emerged with greater urgency. The next government will not only have to design and execute the Eighth Five Year Plan but will also need to take up the task of continuing SDG implementation, while bracing for the challenges emerging from dual graduation. In this backdrop, formulation of a prudent and farsighted revenue mobilisation strategy has become critically important and consequently, should take centre stage in the forthcoming election discourse. There is thus a need to bring to the fore a set of important issues concerning revenue mobilisation, in cognisance of the electoral debates.

2.2 Raise revenue-GDP and tax-GDP ratio

The revenue–GDP ratio in FY2017 was 10.2 per cent, which was 9.2 per cent in FY2009. While it showed signs of improvement between FY2015 and FY2017, it is still below the level attained in FY2012, when the corresponding share was 10.9 per cent (Table 2.1). As can be seen from the table, no significant progress has been made in this connection during the timeframe under consideration. Tax–GDP ratio was 9 per cent in FY2017 compared to the ratio of 7.5 per cent in FY2009. This is considerably lower compared to other developing countries, where the average tax–GDP ratio is about 15 per cent. The Seventh Five Year Plan (7FYP) had proposed to raise the revenue–GDP ratio to 16.1 per cent and tax–GDP ratio to 14.1 per cent by FY2020. The performance record indicates that Bangladesh is not only lagging behind comparator countries but also vis-à-vis its own programmatic targets. Higher domestic resource mobilisation by raising revenue–GDP and tax–GDP ratio ought to be seen as one of the topmost priorities by the next government in view of the increasing resource needs and the new challenges in mobilising financial resources from abroad.

Table 2.1: 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

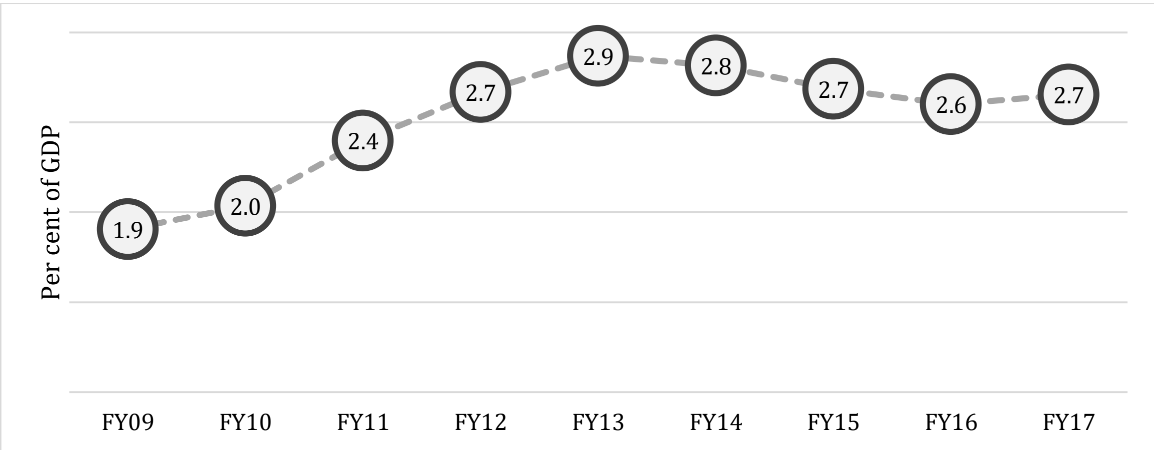
Source: Authors' calculation based on Ministry of Finance (MoF) and Bangladesh Bureau of Statistics (BBS) data.

Note: Data used in this analysis was compiled from MoF's '*Budget in Brief*' documents for the FY2011-FY2019 period (available at: https://mof.gov.bd/site/page/f9aab5cd-f644-47bb-bb94-a70cb64c15ce). Alternative sources such as *Monthly Report on Fiscal Position* was not used due to the presence of inconsistencies in the available data.

2.3 Focus on raising share of direct tax

The growing significance of income tax collection has been acknowledged in the 7FYP, which forecasted income tax–GDP ratio to rise to 5.4 per cent in FY2020. This ratio was 1.9 per cent in FY2009, which rose to 2.9 per cent in FY2013, and fell to 2.7 per cent in FY2017 (Figure 2.1). Indeed, the improvement in income tax collection was the most significant contributor in raising the tax–GDP ratio between FY2009 and FY2013. According to the 7FYP, in FY2020, 38.3 per cent of total tax revenue is programmed to be mobilised from income tax. In FY2017, about 30 per cent of tax revenue came from income tax, with the major part coming from indirect taxes (share of value added tax (VAT), supplementary duty (SD) and import duty in total tax revenue was 35.8 per cent, 17.7 per cent and 11.7 per cent respectively). A recent study by CPD found that 68 per cent of the eligible taxpayers did not pay income tax in 2017. Income quartile-wise analysis revealed that more than one-third of the top earners did not pay taxes. Along with this, there is also the issue of tax evasion, which is no less prevalent (Khan, 2018). 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 trends of the recent past. 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. More emphasis should be put on mobilising revenue from niche areas including speedy realisation of disputed revenue claims through better and more proactive use of the Alternative Dispute Resolution (ADR) mechanism.

Figure 2.1: Income tax–GDP ratio (%)



Source: Authors' calculation based on MoF and BBS data.

2.4 Introduce wealth and property tax

Based on the analysis of the Household Income and Expenditure Survey (HIES) data of 2005 and 2010, Bhattacharya *et al.* (2017) showed that wealth inequality in Bangladesh has been on the rise.[1] Keeping the concentration of wealth, particularly of property in the form of land and housing, in the backdrop, 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. It is high time to reintroduce wealth tax in Bangladesh. Apart from mobilising additional revenue, this will contribute towards economic and social justice and promote the cause of inclusive growth. It

[1] In this analysis, wealth has been defined as the sum of value of agricultural assets, non-agricultural enterprises, owner-occupied houses, consumer durable goods, other land and properties and other assets.

is reckoned that 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. As may be recalled, a wealth surcharge has been introduced a few years back. However, what is needed is a farsighted strategy of introducing a property tax. At the same time, an inheritance tax, in line with international practices, could be introduced. Indeed, CPD has been recommending these reforms of the taxation system for the past several years.

2.5 Give attention to non-tax revenue

Non-tax revenue, as shares of both GDP and total revenue, suffered a significant decline since FY2015 (Table 2.2). During the FY2009–FY2014 period, on average, non-tax revenue constituted 1.7 per cent and 16.8 per cent of the GDP and the total revenue respectively. The sharp decline in shares experienced in FY2015 may be largely attributable to the reductions in earnings from *dividend and profit*, and *other non-tax revenue and receipts* which are yet to reach the levels of FY2014. The government will need to explore new avenues to generate non-tax revenues. CPD (2014) suggested that the 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.

Table 2.2: 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.

2.6 Implement tax reforms in a participatory manner

A recent study by CPD found that 75 per cent of the eligible taxpayers believe that the taxation system in Bangladesh is favourable towards the rich and the elite sections of the society (Khan, 2018). People need to achieve a positive mindset regarding the formulation of tax policies, and policymakers should pursue proactive initiatives to bring about a change in people's existing perceptions. The finalisation and implementation of tax policies must be carried out in a participatory and transparent manner. 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 cognisance. 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.

2.7 Commit to curb illicit financial flows and black money

Policymakers must commit to curbing illicit financial flows (IFFs) from the country. As can be seen from Table 2.3, Bangladesh loses a very high amount of resources as a consequence of IFF. Available data suggests that the major part of the IFF was on account of trade misinvoicing. For

Bangladesh this share exceeded 80 per cent of the total IFF. Indeed, trade misinvoicing as a share of IFF has exhibited an increasing trend between 2009 and 2014 (the last year for which data is available). 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 as was suggested earlier by the CPD (2016).

Table 2.3: Bangladesh—IFF as share of GDP (%)

IFF	Estimate	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Outflow	Low	4.0	4.7	4.1	7.5	5.2	6.5	4.1	4.7	4.4	3.5
	High	5.7	6.3	6.1	10.6	7.5	8.2	5.6	6.6	6.7	5.2
Inflow	Low	0.9	0.8	0.7	0.9	1.1	1.8	2.6	1.6	2.2	2.3
	High	2.4	2.1	1.9	2.3	2.4	5.3	8.2	5.4	6.4	7.3

Source: Authors' calculation based on Global Financial Integrity (2017) and World Development Indicators data.

References

Bhattacharya, D., Khan, T. I., Khan, S. S., Sinha, M. M., Fuad, S. M., Biswas, S., and Muzib, A. (2017). *Quest for Inclusive Transformation of Bangladesh: Who Not to Be Left Behind*. Dhaka: Centre for Policy Dialogue (CPD) and Citizen's Platform for SDGs, Bangladesh.

CPD. (2014). *State of the Bangladesh Economy in Fiscal Year 2014 (Third Reading)*. Dhaka: Centre for policy Dialogue (CPD). Retrieved from: http://cpd.org.bd/wp-content/uploads/2014/06/Centre-for-Policy-Dialogue-IRBD-FY14-Third-Reading-Full-Study.pdf

CPD. (2016). *State of the Bangladesh Economy in FY2015-16 (Third Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Retrieved from: http://cpd.org.bd/wp-content/uploads/2016/05/IRBD-FY16-Third-Reading-FINAL_Revised.pdf

Global Financial Integrity. (2017). *Illicit Financial Flows to and from Developing Countries: 2005–2014*. Washington, D.C.: Global Financial Integrity.

Khan, T. I. (2018). *Potential of Personal Income Tax in Bangladesh: An Examination of Survey Data* [PowerPoint slides]. Retrieved from: https://cpd.org.bd/wp-content/uploads/2018/11/Potential-of-Personal-Income-Tax-in-Bangladesh.pdf

3. PUBLIC EXPENDITURE: MAKE THE MYTH REALITY

3.1 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 for both non-development and development expenditure, and hence the total expenditure, declined considerably between FY2013 and FY2017. Indeed, in FY2017 only 79.1 per cent of the total budgetary allocation was spent, while for development expenditure the corresponding figure was 75.3 per cent, the lowest in the last decade (Table 3.1). Indeed, both planning and delivery capacity of the public administration need significant policy attention to this end. In terms of implementation rate, it appears that the development component of public expenditure has generally trailed the non-development component by a considerable margin.

Table 3.1: Implementation rate of public expenditure (%)

Sector	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: Author's calculation from the Ministry of Finance (MoF) data.

In connection to this, it is also observed that public expenditure as a share of the gross domestic product (GDP) has, as a matter fact, declined to 13.6 per cent from the peak of 14.5 per cent in FY2013 (Table 3.2). Curiously, between FY2009 and FY2013, public expenditure as a share of GDP had increased by 1.8 percentage points. It may be noted that, the Seventh Five-Year Plan (7FYP) had planned to improve public expenditure to 21.1 per cent of GDP in FY2021.

Table 3.2: Expenditure as share of GDP (%)

Sector	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
a. Non-development expenditure	9.3	9.2	9.0	9.1	8.7	9.0	8.5	9.0	8.9
a.1 Pay and allowances	2.0	2.0	2.2	2.0	1.8	2.0	1.9	2.3	2.5
a.2 Interest payments	2.2	1.9	1.7	1.9	2.0	2.1	2.0	1.9	1.8
a.2.1 Domestic	2.0	1.7	1.6	1.8	1.9	2.0	1.9	1.8	1.7
a.2.2 Foreign	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
b. Development expenditure	3.1	3.5	3.9	3.9	4.4	4.4	4.2	4.7	4.5
b.1 ADP	2.8	3.2	3.6	3.6	4.1	4.1	4.0	4.6	4.3
Total expenditure	12.7	12.7	14.0	14.4	14.5	14.0	13.5	13.8	13.6

Source: Author's calculation from the data of the Ministry of Finance (MoF) and the Bangladesh Bureau of Statistics (BBS).

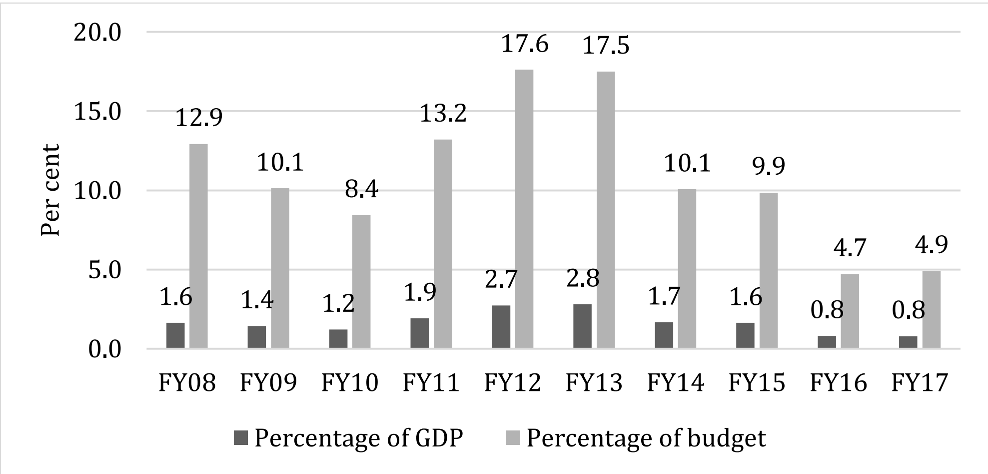
Note: ADP: Annual Development Programme (ADP).

Within the non-development expenditures, two components i.e. *pay and allowances* and *interest payments*, constituted nearly half of the total over the years. The recent increase in *pay and allowances* as share of GDP can largely be attributed to the increases in salaries and benefits for the government employees. *Interest payments* have been hovering around the two-per-cent-of-GDP mark. Given the overreliance on the National Savings Directorate (NSD) certificate sales for deficit financing, *interest payments* may continue to rise in the coming days. It is of interest to note that, between FY2009 and FY2017, apart from FY2013, FY2015 and FY2016, combined expenditure for *pay and allowances* and *interest payments* surpassed the expenditure for Annual Development Programme (ADP).

3.2 Consider reforms in subsidy provisions

Subsidy provisions, both as share of budget and GDP, have shown a generally increasing trend between FY2009 and FY2013 (Figure 3.1). The trend reversed during FY2014-FY2016. The decline in subsidy provisions can be largely attributed to zero subsidy required by the Bangladesh Petroleum Corporation (BPC) in the backdrop of falling global oil prices. With the rising trend in international oil prices, subsidy expenditure has increased marginally, which is likely to continue in absence of any reform action. Curiously, in the FY2019 budget, no allocation was given to the Bangladesh Power Development Board (BPDB) and BPC, whereas 43.2 per cent was received by 'others'. This appears way off the mark, considering that both BPDB and BPC are likely to make losses in FY2019 (CPD, 2018a). Indeed, during the low oil price regime, the government missed the opportunity to initiate a reform process. Power generation through import of liquefied natural gas (LNG) and upward pressure in global oil and fertiliser prices may increase the subsidy requirement in the coming days. Given this backdrop, there is an urgent need to consider reforms in subsidy provisions 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 as was argued by CPD (2015).

Figure 3.1: Subsidy as share of GDP and total budget

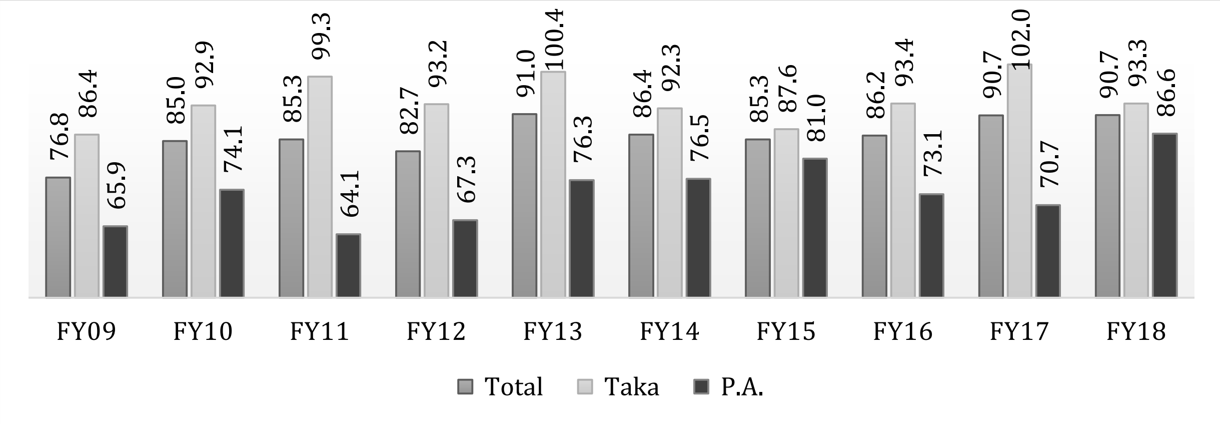


Source: Author's calculation from the data of the Ministry of Finance (MoF) and the Bangladesh Bureau of Statistics (BBS).

3.3 Improve capacity of development administration

ADP implementation did not make any significant breakthrough; it was business as usual over the last decade. Notably, apart from two atypical years (FY2015 and FY2018), the average execution rate of project aid (PA) allocations in ADP (73.6 per cent), is significantly lower than that of GoB allocations (Taka) (94.1 per cent) during the FY2009-FY2018 period (Figure 3.2).

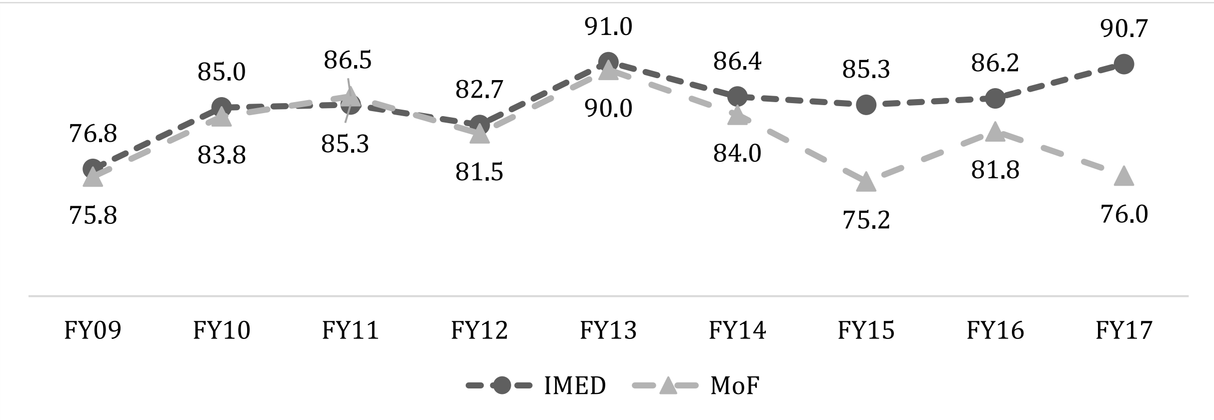
Figure 3.2: Components of ADP implementation as against original allocation (%)



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

On a contradictory note, while data from the Implementation Monitoring and Evaluation Division (IMED) suggests the implementation rate has improved since FY2014, the Ministry of Finance (MoF) data suggests that it has deteriorated – reflecting discrepancy of data between two government sources (Figure 3.3). Such large discrepancy during the post-FY2014 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. Indeed, misreporting of data for use of public money use is likely to undermine the quality of development expenditure.

Figure 3.3: ADP implementation rate by source (%)



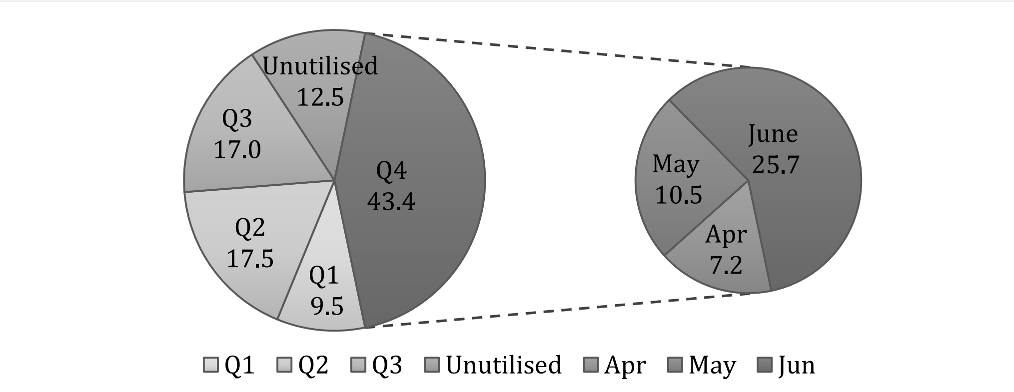
Source: Author's calculation from the data of the Implementation Monitoring and Evaluation Division (IMED) and the Ministry of Finance (MoF).

CPD has been highlighting a number of factors undermining the effectiveness and efficiency of delivering ADP in its successive IRBD reports. Development projects in recent years have been regularly overcapitalised (CPD, 2018b). Moreover, cost escalations of approved projects and subsequent delays in implementation emerged as structural barriers to deliver public services and infrastructure in a timely and cost-effective manner. CPD (2018c), in an exercise it had undertaken found that, in FY2016, of the 201 completed projects that had posted financial progress of more than 80 per cent, 93 had faced cost overrun with a cumulative amount of Tk. 5,640 crore. Cost escalation and time extension is also observed for flagship infrastructure projects. For example, the timeline of Padma Multipurpose Bridge increased by 42.9 per cent due to successive revisions which contributed to an increase in project cost by 183.3 per cent till date.

With the project's current progress rate, further extension of time and allocation of additional resources are perhaps inevitable (CPD, 2016a; 2018a).

Projects under ADP suffer from accelerated pace of spending towards the closing months, undermining the quality of work, a phenomenon commonly known as the 'last quarter syndrome' (CPD, 2016a; 2017a). During FY2009-FY2018, about 43.4 per cent of the total ADP allocation was spent in the last quarter, on an average, while the corresponding proportion was only 9.5-17.5 per cent during the first three quarters of fiscal years (Figure 3.4). More than 25 per cent of total ADP allocation was spent in June alone, which is the final month of the fiscal year in Bangladesh. Implementation of the 'fast track' projects as well as other mega projects is also not fast enough. Late start and slow pace of implementation are the hallmarks of majority of these 'fast track' projects (CPD, 2016a; 2017b; 2018b; 2018a).

Figure 3.4: Pattern of quarterly ADP implementation as against original allocation



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

Further, high financial progress but low physical progress concerning the completed projects is another disturbing feature of the ADP (CPD, 2017a; 2018b). Having experienced inadequate financial progress and mark timing for prolonged period[2], with symbolic allocations, ageing projects are often declared as completed without 100 per cent physical completion. During FY2008-FY2017, about 66.6 per cent (on an average) of all completed projects were stated as complete without 100 per cent physical progress, though the situation has improved somewhat since FY2015 (CPD, 2018b). All the aforesaid factors undermine the overall quality of delivering the development programmes.

One may recall that, the Planning Minister had announced a number of proposals for expediting ADP implementation over the last few years. These included: (i) assigning a dedicated official to each government agency for monitoring and evaluating concerned projects; and (ii) delisting the longstanding 'non-operational' projects from the ADP[3] (CPD, 2016a). Furthermore, with a view to discouraging the misuse of scarce public resources, ensuring transparency and accountability in development project execution, IMED has recently proposed inclusion of a number of provisions in the current Development Project Proposal (DPP) format. These include incorporation of the project design life, a compulsory feasibility study report, annual maintenance chart, analysis of stakeholders, responsibilities of project directors and executing agencies, and indicators to measure the project impact in terms of achieving the Sustainable Development Goals

[2] Eleven of the 586 investment projects of ADP for FY2019 are 10-16 years old, while four of them are more than 15 years old.

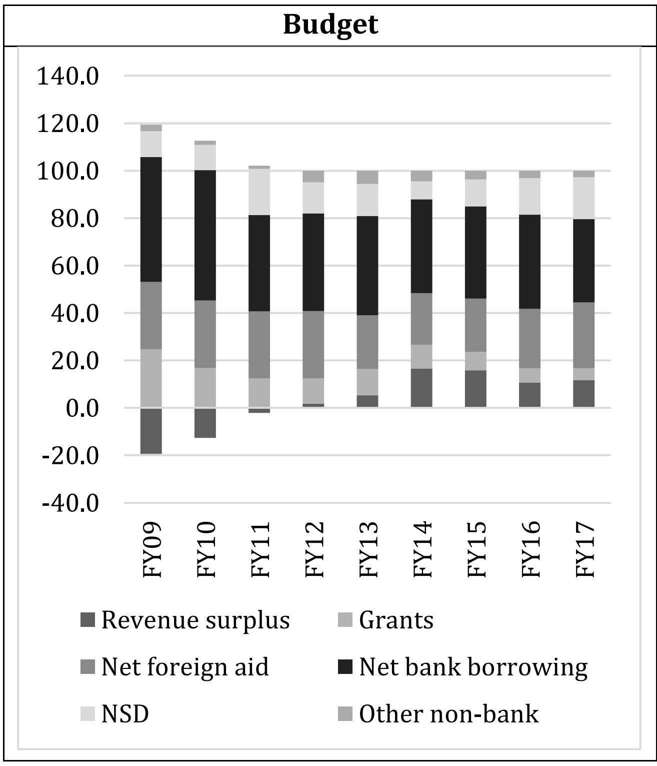
[3] In this connection, it was planned that the concerned ministries and divisions would be served letters on 1 October every year to send the list of non-performing projects to the Planning Commission.

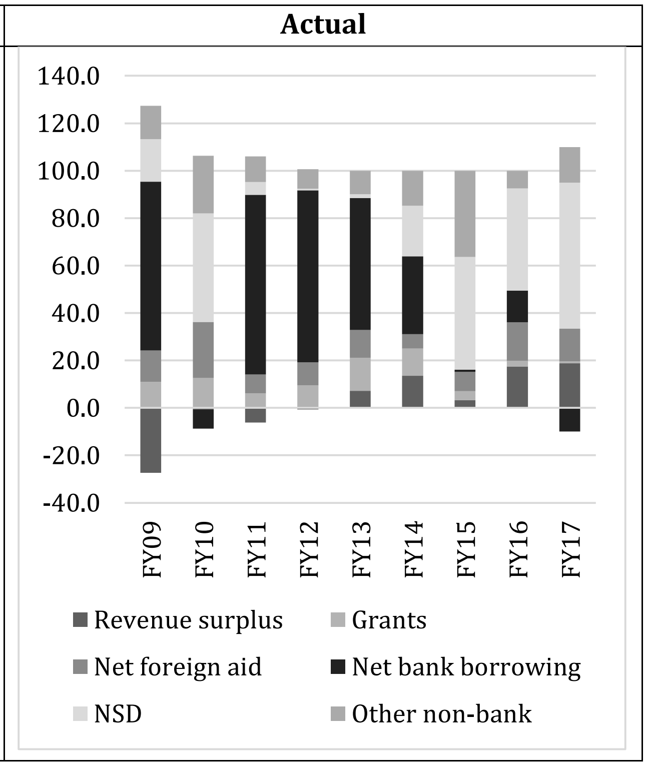
(SDGs) (CPD, 2018b). However, ensuring adequate follow-up of these good initiatives remains a recurring concern. It is suggested that the upcoming budgets should report on the progress made as regards the proposed actions. In view of the aforesaid, CPD repeatedly urged to set up an independent Public Expenditure Review Commission (PERC) to ensure quality of public investments in the backdrop of limited resource availability (CPD, 2015; 2016b; 2017c; 2017b).

3.4 Bring back balance in financing ADP

One can observe a notable shift in the financing pattern of the ADP during FY2009-FY2018 period. While between FY2009 and FY2014, 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 for financing the ADP since FY2015 (Figure 3.5). In FY2009, only 18 per cent of total ADP expenditure was financed by net sales of NSD certificates, which was 61.6 per cent in FY2017. On the contrary, 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 has contributed to financing the ADP since FY2013. Reliance on high cost of borrowing for financing the development projects in the form of sales of NSD certificates may put pressure in the currently comfortable public debt portfolio in the coming years. In connection to this, 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.

Figure 3.5: ADP financing structure (% of total)





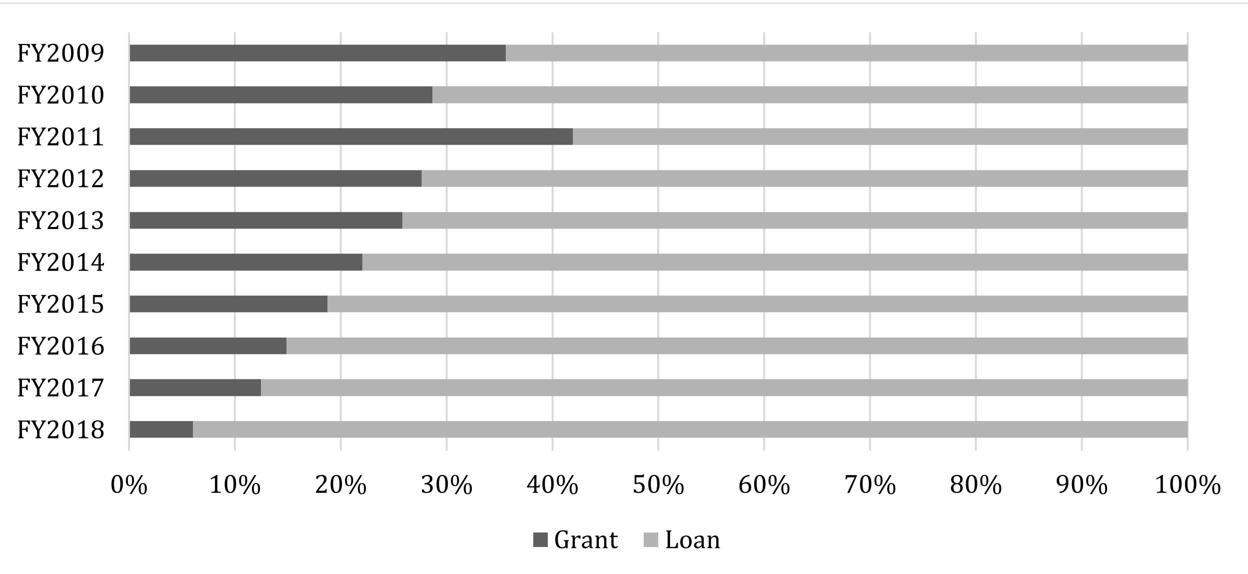
Source: Author's calculation from the Ministry of Finance (MoF) data.

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

Despite the fact that Bangladesh has been receiving increasing volumes of foreign aid, since the 1990s, the country has gradually transformed itself from an aid-dependent to a trade-dependent economy (Sobhan, 2003). External debt-GDP ratio has declined from 24.4 per cent in FY2009 to 12.8 per cent in FY2017, while the ratio of external debt to export earnings has decreased from 80.5 per cent to 63.6 per cent during the same timeframe (ERD, 2018). One, however, should not undermine the role of foreign aid inflow to meet the country's increasing development needs (CPD, 2013). 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 (Khatun *et al*., 2018).

Since FY2009, within the foreign aid inflow in Bangladesh, loan element has gradually increased dominance over grant element in terms of share (Figure 3.6). Indeed, Bangladesh is passing through the critical period of double graduation and this has put forward a number of debt sustainability challenges for Bangladesh in the backdrop of recent surge in foreign aid. As Bangladesh graduated to the lower middle-income country (LMIC) status, major development partners readjusted their terms and conditions[4] by either increasing the interest rate, or by shortening the maturity and grace period (MoF, 2018). A close scrutiny of aid composition also reveals that, loan to grant ratio has increased from 1.8 to 15.5 over the FY2009-FY2018 timeframe, while, the highest rise was experienced in FY2018.

Figure 3.6: Share of loan and grant in disbursed foreign aid in Bangladesh



Source: Author's calculation from ERD (2018).

[4] World Bank has already increased its interest rate to 2 per cent from the previously applied interest rate of 0.75 per cent, while Japan International Cooperation Agency (JICA) has increased its interest rate to 1 per cent from 0.01 per cent for its provided funds. World Bank will also charge 0.25 per cent commitment fee and 0.25 per cent front-end fee on top of the interest for the loans. Similar is the case with the country's second largest multilateral development partner – the Asian Development Bank (ADB). Moreover, the above-mentioned development partners have also reduced maturity period of their loan.

Regarding the inflow of increased volume of foreign aid from several non-OECD (Organisation for Economic Co-operation and Development) 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. CPD in its earlier studies raised concerns regarding the debt sustainability of the economy by highlighting that, although Bangladesh receives a reasonable volume of foreign aid, a significant part of it goes as amortisation payment. Hence, net foreign aid received by the economy is actually lower than the overall aid received (CPD, 2014). Lessons from experiences of several other developing countries can be drawn in this regard, and here mention may be made of Sri Lanka, Zambia, Tanzania and Pakistan. The lesson is 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.

References

CPD. (2013). *Analytical Review of Bangladesh's Macroeconomic Performance in FY2012-13 (First Reading).* Dhaka: Centre for Policy Dialogue (CPD). Retrieved from http://cpd.org.bd/wp-content/uploads/2014/09/FY2012_-Analytical-Review-of-Bangladesh%E2%80%99s-Macroeconomic-Performance-in-FY2012-13-First-Reading.pdf

CPD. (2014). *Analytical Review of Bangladesh's Macroeconomic Performance in Fiscal Year 2014 (Second Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Retrieved from http://cpd.org.bd/wp-content/uploads/2014/01/IRBD-FY14-Second-Reading.pdf

CPD. (2015). *State of the Bangladesh Economy in FY2015 and the Closure of Sixth Five Year Plan*. Dhaka: Centre for Policy Dialogue. Retrieved from http://cpd.org.bd/wp-content/uploads/2015/06/CPD-IRBD-FY15-State-of-Bangladesh-Economy-June-2015.pdf

CPD. (2016a). *State of the Bangladesh Economy in FY2015-16 (Third Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Retrieved from http://cpd.org.bd/wp-content/uploads/2016/05/IRBD-FY16-Third-Reading-FINAL_Revised.pdf

CPD. (2016b). *State of the Bangladesh Economy in FY2015-16 (Second Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Retrieved from http://cpd.org.bd/wp-content/uploads/2016/04/CPD-Budget-Proposal-for-FY17.pdf

CPD. (2016b). *State of the Bangladesh Economy in FY2015-16 (Second Reading): CPD's Budget Recommendations*. Dhaka: Centre for Policy Dialogue. Retrieved from http://cpd.org.bd/wp-content/uploads/2016/04/CPD-Budget-Proposal-for-FY17.pdf

CPD. (2017a). *State of the Bangladesh Economy in FY2016-17 (First Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Retrieved from http://cpd.org.bd/wp-content/uploads/2017/01/state-of-the-bangladesh-economy-in-fy2016-17-first-reading.pdf

CPD. (2017b). *State of the Bangladesh Economy in FY2016-17 (Third Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Retrieved from http://cpd.org.bd/wp-content/uploads/2017/05/Paper-draft-State-of-the-Bangladesh-Economy-in-FY2016-17-Third-Reading.pdf

CPD. (2017c). *State of the Bangladesh Economy in FY2016-17 (Second Reading): CPD's Budget Recommendations*. Dhaka: Centre for Policy Dialogue (CPD). Retrieved from http://cpd.org.bd/wp-content/uploads/2017/04/Paper-State-of-the-Bangladesh-Economy-in-FY2016-17-Second-Reading-CPD%E2%80%99s-Budget-Recommendation.pdf

CPD. (2018a). *An Analysis of the National Budget for FY2018-19* [PowerPoint slides]. Retrieved from http://cpd.org.bd/wp-content/uploads/2018/06/CPD-Presentation-on-Analysis-of-the-National-Budget-for-FY2018-19.pdf

CPD. (2018b). *State of the Bangladesh Economy in FY2017-18 (Third Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Retrieved from http://cpd.org.bd/wp-content/uploads/2017/10/Paper-on-State-of-the-Bangladesh-Economy-in-FY2017-18-Third-Reading.pdf

CPD. (2018c). *State of the Bangladesh Economy in FY2017-18 (First Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Retrieved from http://cpd.org.bd/wp-content/uploads/2018/01/IRBD-FY2018-First-Reading_Paper-Final-13012017.pdf

ERD. (2018). *Ten Years Development*. Retrieved from: https://erd.gov.bd/site/page/85e0413c-ce6e-4746-a8f8-b65f1b962f6f/10-years-(2008/09-to-2017/18)-Development

Khatun, F., Saadat, S. Y. and Kamruzzaman, M. (2018). *Can Bangladesh Do Without Foreign Aid?* Mimeo.

MoF. (2018). *Flow of External Resources into Bangladesh 2016-2017*. Dhaka: Economic Relations Division (ERD), Ministry of Finance, Peoples Republic of Bangladesh. Retrieved from https://erd.portal.gov.bd/sites/default/files/files/erd.portal.gov.bd/page/b09c0301_8d15_49e1_8af9_3231f08b8ad8/Overview%2016-17.pdf

Sobhan, R. (2003). The Political Economy of Aid. In, *Revisiting Foreign Aid: A Review of Bangladesh's Development 2003* (pp. 139-168). Dhaka: Centre for Policy Dialogue (CPD) and The University Press Limited.

4. PRIVATE INVESTMENT IN BANGLADESH: CHALLENGES FOR DEVELOPMENT OF SMES

4.1 Introduction

Unlike some of the other indicators of macroeconomic performance, which tended to be highlighted by policymakers, private investment was somewhat of an outlier. The performance of this sector was modest at best. Between 2009 and 2018, private investment (in real terms) has increased from BDT 1259 billion (21.9% of GDP) to BDT 2378 billion (23.2% of GDP) (Figure 4.1). The moderate level of growth of private investment (9% per year) reined-in the growth of total investment (11% per year) during this period.[5] In contrast, public investment growth was robust (20% per year) (Figure 4.2). However, public investment failed to crowd-in private investment, and had a 'crowding out effect' instead (Saidjada and Jahan, 2016). GDP growth appears not to have had a significant impact on the private sector investment during the same period (from 6.01% to 7.68%) as part of 'granger causal relationship' (Haque, 2012). Overall, private investment has maintained a 'business as usual' scenario in terms of growth over the last decade. In this backdrop, it is important to examine the dynamics of private investment during this period with a view to anticipating possible future trends.

Figure 4.1: Trends of total, public and private investment

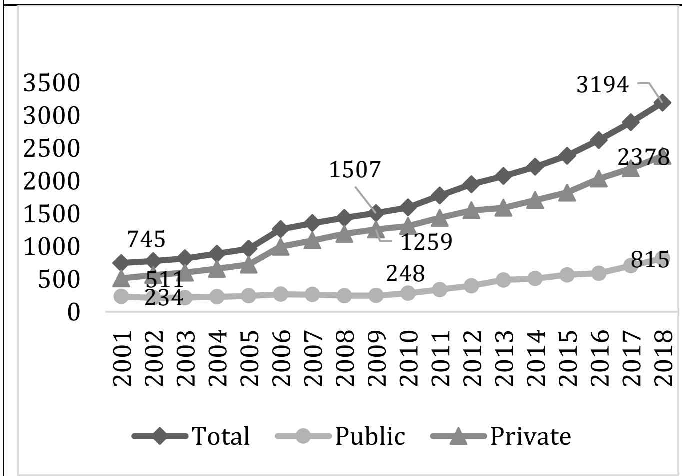
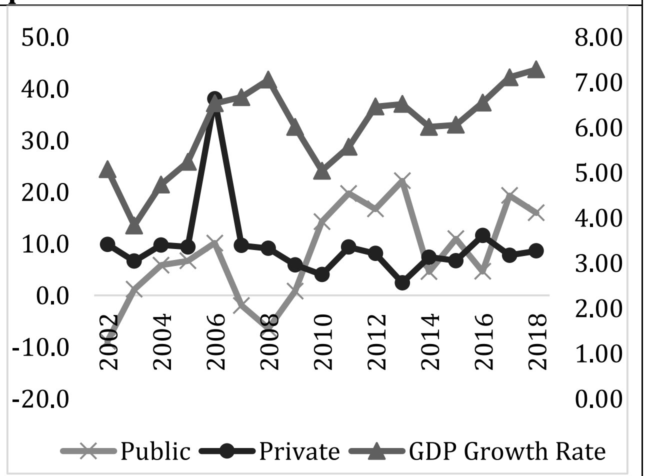


Figure 4.2: Growth in GDP, public investment, private investment



Source: Based on various issues of the Bangladesh Economic Review and World Development Indicators, World Bank.

4.2 Performance of private investment

Trends in private investment

Over the past decade, the performance of private investment was found to be at two levels during two periods. The growth during the first half of the decade (FY2009–2013) was lower (6.5% per year) compared to that of the second half (FY2014–2018) (9.9% per year). Because of the moderate level of growth, its incremental contribution to the growth of total investment was lower compared to that of public investment, which maintained a growth rate of 20 per cent per

[5] Annual growth of private investment over the last one and half decades (2002–2017) was less than 10 per cent per year except for FY2006 (Figure 4.2).

year during the corresponding period. The marginal efficiency of capital, measured by incremental capital–output ratio (ICOR), did not show any consistent trend during the first half of this period, although the trend during the second half reflected a gradual improvement in productivity over time.

Composition of private investment

The composition of private investment may be analysed through various proxy indicators such as disbursement of industrial term loan and import of capital machineries. The distribution of industrial term loan during the last decade reflects major compositional change. First, there has been a gradual rise in the share of term loans taken by large-scale enterprises, rising from 62 per cent in FY2012 to 74 per cent in FY2018 (about three-fourths of total term loan). Second, the remaining amount of the term loan went to the small and medium enterprises (SMEs), where the share of medium scale enterprises has consistently declined (from 31% in FY2012 to 14% in FY2018) (Figure 4.3). In other words, a growing 'missing middle' is emerging in the disbursement of term loans to industries (Haider and Akter, 2014). This concern was partially addressed through targeted financing measures for SMEs as part of which, a total of BDT 11,65,875 crore worth of credit has been disbursed by commercial banks over the past decade (about 21.7% of total credit disbursement) (Bangladesh Bank, 2018). However, without undertaking other business-related measures to address the concerns of SMEs, this small-scale financing was unlikely to change the structure and composition of the private investment. Figure 4.4 shows that the growth in manufacturing GDP of small-scale enterprises lagged behind that of the large- and medium-scale enterprises during the said period. The sluggish credit growth and also various other challenges are adversely affecting the growth of the SMEs (Moazzem, 2015a). In other words, there is a growing tendency of a dual-nature in the composition of industrial enterprises in the country—one is the fast-growing large-scale export-oriented and partly domestic market-oriented manufacturing enterprises; the second is the moderately growing medium- and small-scale domestic market-oriented manufacturing and service enterprises (Nath, 2012; Moazzem and Halim, 2017). It is important to conduct an in-depth examination of the factors responsible for this particular type of growth of industrial enterprises in the country.

Figure 4.3: Share of industrial term loan

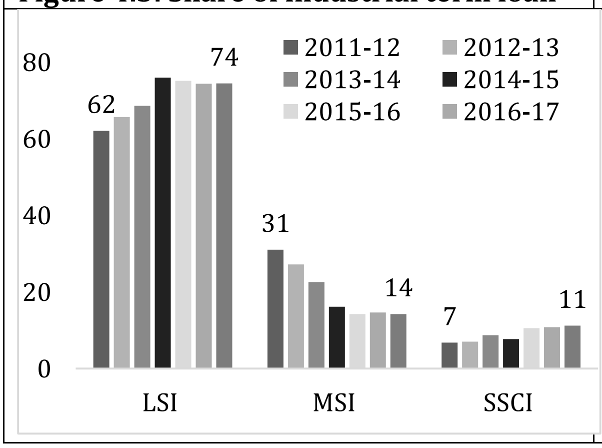
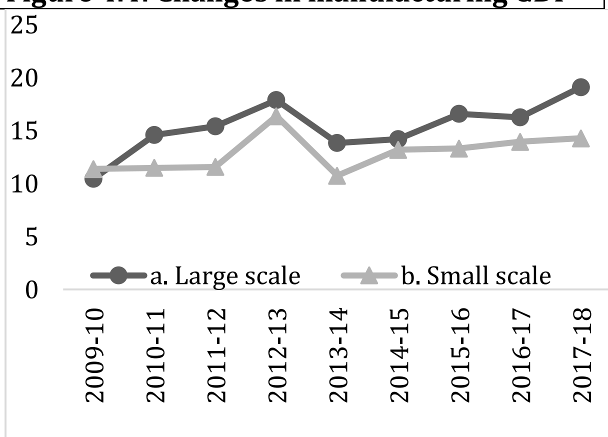


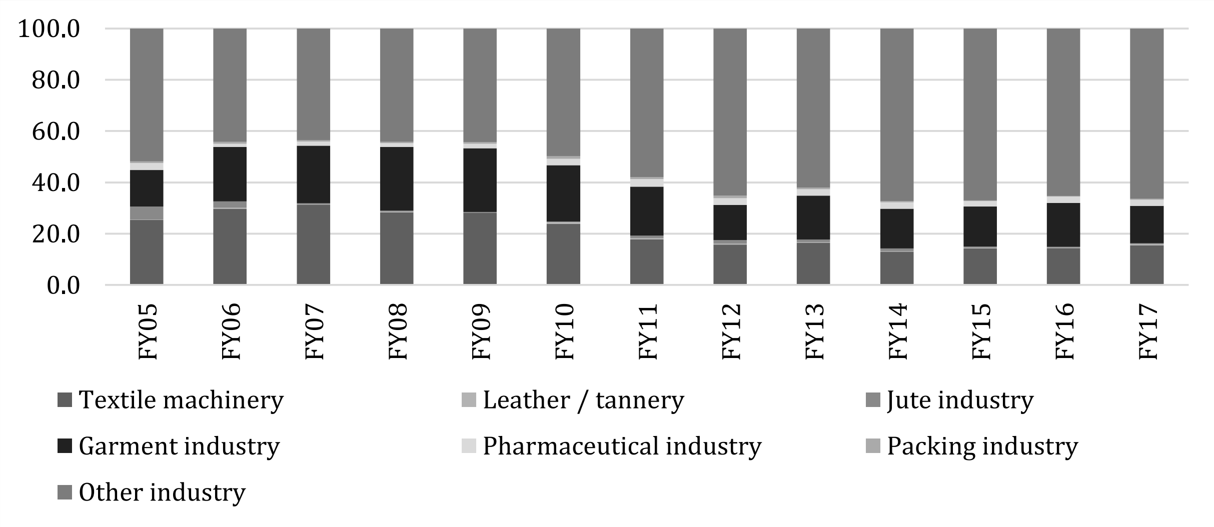
Figure 4.4: Changes in manufacturing GDP



Source: Bangladesh Economic Review, Different Issues.

An analysis of import data for capital machineries shows the changes in the sectoral composition of import of machineries over time. The share of import of machineries for traditional leading industries such as textiles, leather, jute, garment, pharmaceuticals and packing has been on the decline—from 55.6 per cent of the total import of capital machineries in FY2009 to 33.6 per cent in FY2018 (Figure 4.5). In other words, various other industries, mostly those by the domestic market-oriented industries, have been engaged in imports of machineries (though in small quantities).[6] Besides, the growing import of other machineries such as motor vehicles, bicycle parts and electronic components is reflective of growth of different non-traditional manufacturing and services enterprises (such as motor cycle, electronics, parts and components of different machineries and IT enabled services) (Bangladesh Bank, 2018; Ehstiaque, 2014). The growth of these non-traditional manufacturing and services enterprises could play a positive role in diversifying the industrial base; this could also help to diversify the structure and composition of private investment in the country.

Figure 4.5: Changes in the composition of import of capital machineries (settlement of LCs)



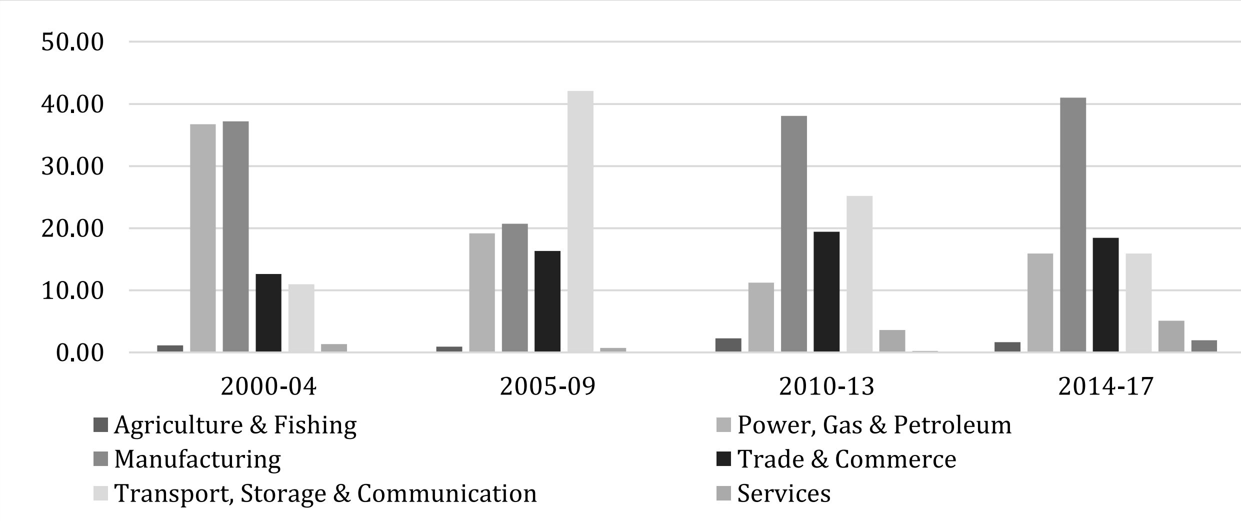
Source: Bangladesh Bank.

Foreign direct investment

Despite various attempts to attract FDI, the overall FDI inflow has increased only at a modest pace—from US$ 700 million in FY2009 to US$ 1.58 billion in FY2018. As a result, FDI share in total investment has declined over time (from 3.36% in FY2009 to 2.82% in FY2018). Domestic market-oriented FDI accounts for the major share of FDI in Bangladesh; its share has been on the rise (over 80% of total FDI at present). Export-oriented FDI is invested primarily in the EPZs—its share in total FDI inflow has been rather modest and has been declining mainly because of limited availability of land and other infrastructural facilities within the existing EPZs.[7] As a result, FDI composition in recent years experienced changes in share of reinvestment earnings and lower share of equity capital in the inflow of FDI. As the economy experienced growing opportunities for investment, the sectoral composition of FDI has also been undergoing changes, with shift from energy, minerals and communication sector-oriented FDI towards a more manufacturing sector-oriented one (Figure 4.6). In other words, the recent inflow of FDI is likely to target more labour-intensive, domestic and export market-oriented manufacturing and service industries. This is likely to be reflected in the future trends of FDI inflow in the country.

[6] A part of these imported machineries was used in different infrastructure-related projects implemented under the Annual Development Programme (ADP).
[7] See the Daily Financial Express, 2013. Recently, BEPZA, the authority of EPZ, has signed an agreement with the authority of BEZA to develop an EPZ at Mirersarai EZ.

Figure 4.6: Changes in sectoral composition of FDI



Source: Bangladesh Bank.

Investment in the capital market

The capital market remained in a weak state over the last decade and failed to emerge as an alternate source for financing industries. As may be recalled, the boom and bust of 2010 had led to serious undermining of investor confidence. Indeed, the collapse of the market in December 2010 was mainly because of governance and institutional failures (Moazzem and Rahman, 2012).[8] Immediately after this, a 21-point market rejuvenation package was undertaken which included short, medium and long-term measures with a view to stabilising the market. Despite this, the market is yet to regain the confidence of investors since governance-related challenges continue to persist particularly because of the lack of effective monitoring and the failure to identify illegal activities and the inability to take effective measures to address the anomalies (CPD, 2017). It may be noted here that since 2010, a total of BDT 5,968 crore had been raised by offering initial public offerings for 110 different industries and mutual funds (DSE, 2018).

4.3 Factors affecting private investment

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

The policy regime for promoting private investment in industries and enterprises did not experience any major breakthrough during the last ten years. The sixth and seventh five-year plans have focused primarily on traditional industrial sectors in order to achieve the targets of investment, production, export and employment. The Industrial Policy 2010 and 2016, SME Policy Strategy 2005, and Export Policy 2009–15, 2012–15, 2015–18 and 2018–21 did not make major changes in focus and sectoral priorities. A lack of enforceability of those policies also

[8] According to Moazzem and Rahman (2012), the weaknesses in the capital market that brought about the collapse of the market in 2010 included the lack of transparency in beneficiary owner (BO) accounts; the presence of bull cartels; the poor monitoring of the book-building system; the rampant use of placement shares; problems of serial trading; insider trading; faulty audit reports of listed companies; faulty operations of a number of merchant banks and retailer-like behaviour of institutional investors. Besides a number of other weaknesses have been identified such as faulty operations of commercial banks; the lack of oversight on the part of the central bank; faulty operations of Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE); inefficient operation of Securities and Exchange Commission (SEC); lack of enforcement of rules and regulations and lack of coordination among different financial institutions.

remained a major weakness. The Import policy order 2009–15, 2012–15, 2015–18 and 2018–21 did not make major changes to priorities and focus areas. Initiatives to implement a comprehensive trade policy was halted after some preliminary measures and studies. Few sectoral initiatives can be noted in this period, targeting promising sectors such as pharmaceuticals, non-leather foot wear, IT-enabled services, bicycles and diversified jute products. Instead of closing down public sector enterprises, the government chose to go the opposite way by dismantling the Privatisation Commission and returning some of the privatised enterprises under the concerned ministries. The role of public institutions for promoting SMEs such as the Bangladesh Small and Cottage Industries Corporation (BSCIC) remained very weak (Moazzem, 2015b).[9] The SME Foundation is being able to only play a limited role (Bakht, 2015). Various fiscal and budgetary support measures offered under different policies as also in national budget pronouncements have not been very effective, due to faulty targeting, an unpredictable timeline, the horizontal nature of incentives and the absence of proper assessment and review mechanisms (Perera, 2012). Increasingly, a rent seeking culture has developed, which disproportionately favours a section of business bodies (Moazzem and Minhaz, 2018). The initiative to announce certain products as 'product of the year' is yet to generate interest among prospective entrepreneurs in the absence of targeted follow-up measures.[10]

New institutions are yet to deliver

The establishment of Bangladesh Special Economic Zones Authority (BEZA) in 2010 with the aspiration to set up 100 SEZs in different parts of the country has generated considerable interest among prospective entrepreneurs and investors, both within the country and overseas. While some of the private SEZs are already in operation, none of the public SEZs are ready with the required facilities (Hashim, 2018). The previously in place Board of Investment (BOI) has been restructured, upgraded and reintroduced as the Bangladesh Investment Development Authority (BIDA) with the objective of providing one-stop service. However, delivering on this will need more time (Mirdha and Rahman, 2018). The Public-Private Partnership Office, established in 2010 with a view to accelerating private investment, is making progress only at a modest pace. The establishment of a number of investment promoting agencies, with similar nature of work, such as Bangladesh Investment Development Authority (BIDA), Bangladesh Export Processing Zones Authority (BEPZA), Bangladesh Special Economic Zones Authority (BEZA), Public private Partnership (PPP) office and BSCIC, has weakened the role of some of the institutions, and made coordination among these institutions a challenging task (*Dhaka Tribune*, 2013). The Private Sector Development Policy Coordination Committee (PSDPCC) set up under the Prime Minister's Office (PMO) 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 over the past decades for developing infrastructure, a well-packaged and comprehensive array of facilities that include the availability of land, electricity and gas connection, supply of public utilities, skilled workers and professionals, logistic and transport facilities and better connectivity with seaports and land ports—remain a far cry as far as the majority of entrepreneurs was concerned. While there has been commendable success

[9] https://www.thedailystar.net/bscic-plots-see-poor-investment-59476 (accessed on 6 November, 2018).
[10] BGMEA's announcement of the export target of US$ 50 billion worth of apparels by the Golden Jubilee of the country (2021) created much hype (2013) but it lost its appeal because of the lack of follow-up measures.

in delivering a number of services/facilities for businesses (such as power supply and road transport), the availability of other essential services/facilities (such as gas supply and rail and water connectivity) remain in question. Despite Bangladesh's ratification of WTO's trade agreement, the cost of domestic and external trade facilitation remain very high, as is reflected in the country's ranking in terms of various related global indicators (World Bank, 2018).

Rising cost of doing business

The cost of doing business in the country has been rising, which has adverse implications for competitiveness (World Bank, 2018). SMEs are the worse sufferers on this count (Rahman, 2017). This is reflected in high financial needs for investing in land, huge bribes for getting gas and electricity connection and other utilities, extra fees for getting licenses from various public authorities and the high interest rate charged by commercial banks (World Economic Forum, 2018). Compliance assurance also requires significant investment in some of the export-oriented industries such as the RMG. In view of relatively low productivity, labour costs remain high; energy tariffs are going up; banks' commissions for various business-related services are high, and so are transport costs. Such high costs of doing business have a disproportionately adverse impact on the level of competitiveness of different categories of enterprises, particularly the SMEs.

Weak enforcement of business-related rules and regulations

The weak enforcement of business-related rules for ensuring competition has undermined the competitive environment in the market (Rashid et al., 2018).[11] A section of market players has taken advantage of this at the cost of other market players. For example, despite the fact that the Competition Commission has been set up under the newly enacted Competition Act, there are widespread allegations of specific practices of cartels, collusion, mergers, predatory pricing, price discrimination, refusal to deal/sell, and exclusive dealing both in the private and public sectors.

4.4 Way forward

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 in terms of investment, production, export performance and competitiveness. An inclusive pattern of enterprise development needs to be ensured, with participation of all categories of enterprises in the value and production chains. Such an inclusive pattern of business development requires an array of supporting instruments and reforms, which would enable the SMEs in particular, to access low-cost credit facility, supportive enforceable policies, appropriate incentives, full packaged infrastructure facility, effective investment promotion agencies and proper monitoring and enforcement of rule of law. Reducing the cost of doing business and enhancing the ease of doing business should be major targets

Sectoral polices and targeted and predictable incentives are required

The policy regime should gradually put more emphasis on the development of vertical policies along with horizontal ones, in order to promote sectoral as well as entrepreneurial development (United Nations, 2018). Future policies should be geared towards developing value chains that

[11] http://competitionregimes.com/pdf/Book/Asia_Pacific/4-Bangladesh.pdf

are competitive. Moreover, these policies should be made enforceable. Various incentives to be offered to enterprises and entrepreneurs should be well-targeted and time-bound in nature.

Well-packaged infrastructural facilities for different categories of enterprises

Industrial clusters, which are currently at different levels of development (e.g. SEZs, EPZs, BSCIC industrial estates and industrial parks) should be geared towards serving the needs of different categories of enterprises and entrepreneurs. Building infrastructure for the development of SMEs located outside of major industrial belts deserves special attention. Widespread corruption in public agencies needs to be tackled and timely delivery of their services needs to be assured. This particularly relates to getting connections of gas, electricity, water and sewerage, and also in getting licenses and registrations without hassle and without paying additional charges.

Regulatory and institutional reforms are required to ensure rule of law

Regulatory reforms should focus more on the enforcement of rule of law in order to ensure competition in the market. Public sector enterprises need to be gradually phased out. Public monitoring agencies, departments and other relevant entities need to be strengthened in order to ensure full compliance with national rules and regulations (e.g. human and labour rights, environment and competitive practices). Newly established public agencies mandated to promote investment including BIDA, BEZA and PPP Office should play a more proactive role in realising the goal of rapid industrialisation of Bangladesh. They should be given time-bound targets and be held responsible for the results.

References

Bakht, Z. (2015, March 11). SME Development. Accessed on 6 November 2018 from The Daily Star. Retrieved from https://www.thedailystar.net/supplements/24th-anniversary-the-daily-star-part-2/sme-development-70926

Bangladesh Bank, *Foreign Direct Investment (FDI) in Bangladesh, Survey Report*, Different Issues, Dhaka available at: https://www.bb.org.bd/pub/publictn.php# (accessed on 4 December, 2018)

Bangladesh Bank. (2018). *Major Economic Indicators.* Dhaka: Monetary Policy Department, Bangladesh Bank. Available at: https://www.bb.org.bd/pub/publictn.php# (accessed on 4 December, 2018)

CPD (2017). *State of the Bangladesh economy in FY2016-17 (Third Reading).* Dhaka. Centre for Policy Dialogue (CPD). Retrieved from https://cpd.org.bd/wp-content/uploads/2017/05/Paper-draft-State-of-the-Bangladesh-Economy-in-FY2016-17-Third-Reading.pdf

Dhaka Stock Exchange (2018) https://www.dsebd.org/ipo.php (accessed on 5 December, 2018)

Dhaka Tribune. (2013, August 1). Experts for identifying reasons behind slow PPP implementation. *Dhaka Tribube*. Retrieved from

Eshtiaque, K. M. (2014). *Potential sectors for investment in Bangladesh.* Retrieved from https://www.slideshare.net/kmeshtiaque/potential-sectors-for-investment-in-bangladesh

Haider, M. B., and Akhter. T. (2014). Small and medium enterprises financing in Bangladesh: The missing middle. *International Journal of Manag. Bus. Res.,* 4 (4), 295-308 Autumn 2014.

Haque, S. T. (2012). *Effect of Public and private investment on economic Growth in Bangladesh: An Econometric Analysis*, available at:

Hashim, S.M. (2018, May 8). The crippling effect of slow development. *The Daily Star*. Retrieved from https://www.thedailystar.net/opinion/no-frills/the-crippling-effect-slow-development-1572838

https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/17643e1a_542c_47c8_a833_91a90d156ac7/chapter5.pdf

https://www.dhakatribune.com/uncategorized/2013/08/01/experts-for-identifying-reasons-behind-slow-ppp-implementation-2

https://www.researchgate.net/publication/266489150_CORPORATE_GOVERNANCE_IN_BANGLADESH_AN_OVERVIEW

Mirdha, R.U. and Rahman, S. (2018, June 3). 42 stops before starting business. *The Daily Star.* Retrieved from https://www.thedailystar.net/backpage/42-stops-starting-business-1585447

Moazzem , K.G. and Minhaz, M.R. (2018). *Growth of Employment in the Manufacturing Sector: Impact of Trade and Trade Related Policies,* CPD Working Paper, Dhaka

Moazzem, K. G. (2015a). *Micro, small and medium enterprises in Bangladesh: Are they scaling up?* Retrieved from https://www.cmi.no/publications/file/4261-micro-small-and-medium-enterprises-in-bangladesh.pdf

Moazzem, K. G., and Rahman, M. T. (2012). *Stabilising the capital market of Bangladesh: addressing the structural, institutional and operational issues* (CPD Working Paper No. 95). Dhaka: Centre for Policy Dialogue (CPD). Retrieved from https://www.cpd.org.bd/pub_attach/WP95.pdf

Moazzem, K.G. (2015b). *Bangladesher Khudra O Kutir Shilper Unnayaner Challenge Ebong BSCIC: Ekti Porjalochana* (in Bangla), published in the BSCIC Anniversary 2012, Dhaka

Moazzem, K.G. and Halim, F.B. (2017). *Growth of Employment in the Manufacturing Sector: Impact of Trade and Trade related Policies* (CPD Working Paper). Dhaka: Centre for Policy Dialogue (CPD).

MoF. (2017). *Bangladesh Economic Review 2017.* Dhaka: Ministry of Finance, Government of the People's Republic of Bangladesh.

Nath, N.C. Dr. (2012). Manufacturing Sector of Bangladesh-Growth, Structure and Strategies for Future Development, paper presented at the Biennial Conference “ Global Economy and Vision 2021” during 12-14 July,2012, to be held at the Institution of Engineers, Dhaka. Available at: http://bea-bd.org/site/images/pdf/47.pdf

Perera, O. (2012). *Rethinking investment incentives.* International Institute for Sustainable Development. Retrieved from https://www.iisd.org/sites/default/files/publications/rethinking_investment_incentives.pdf

Rahman, S. (2017, July 9). Rising production costs bite into profits. *The Daily Star*. Retrieved from https://www.thedailystar.net/business/rising-production-costs-bite-profits-1430311

Rashid, A., De Zoysa, A., and Rudkin, K. (2018). *Corporate Governance in Bangladesh: An Overview*. Retrieved from

Saha, S. (2015, March 08). *BSCIC plots see poor investment.* Retrieved from https://www.thedailystar.net/bscic-plots-see-poor-investment-59476

Saidjada, K. M., and Jahan, S. I. (2016). *Public and Private Investment Nexus in Bangladesh: Crowding-in or out?* (Working Paper No. 1609). Chief Economist's Unit (CEU). Bangladesh Bank.

The Daily Financial Express. (2013, February 4). With lands saturated, BEPZA regretting new proposals. *The Daily Financial Express.* Retrieved from http://bangladesh-tradeeconomy.blogspot.com/2013/02/with-lands-saturated-bepza-regretting.html.

United Nations. (2018). Entrepreneurship for Structural Transformation: Beyond Business as Usual. *The Least Developed Countries Report 2018.* New York and Geneva: United Nations Conference on Trade and Development (UNCTAD).

World Bank. (2018). *Doing Business 2018: Reforming to Create Jobs.* Retrieved from http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf

World Economic Forum. (2018). *The Global Competitiveness Report 2018* (ed.) Professor Klaus Schawab, Geneva.

5. BALANCE OF PAYMENTS SITUATION: UNDER SCRUTINY AND UNDER STRESS

5.1 An emergent concern

Bangladesh's overall balance position entered into the negative terrain at the end of FY2018, for the first time since FY2003.[12] 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. This needs to be considered in the backdrop of the disquieting developments emerging in parallel, including the surge in trade gap, accumulating foreign debt, reserves depletion, depreciation of Bangladeshi Taka (BDT), the gathering storm of global trade war and the consequent likelihood of global economic slowdown. Consequently, there are reasons to dive deep into the relevant issues, the contributing factors, the likely consequences and the need to identify some of the possible steps to correct and improve the situation. An analysis of the key factors informing this evolving scenario and a decomposition of the balance situation should throw important insights as regards external sector performance of the Bangladesh economy and the needed steps to address the emerging challenges.

As Table 5.1 bears out, 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.

Table 5.1: 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

Source: Bangladesh Bank (various years).

The significant fall to (-) USD 0.88 billion in FY2018 was mainly accounted for by the deficit in the current account. As can be seen from Table 5.1, the deficit in the current account balance posted a significant rise in a single year, from (-) USD 1.3 billion in FY2017 to (-) USD 9.78 billion in FY2018. Indeed, a year before, in FY2016, there was a surplus in the current account to the tune of USD 4.3 billion. As Figure 5.1 shows, 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).[13] 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.[14] Consequently, trade deficit increased from (-) USD 9.4 billion in FY2017

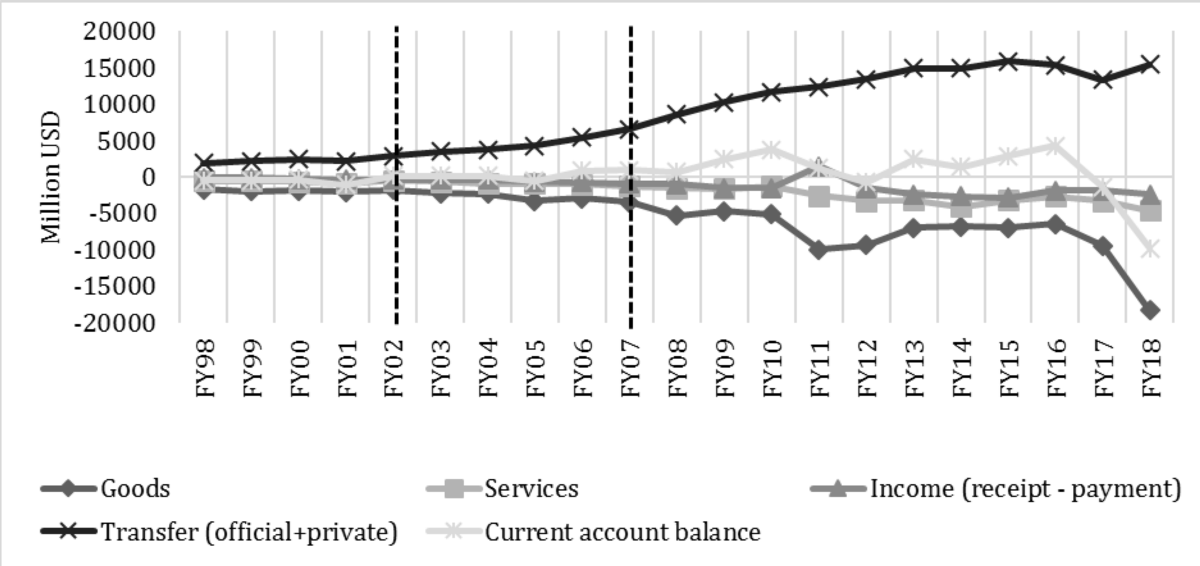
[12] The overall balance started to be estimated following the current method since FY2003. Previously, the overall balance was always shown as 'zero' after balancing with the reserve assets. A recalculation shows that, the last time the overall balance was negative was in FY2000.

[13] The trade balance may hopefully improve in FY2019. Export growth has posted 14.1 per cent growth in Q1 of FY2019, while import growth has come down to 5.7 per cent in the first two months of FY2019.

[14] The surge in import can mainly be explained by rise in import of capital goods (33 per cent) and intermediate goods (19.7 per cent), which should generate positive (lagged) response in the economy.

to (-) USD 18.3 billion in FY2018, a big jump by any measure. Although remittance income rose by about USD 2 billion in FY2018 compared to the previous year[15], the overall surplus in the non-trade component (which includes remittance income) of the current account balance rose only by USD 0.35 billion. This amount was insignificant compared to the trade deficit, resulting in the aforesaid high amount of deficit in the current account.

Figure 5.1: Trends in current account balance and its sub-components



Source: Bangladesh Bank.

The overall balance situation was somewhat helped, thanks primarily to significant rise in the financial account balance which posted a rise from USD 4.25 billion in FY2017 to USD 9.08 billion in FY2018, a notable rise of 136.5 per cent. A closer look at the financial account sub-component reveals that this rise 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 in this connection 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).

5.2 Likely consequences

The rising deficit in the current account, the growing surplus in the financial account and the deteriorating overall balance position transmit a number of disquieting signals as far as economic and financial management was concerned. 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, BDT depreciated by 3.9 per cent compared to the previous year. The Bangladesh Bank has resorted to large-scale

However, in view of the global reports on illicit financial outflows from Bangladesh arising from trade mispricing, the concerned authorities ought to have a closer look at export-import-related financial transactions.

[15] It may be noted here that, the number of migrant workers leaving for overseas job market in Q1 of FY2019 has come down by 24.3 per cent compared to the matched figure of FY2018.

sale of foreign currency to arrest further depreciation of the BDT. 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.[16] 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.

Exchange rate management will be an important aspect of maintaining a healthy BoP position. As was pointed out, in view of the heightened demand for forex currencies, BDT has already experienced considerable depreciation over the past couple of years, following the relatively stable exchange rate between FY2013 and FY2016. 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, BDT 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, in view of this.

As is known, till now, Bangladesh's debt servicing record has been praiseworthy. However, the 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.[17] Also, 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.

It is to be noted that, a significant part of the imports by the government is not underwritten by overseas loans. Thus, a large part of the pressure in the domestic foreign currency market is also coming from the government. 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 (because of middle-income graduation) and more competitive market access scenario (originating from the LDC (least developed country) graduation).

5.3 Going forward

In the backdrop of the currently evolving external balance situation and the likely pressure on the BoP, Bangladesh will need to pursue a forward-looking strategy to avoid a worsening of the current trends and move towards a healthy BoP situation. In view of this, Bangladesh must take careful steps to address the emergent scenario concerning all the three sub-components.

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

[16] In June 2017, the reserves stood at USD 33.5 billion. Reserves have now come down further to USD 32 billion (figures for 10 October 2018).
[17] This will be because of rising repayment liabilities arising from the status of an exclusively International Development Association (IDA) borrower to a blended borrower, which would entail a rise in the share of non-concessional loans with higher interest rate and lower maturity/grace period and lower or no grant component.

connectivity and trade facilitation should be geared to exploit opportunities of the growing regional market. Bangladesh is yet to sign bilateral free trade agreement (FTA) with any country. There is a need to prepare adequately for signing Comprehensive Economic Partnership Agreement (CEPA) with regional countries.[18] Now that the BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation)-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 (Association of Southeast Asian Nations) market foothold. Since many of the services are embedded in trade in goods, priority attention will need to be given to promoting the cause of e-commerce, enhancing ease of trade-related financing and better logistics. Vigilance against illicit financial flows, particularly because outflows are perceived to be taking place predominantly through the trading channels[19], 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. Even though 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. This is important to maintain the interests of buyers of apparels in Bangladesh. 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.

As was seen from the previous analysis, the increasingly large deficit arising from the trade account was largely offset, thanks to the significantly increasing surplus in the financial account. However, this also indicates that Bangladesh's overseas liabilities, on account of both short-term and MLT loans, will be on the rise. This will result in higher accumulated debt, and consequently, necessitate addressing higher debt servicing liabilities. In view of this, Bangladesh must be well-prepared, with appropriate strategies, to avoid any likely debt trap in the medium-term future. Already Bangladesh's debt servicing liability has been showing a rising trend. The amount has almost doubled in the Q1 of FY2019 compared to FY2018 (principal and interest payment figures were respectively USD 614.7 million and USD 333.5 million). 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. In this connection, the experience of falling into debt trap for countries such as Sri Lanka, should serve as a cautionary note for Bangladesh. 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.

Till now, Bangladesh has been, in general, in a comfortable situation as regards its BoP position. However, as the preceding discussion bears out, Bangladesh appears to have crossed a Rubicon in FY2018. 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.

[18] Proposals are already there from several countries, including India, Sri Lanka, Pakistan and Malaysia.
[19] According to Global Financial Integrity (2017), more than 80 per cent of such flows from Bangladesh are accounted for by trade mispricing.

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.

Reference

Global Financial Integrity. (2017). *Illicit Financial Flows to and from Developing Countries: 2005-2014*. Washington, D. C.: Global Financial Integrity.

Part C
Economic Sectors

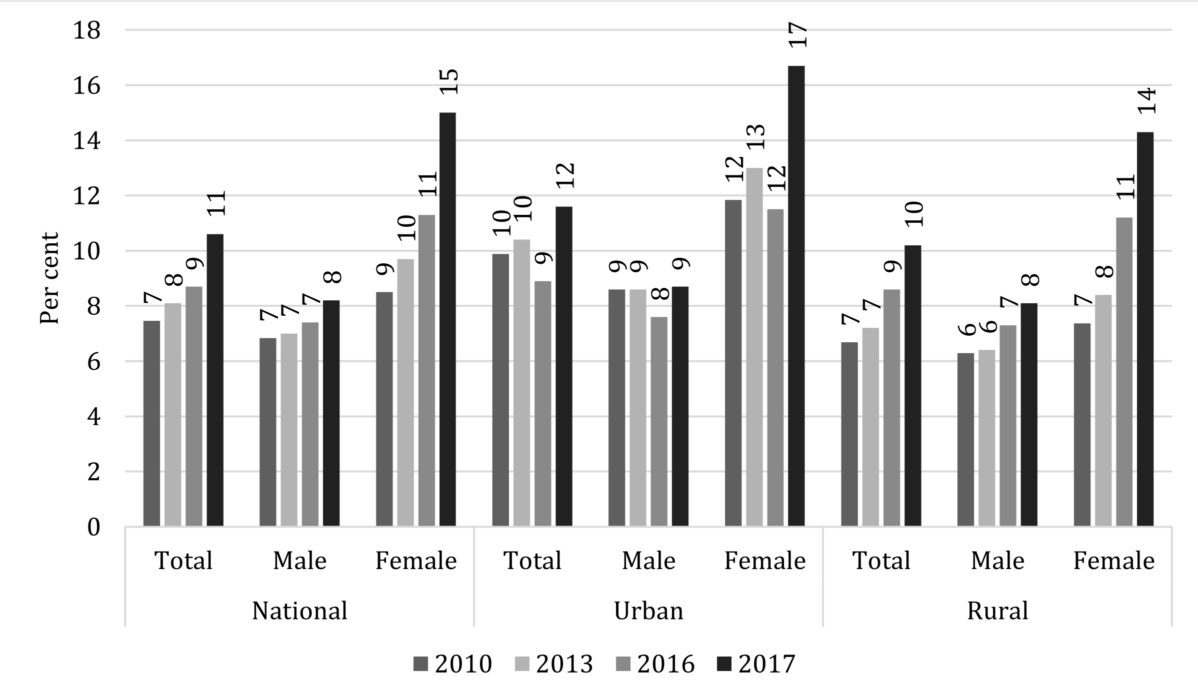
6. YOUTH UNEMPLOYMENT: WHITHER THE DEMOGRAPHIC DIVIDEND?

6.1 Introduction

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.

The Labour Force Survey (LFS) 2016-17 of Bangladesh Bureau of Statistics (BBS) reveals that while the national unemployment rate was 4.2 per cent, within the cohort of the youth the unemployment rate was as high as 10.6 per cent. The trends from labour force surveys of the past point out that the youth unemployment rate has been on a steady rise, with unemployment rates being higher in urban areas and among females (Figure 6.1).

Figure 6.1: Unemployment rate among youth (aged 15-29 years)

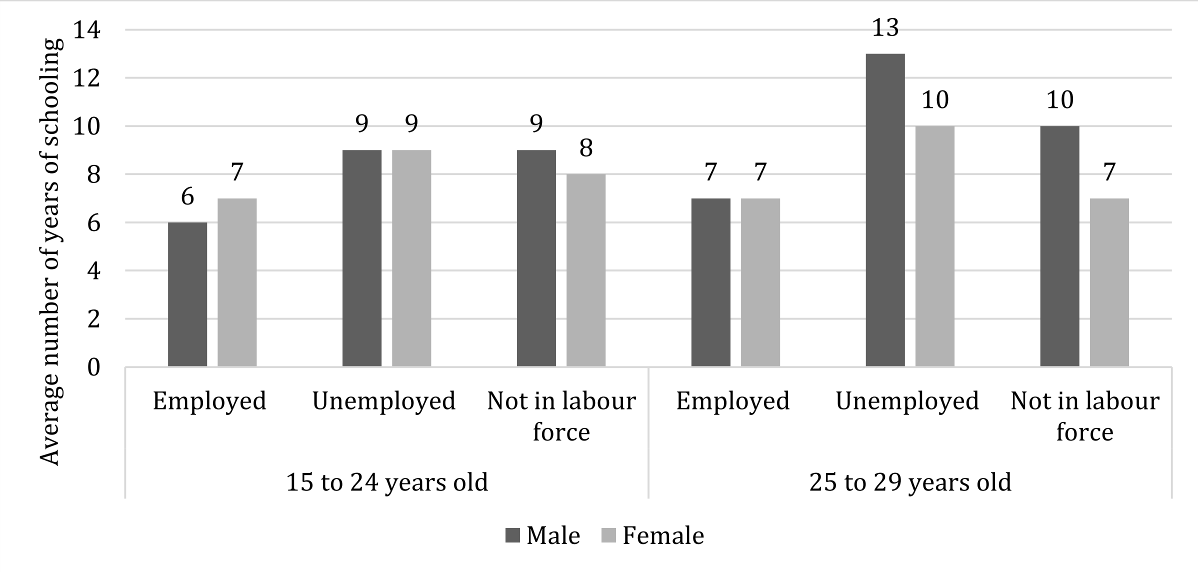


Source: Bangladesh Labour Force Survey (various years), Bangladesh Bureau of Statistics (BBS).

6.2 Youth unemployment – a product of a failing education system

The share of unemployed youth in total unemployment was 79.6 per cent in 2016-17. More strikingly, unemployment rate among youth having a tertiary level education was 13.4 per cent in 2016-17 (BBS, 2018). The LFS 2016-17 also indicates that unemployment was highest among youths having secondary level education (28 per cent). 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. Figure 6.2 shows that the average number of years of schooling was higher for unemployed individuals compared to employed individuals, across all age groups, irrespective of gender.

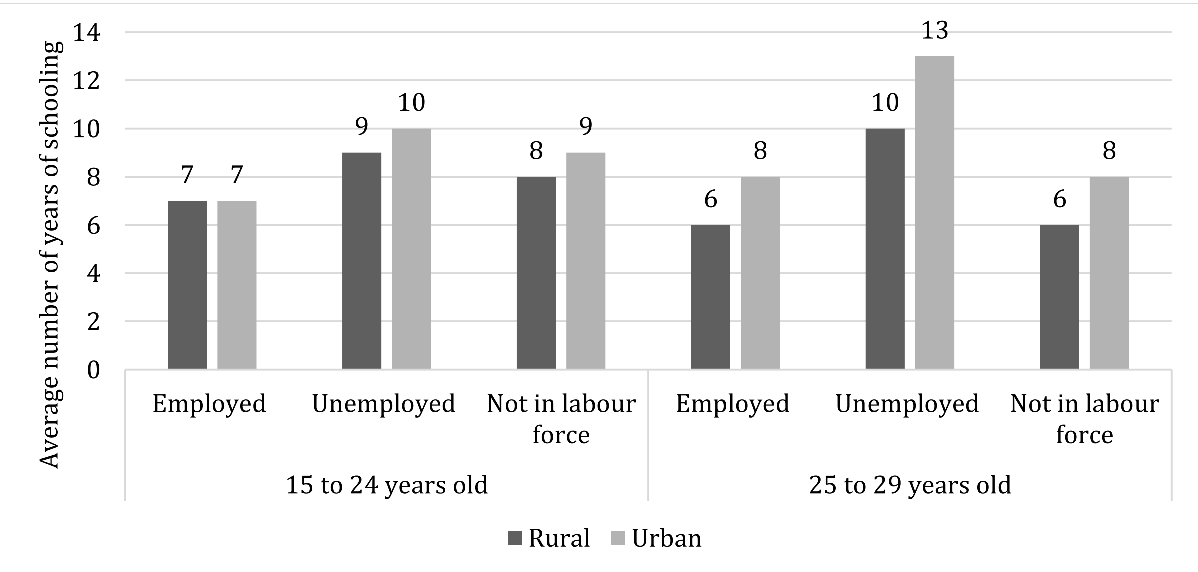
Figure 6.2: Average number of years of schooling, by age group, labour force status and gender (2016-17)



Source: BBS (2018).

A disaggregation of years of schooling by labour force status and geographic region shows that the average number of years of schooling was higher in urban areas compared to rural areas for individuals from every labour force status and age group. Additionally, the average number of years of schooling was higher for unemployed individuals compared to employed individuals across all age groups for both rural and urban areas (Figure 6.3).

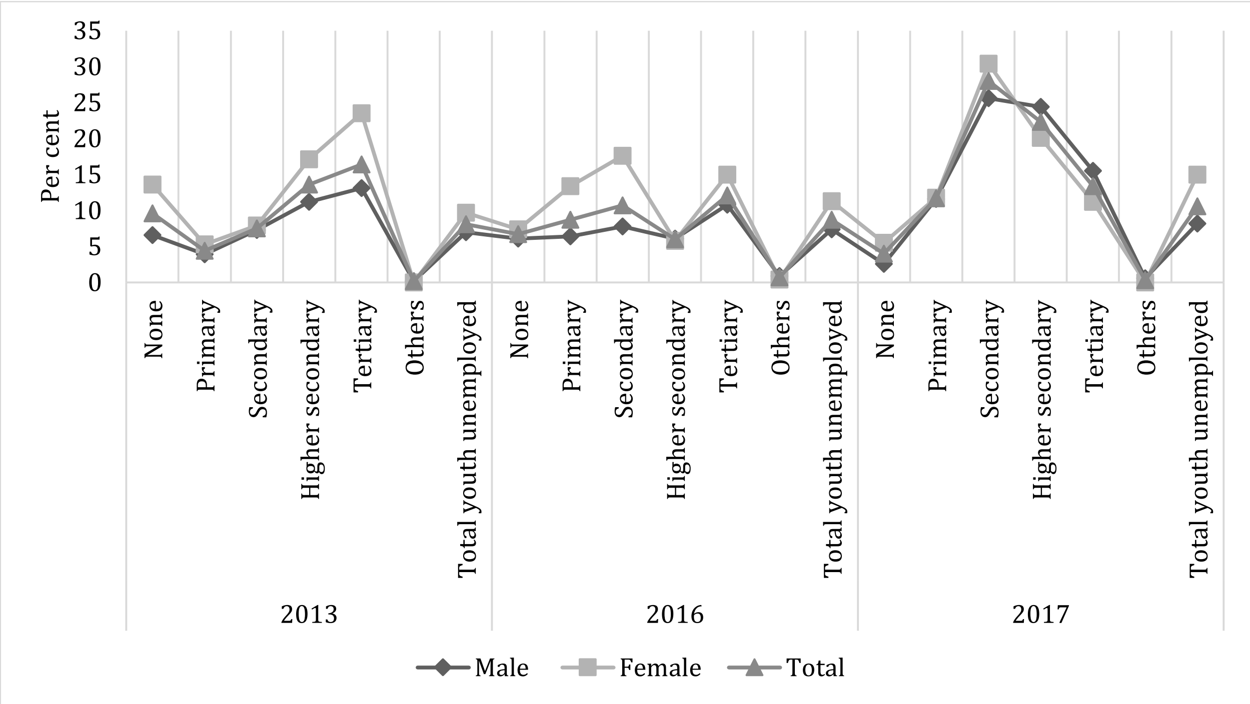
Figure 6.3: Average number of years of schooling, by age group, labour force status and region (2016-17)



Source: BBS (2018).

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 6.4).

Figure 6.4: 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).

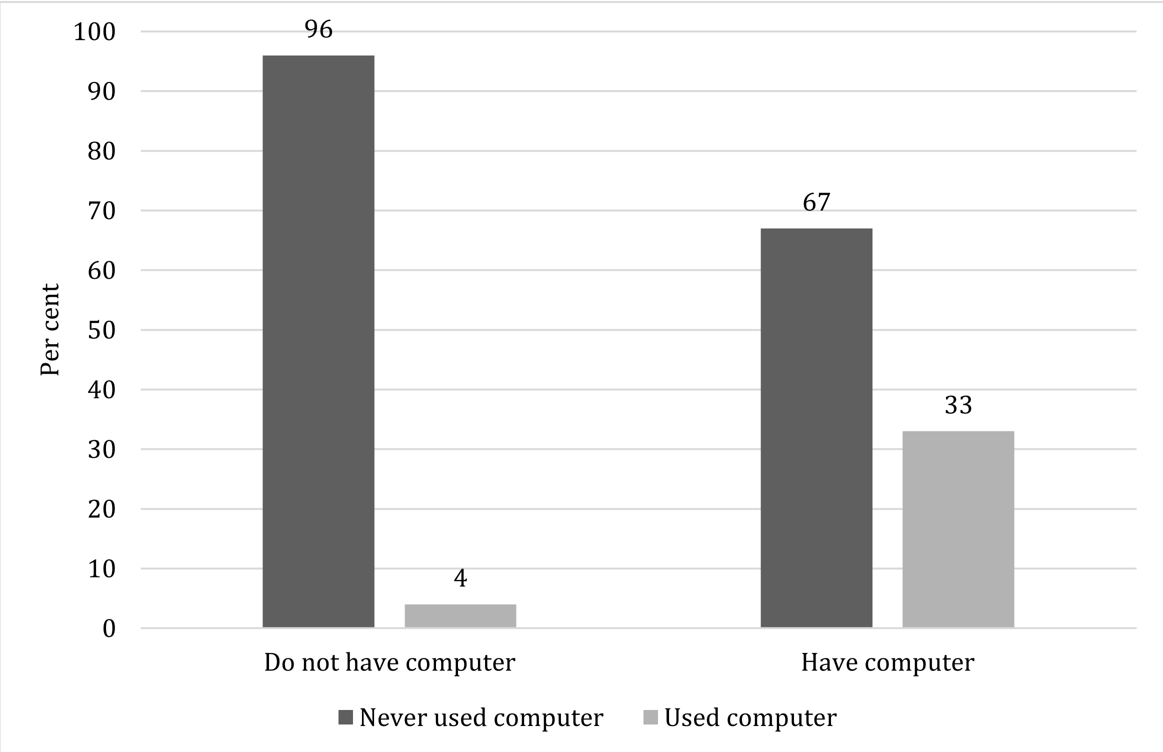
In 2016-17, an alarming 29.8 per cent youth were not in education, employment or training (NEET) according to LFS 2016-17. This suggests that education is not empowering the youth of the country with the right set of skills to be employable in the economy. Such high unemployment among the young population implies that Bangladesh is not being able to benefit from the 'demographic dividend', a concept that implies that as the share of working-age population increases, there will be a fall in the dependency ratio, and the economy would benefit from having higher share of the population in the labour force.

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. The other underlying reason that drive the positive relationship between higher education and unemployment may be the following. 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.

Box 6.1: Skills gap and access to computers: Is digital Bangladesh digital enough?

Bangladesh at present stands at crossroads of structural transformation and technological change. In this context, it is clear that the small proportion of workers who has the right skills will be able to extract considerable rent (rewards) from the labour market. One fundamental skill that yields substantial returns is computer skill. 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 (Figure 6.5). 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. Consequently, computer literacy is still very low in Bangladesh.

Figure 6.5: 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.

In this backdrop of poor computer literacy, those who have managed to master computer skills earn higher returns in the labour market. 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. The wage differential was the highest in Barishal, where computer literate individuals earned 38.68 per cent higher monthly wages on average than computer illiterate individuals. On the other hand, the wage differential was the lowest in Khulna, where computer literate individuals earned 22.53 per cent higher monthly wages on average than computer illiterate individuals (Table 6.1).

Table 6.1: 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.

These findings provide ample evidence to the effect that computer skills have ensured as necessary complement to general education. Such skill could play a key role in bridging the supply-demand gaps in the Bangladesh labour market. Thus, policymakers should consider increasing the allocation of resources for computer training. The market signals for young workers are clear – they must invest their time in learning computer skills.

6.3 Is the National Youth Policy 2017 adequate to deal with the youth unemployment challenge?

The Government of Bangladesh (GoB) formulated its first National Youth Policy (NYP) in 2003. In its latest NYP 2017, the GoB emphasises that empowerment and development of youth are necessary steps for achieving equality, human dignity and social justice (Ministry of Youth and Sports, 2017). A number of objectives outlined in the NYP 2017 are closely related to youth unemployment. These include: creating conducive conditions for the youth to be able to achieve their inherent potential; developing youth into human resource; ensuring quality education, health and security for youth; providing youth with employment opportunities so that they are able to choose profession and career according to their ability; and promoting youth entrepreneurship and innovation. Additionally, unemployed youth is recognised as the category which would be given top most attention for whom the government would undertake special measures (Ministry of Youth and Sports, 2017).

In general, the policy measures mentioned in the NYP 2017 are well-intentioned. For example, the decision to teach information and communication technology (ICT) as part of the regular curriculum and measures to bring all youth under banking and insurance are clearly steps in the right direction. A number of intended steps mentioned in the NYP 2017, including the need to discourage youth from overindulgence in junk food and warning them about the addictive nature of the social media, are quite modern and far-sighted. These are undoubtedly some of the major threats that the young people are facing today, undermining their physical and mental well-being. Acknowledgement of these issues within a formal policy framework is a laudable step.

However, the NYP 2017 has some fundamental flaws. In essence, the NYP 2017 is a policy document which is neither grounded on data, nor can it be evaluated through data. Thus, the NYP 2017 often makes bold declarations which are not based on ground realities. More importantly, no measurable indicators and goals have been outlined in the NYP 2017. Thus, when the NYP will be reviewed after five years, as is planned (Ministry of Youth and Sports, 2017), there will be no scope for an objective assessment of the implementation status of the policy.

In sum, the NYP 2017, which is still in draft phase, only lists a set of objectives under various themes without any concrete targets and implementation plan. As a result, this policy cannot provide an appropriate direction for the development of youth of the country.

6.4 Recommendations

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

Improved education system

A reform of the entire education system is called for, so that education can help build analytical competence of students and develop their critical thinking capability. The curriculum in educational institutions has to teach language and presentation skills for improving communication ability of the educated youth.

Availability of technology and internet

Access to computers and broadband internet should be increased, particularly in the rural areas. Programming and coding should be introduced into mainstream education system in order to increase the probability of securing jobs in the rapidly modernising manufacturing and services sectors where there is a shortage of high-quality human resources.

Skills development through technical and vocational training

Both the government and the private sector have to allocate more resources for increasing the number of technical and vocational training centres across the country. The private sector should also impart training for skills development of their existing employees, at free-of-cost, and on a regular basis.

Fair opportunity for all in the job market

Nepotism, discrimination and prejudices against minority groups, and bribery and corruption in case of recruitment will need to be eliminated. Supportive government policies and enforcement of policies will be the key here. Employment and promotion should be based on meritocracy. Requirement of job experience at the entry level should be reduced, so that the young applicants have a fair chance in the job market.

Access to information at national, regional and local levels

Job opportunities and vacancies should be announced through open access and transparent means involving various types of media, including newspapers, local radio, noticeboards, websites and social media. Job-seekers should also be guided and supported through career counselling services.

Self-employment through entrepreneurship

Aspiring young entrepreneurs should be provided with financial support through access to credit from financial institutions and special schemes and incentives set up by the government. Moreover, bureaucratic complexities and red-tape should be reduced to improve the ease of doing business for the new and young entrepreneurs.

Students-to-employers connection

Educational institutions should align their curriculum with the market needs on the basis of the feedback from the employers, so that students are better prepared for the job market of the future. This could also help the employers who face acute shortage of skilled human resources.

Career counselling from an early stage

All educational institutions should have career counsellors to guide students towards their future career path from a very early age. The counsellors would help the students find internships, prepare job applications and identify entrepreneurship opportunities. Indeed, the youth should be well-informed about all types of opportunities available in the market when they make the transition from education to employment.

Enabling environment for female youth

Favourable conditions need to be created for female youth to participate in the labour market and be engaged in entrepreneurship. Measures such as safe transportation, secured accommodation and reliable and affordable day-care centres for children will encourage them to participate in the labour market in greater numbers.

Employment opportunities abroad

New job opportunities outside Bangladesh should be explored both in the existing and new markets. Cost of migration should be reduced so that youth from landless and poor families also get the opportunity to take up jobs as migrant workers. Targeted skills development programme and financial support schemes for this particular disadvantaged group of youth may be thought of in this connection.

References

BBS. (2015a). *ICT Use and Access by Individuals and Households in Bangladesh 2013*. Dhaka: Bangladesh Bureau of Statistics (BBS).

BBS. (2015b). *Labour Force Survey (LFS) Bangladesh 2013*. Dhaka: Bangladesh Bureau of Statistics (BBS).

BBS. (2018). *Labour Force Survey 2016-17*. Dhaka: Bangladesh Bureau of Statistics (BBS).

Ministry of Youth and Sports. (2017). *National Youth Policy 2017*. Dhaka: Ministry of Youth and Sports, Government of Bangladesh.

Rahman, R. I. (2014). *Demographic Dividend and Youth Labour Force Participation in Bangladesh*. Dhaka: Bangladesh Institute of Development Studies (BIDS).

World Bank. (2013). *Bangladesh Education Sector Review*. Dhaka: Human Development Sector, South Asia Region, The World Bank.

7. AGRICULTURE: PERFORMANCE, OPPORTUNITIES AND CHALLENGES

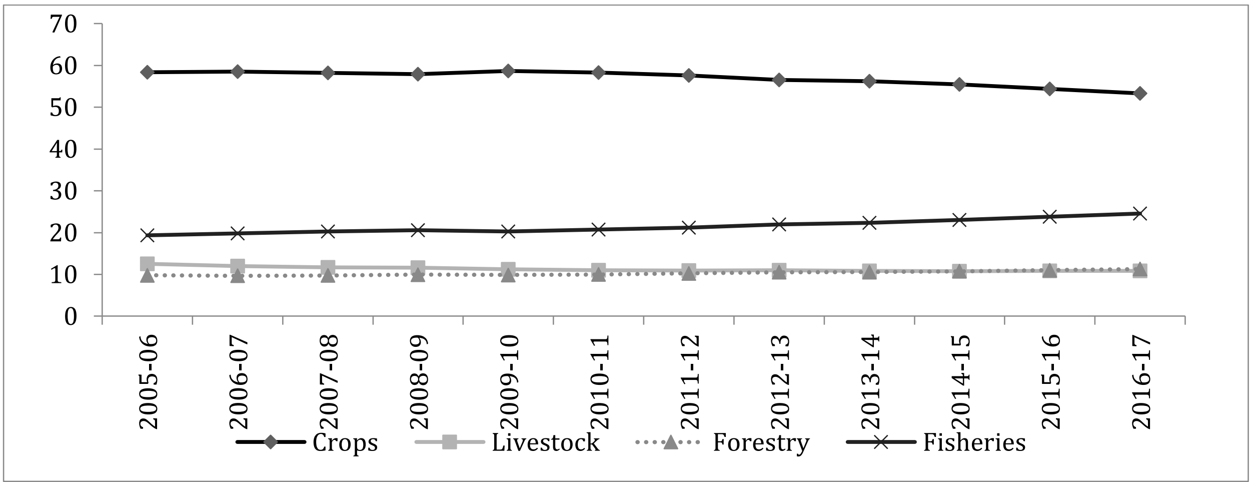
Bangladesh agriculture has come a long way over the last decades in terms of production of food, particularly rice, vegetables and culture fisheries, and development of dairy, particularly poultry. The country is no longer dependent on food aid as such for a long time, although it still has to import food of specific types. Against such advancements, there are still challenges, some of which are old, while new ones such as climate change are emerging. These may stop the progress made so far or even nullify them completely. If this happens, realisation of Sustainable Development Goals (SDGs) 1 and 2, which call for eradicating poverty and banishing hunger in a little over ten years' time, will not be possible. The question is: are we prepared to face those challenges?

7.1 Growth in agriculture and related dynamics in the last decade

Overall performance of agriculture in GDP

Over the last decade, agricultural GDP had been rising far more slowly (at about 3.4 per cent per annum only) compared to that of the national GDP, which had been growing at a semi-logarithmic trend rate of 6.4 per cent between FY2006 and FY2017.[20] Indeed, the movement in agriculture during the last decades is basically determined by what happens to crops production, and even more specifically, what happens to rice output (Figure 7.1).

Figure 7.1: Shares of sub-sectors in total agriculture GDP

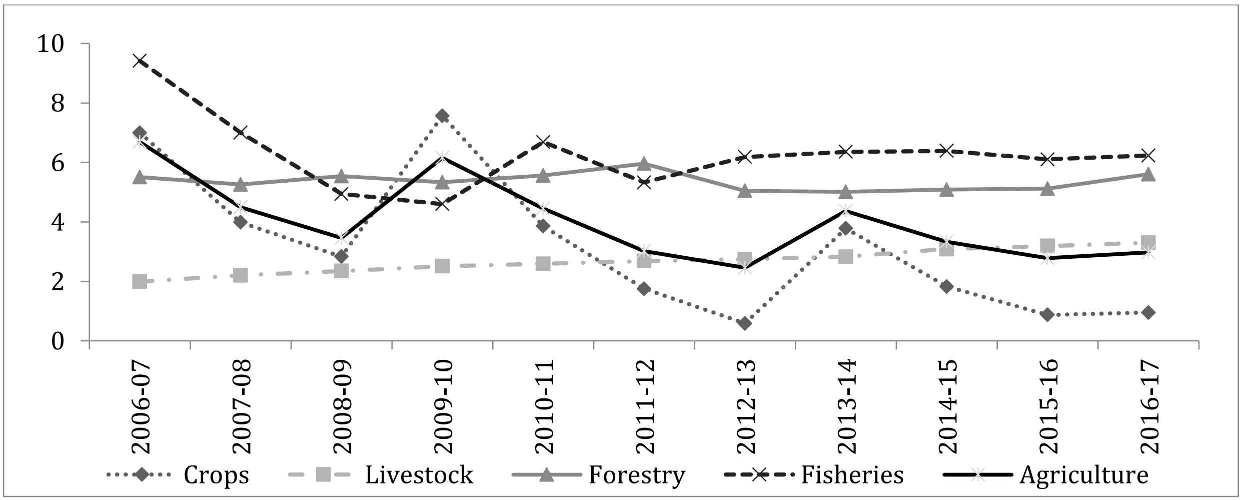


Source: Author's calculation based on the data from the Bangladesh Bureau of Statistics (BBS).

Figure 7.2, which shows the year-to-year growth rates of the sub-sectors since FY2006, helps to understand the first issue. Significant fluctuation is observed in the year-to-year growth rates for both crops and agriculture as a whole, with crops by and large driving the overall agricultural changes. While fisheries production exhibited similar patterns in earlier years to some extent, it has stabilised at about 6 per cent in later years. Forestry output has shown a lower, but still consistent rate of growth. However, what remains a mystery is the growth rate of livestock and poultry.

[20] Besides, GDP per capita had also been rising in the most recent years, at the rate of 6-6.5 per cent, indicating that in 10-11 years, the GDP per capita would be double of the present level. This rise in per capita income will have implications for demand for food and agricultural products in the future.

Figure 7.2: Year-over-year growth rates in sub-sectors of agriculture

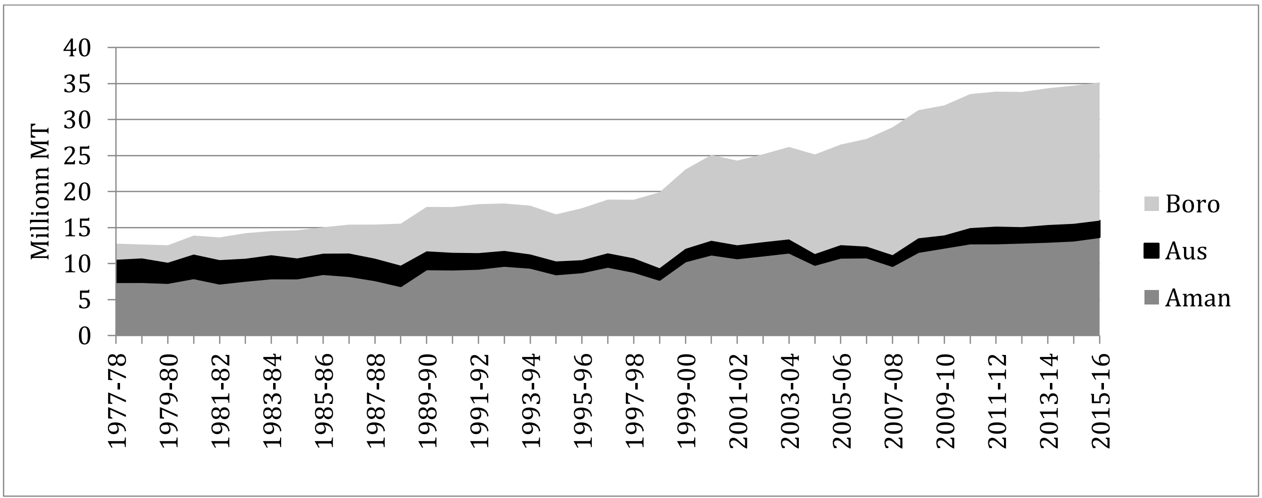


Source: Author's calculation based on the data from the Bangladesh Bureau of Statistics (BBS).

Rice output growth

Rice remains the major crop in terms of not only output, but also area. Since 2000, rice accounted for near about 80 per cent of total gross cropped area. This indicates a general lack of diversification of crops. Simpson's index, which is often used to indicate diversification, is rather low at 0.35-0.36. Of course, while this is so, it does not mean that area under crops is not changing. They do, and for the last decade or more, while wheat and pulse acreages have fallen, those of jute, potato and oilseeds have risen. A complex array of factors, technical and economic, may have given rise to these changes. One noticeable fact of rice output changes is that the fluctuations by season are usually compensatory in that a fall in Aman rice production is more often than not counterbalanced by the movement in Boro rice production (Figure 7.3).

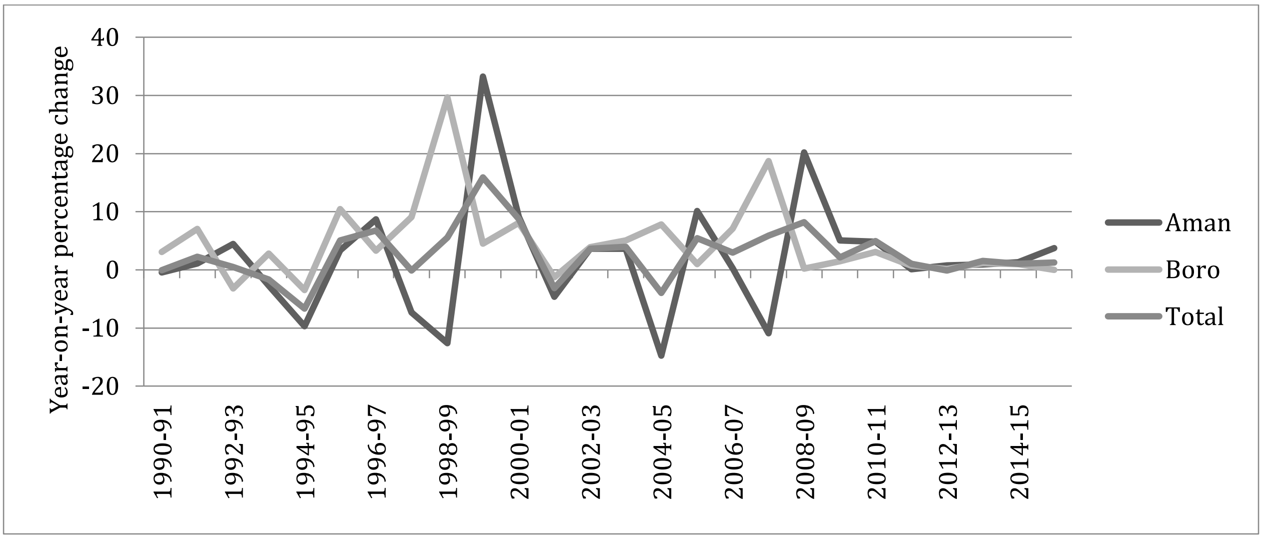
Figure 7.3: Rice output over time



Source: Author's calculation based on the data from the Bangladesh Bureau of Statistics (BBS).

The fall in Aman rice output is due to mainly various natural hazards such as flood, cyclonic storms and surges, draught and also pest attacks. Any fall in Aman output spikes the prices of rice, which provides an incentive to farmers to grow more Boro. However, if the Aman harvest is good, effects on Boro rice output are muted. Since Boro is a more cash-intensive crop, whenever there is a good harvest of Aman, the fallen price of Boro makes it less attractive for the farmers. Also to be noted that, during the last few years, there had been no major natural hazards, and thus amplitudes of the fluctuations were almost non-existent (Figure 7.4). Thus, mostly negative changes in Aman rice output is sought to be counterbalanced by Boro output, so that the total output fluctuations get muted. In Bangladesh the yield is just over 3 MT (metric tonnes)/ha (hectares), while the yield ranges from 4 MT/ha in Pakistan, Sri Lanka and Malaysia to 7 MT/ha in most of the countries in South East Asia. Bangladesh thus has a long way to go to catch up with others in the region.

Figure 7.4: Year-to-year fluctuation in rice output by season

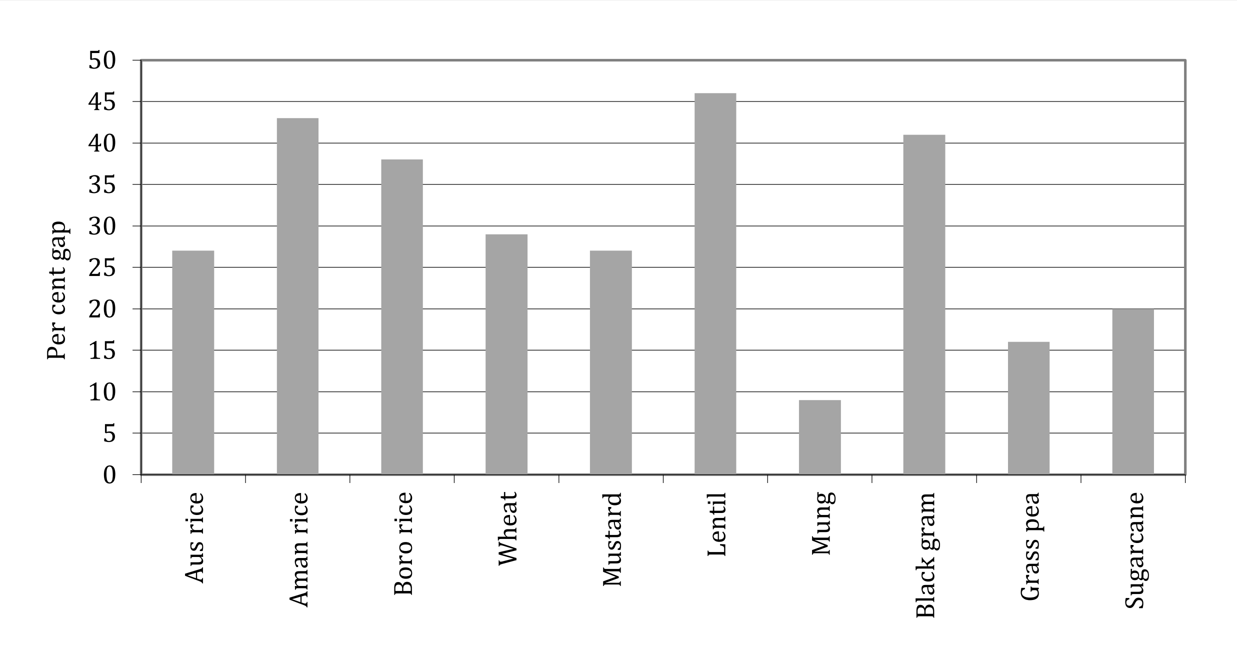


Source: Author's calculation based on the data from the Bangladesh Bureau of Statistics (BBS).

There is a large potential yet for raising yield not only in case of rice, but also of other crops. Figure 7.5 indicates that clearly. For rice, the yield gap between demonstration plot and farmers' field varies from 25 per cent to over 40 per cent. Even for Boro, the most hazard-free rice, the gap is more than 35 per cent. Even if this yield gap is filled up, by say 20 per cent for Boro, the total output would rise by about 12 per cent, a significantly large jump. This will also allow releasing the land for rice to other crops, or even non-crop food or other uses. For other crops too, there are large gaps. Some of these have major nutritional implications such as yield gap for lentils, which is a whopping 45 per cent. For black gram too, the gap is similar at 40 per cent. Such gaps mean that the country is unable to produce protein-rich food crops. This has major implications for deficiency in nutrition. Import of these items, many of which are cooked almost every day in Bangladeshi households, also has implications for the country's balance of payments. Why such yield gaps exist remains a moot question. One major concern had been the research-extension gap which arises from farmers not receiving adequate and effective advice from the extension agents. There may also be problems in communication along with those concerning formation of farmers' groups for ease of extension advice. Of course, access to inputs, and as background factors, their relative prices may also be mentioned in this connection. The Government had been aware of such problems, and with support from the World Bank had put in place the National Agriculture Technology Programme (NATP) to address those.[21] However, this is one area which needs a closer look.

[21] The programme has completed its Phase I and a second phase has begun. An evaluation of Phase I had found quite a few problems concerning its implementation where several agricultural agencies were involved. The overall experience had left much to be desired. For details please see, Asaduzzaman and Anik (2017).

Figure 7.5: Yield gaps (per cent) between demonstration plots and farmers' plots

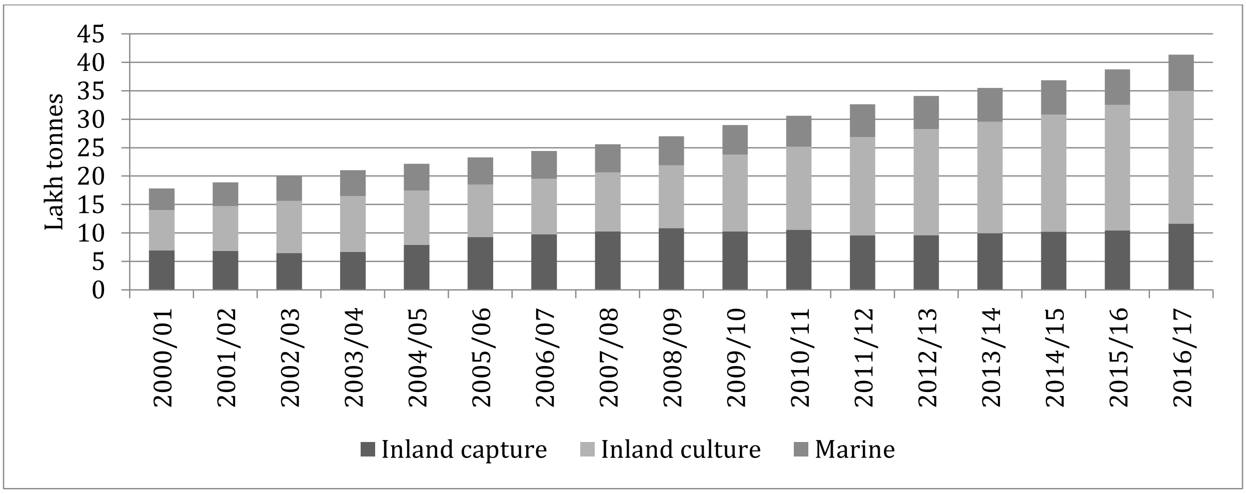


Source: Asaduzzaman and Anik (2017).

Fisheries output growth

The growth of fisheries had been confined to culture fisheries, mainly of the pond variety. Of the nearly 4 million MT of fish produced in the country, nearly 2.2-2.3 million MT was due to culture fisheries in FY2017, of which 1.8 million MT or nearly 80 per cent was due to pond fishery (Figure 7.6). Output from other fisheries had remained largely static over the last one decade or so. Culture fishery quite literally has brought a kind of silver revolution to the country. However, its further prospects and impact on rural economy and households as well as commercialisation have not yet been analysed well. Whatever is known, seems to indicate that there is a wide array of technology in use, that commercialised aquaculture is much more capital, and labour-intensive; that women seem to have low level of employment in these activities; that feeding techniques, feed availability and credit constraints to buy feed are often the major problems. Fingerling availability is yet another problem. On the other hand, certain environmental problems of acidity of water, eutrophication and freshwater ecotoxicity may cause major environmental risks. Other issues involve maintenance of water quality, effective disease diagnostics, and adequate and quality veterinary services. These are not highly sophisticated interventions. However, it might be that there is a lack of extension service with needed practical skills. However, this is not known with certainty. It is interesting to note that none of the relevant studies discuss marketing risks, where fish transport and other related services do pose major risks. Artisanal fishery is the traditional one, and employs most people and yield most output. But industrial fishery is moving at a faster rate and may soon outperform artisanal fishery. This may have major implications for poverty reduction as artisanal fishery employs a lot more people per unit of catch than industrial fishery.

Figure 7.6: Output growth of fisheries



Source: Author's calculation based on the data from the Bangladesh Bureau of Statistics (BBS).

Livestock and poultry output growth

Livestock sub-sector has grown at the slowest pace, except for the poultry part of it. Commercial dairy and meat production are still in its infancy in the country. Much of the output is household-based, which also means that women are heavily employed in activities related to rearing and caring of livestock. In case of poultry, the major part of the output comes from the commercialised farms. Given these qualifications, the study firstly looks up the output statistics for livestock and poultry. Over the recent years, output of milk, meat and eggs have all risen. But the growth sometime has been extraordinary to say the least. Between FY2010 and FY2011, meat output jumped by more than 50 per cent. So it did between FY2013 and FY2014. Similarly, milk output increased by 50 per cent or so between FY2012 and FY2013, as did that of eggs between FY2013 and FY2014. These are very large increases, and yet do not seem to have been captured when the figures for sub-sectoral growth are looked up, as discussed earlier. What needs to be emphasised here is that, without proper statistics, there will be no way of knowing where to intervene in terms of policy and investment. The problem is compounded by the very large influx, often through informal channels, of sacrificial animals within a very short time every year. Where and how these are accounted for, is largely unknown. Given these, the fact remains that, the quality of Bangladesh's livestock is poor, in general, and calls for proper and adequate veterinary services. The problem is compounded by the complacency that is heard in terms of Bangladesh being self-sufficient in meat. The issue of self-sufficiency demands a closer and critical look.

7.2 The challenges ahead

Bangladesh agriculture faces several dire challenges ahead. It is to be noted first that one major driver for demand for food is population growth. The other is the rising income, and the third is fast urbanisation. These are all on the demand side. While population rise will lead to growing demand for all food, the impact of income growth and urbanisation will be manifested in the demand for different kinds of food. It is found thatm except for rice and surprisingly for sugar/gur, Bangladeshi men and women consume far less than whatever is necessary for proper and balanced nutrition that concern all food items. This means that people may need to lower rice consumption, and increase that of all other foods. It also means that not simply there will have to be a move away from rice, involving also a shift in production in relative terms, but also a move towards non-crop foods will be required. The question here is, can the Bangladesh agriculture deliver on this? Doing so will be a major challenge. A related issue is the part reflection of shortage in terms of prices of food commodities. If one looks up at the price indices for the last few years, one cannot fail to note a major surge in prices of food commodities. It is likely that, with increased demand for non-rice food, the inflation may pick up again. Question now is, as indicated above, can the demand be satisfied with prices remaining affordable to the poor.

There are several problems on the supply side. With regard to yield gap, the present attempts through NATP project perhaps need to be examined more critically to find out why farmers appear not to be eager to raise their yield. This remains an enigma – which is really not known. Simple technical solutions will not do. Deeper understanding and close interactions with the concerned farmers will be needed. Technical problems may not necessarily be understood clearly by the extension agents themselves. Issues of proper training on the part of fishery officials and their closer involvement with the concerned community is needed. In case of small aquaculture, the issue of adequate credit has become important. For livestock, a major problem is limited knowledge of what is actually happening on the ground. Even though poultry development has taken place at a fast face, so far there had not been any credible large-scale survey-based information of the production techniques, concerned technical, economic and social correlates, and efficacy of livestock extension.

A second issue relates to that of climate change. Farmers have scant incentive to economise on water. An appropriate pricing system as regards use of irrigated water needs to be put in place. Climate change also creates other problems in that the nutrition content of food crops such as rice tends to fall in terms of zinc, iron and protein. The answer, of course is biofortification. Some success in this regard, particularly for zinc fortification, has been achieved, but more needs to be done. Climate change may create problems of avian influenza for poultry more acute. Till now, this problem does not appear to have been addressed well, but needs to be taken up in all seriousness. Similarly, for cattle, milk production may face problems due to heat stress and lack of water. It is yet not known, what might be the effect on aquaculture of increased temperature in water bodies. Very likely, this would also create difficult situation for the farmers in terms of productivity, as well as disease and mortality.

Marketing in its proper sense is yet to develop in the country, and needs to be fully modernised. Savings due to prevention of wastage should be able to pay for the extra costs that may have to be paid. Development of value chain becomes extremely important in this concern.

Finally, the issue of policies. The Agricultural Policy 2018 has revised the 2013 policy for crops. However, the policy does not seem to give adequate attention to climate change issues, although the draft appeared to be quite elaborate on this. The Fisheries and Livestock policies are also quite deficient in this regard.

One final problem that needs to be given attention is the affordability of food, without which SDGs 1 and 2 are difficult to be achieved. This means costs of food production must fall, and efficiency in terms of resource use must rise. Simply subsidising this or that input will not do. There must be changes in technology, the extension system has to fully gear up, and the marketing system also has to be fully modernised.

Reference

Asaduzzaman, M. and Anik, A. R. (2017). Determinants of adoption of rice yield gap minimisation technology in Bangladesh. *Bangladesh Development Studies, 40*(1&2), 73-95.

8. BANKING SECTOR IN BANGLADESH: CONCENTRIC CIRCLES OF CHALLENGES

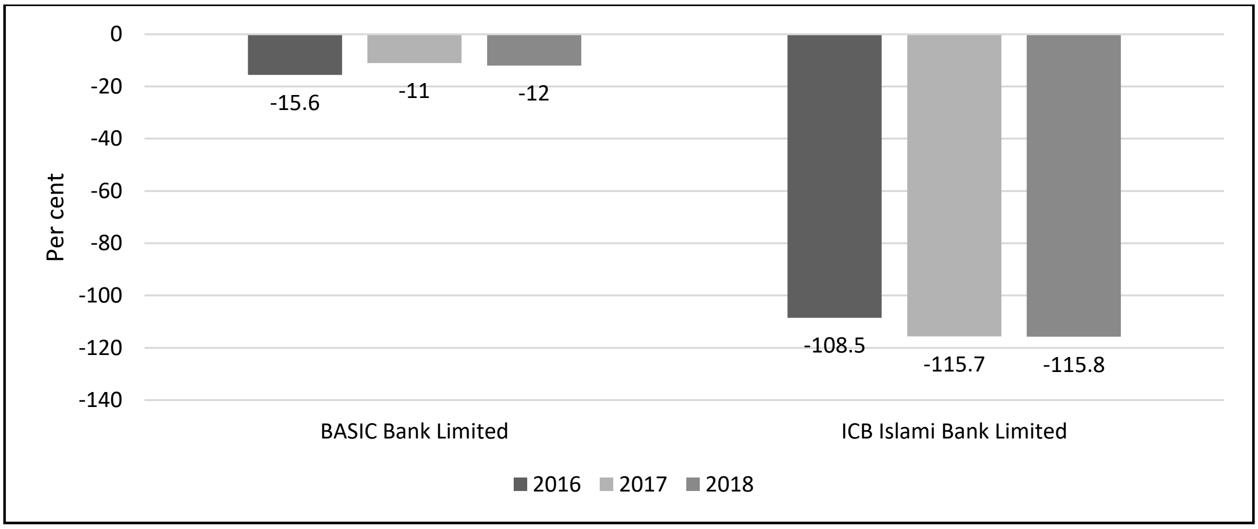
8.1 Introduction

The banking sector of Bangladesh has expanded over the years in terms of increased number of formal institutions, higher number of financing instruments, and bigger volumes of assets. However, the sector has been facing a number of serious challenges due to malpractices, scams and heists. These have affected the overall performance of the sector which are reflected through various efficiency and soundness indicators. Repeated concerns have been expressed by relevant stakeholders regarding the constant deterioration of banking performances and its potential implications for the sustainability of the sector. Given that the financial sector of the country is mainly bank-based, poor health of the banking sector will also impact on economic growth. Therefore, rectifying the problems is critically important. While much has been talked about, it is time to act to address the problems. For the next government, the banking sector should be a priority for action.

8.2 Performance of the banking sector in the last decade

Bangladesh Bank's Guidelines on Risk Based Capital Adequacy (Bangladesh Bank, 2014) state that banks in Bangladesh must maintain a minimum total capital ratio of 10 per cent (or minimum total capital plus capital conservation buffer of 12.5 per cent) by 2019, in line with BASEL III. However, state-owned commercial banks (SCBs) have failed to maintain minimum capital adequacy requirements since 2013 (Bangladesh Bank, 2018a). On the other hand, development finance institutions (DFIs) have remained critically under-capitalised during 2008-2018 (Bangladesh Bank, 2018a) (Bangladesh Bank, 2018b). Among the private commercial banks (PCBs), both BASIC Bank and ICB Islamic Bank were critically undercapitalised, as of June 2018 (Figure 8.1) (FID, 2018).

Figure 8.1: Capital to risk weighted assets ratio in BASIC Bank and ICB Islamic Bank



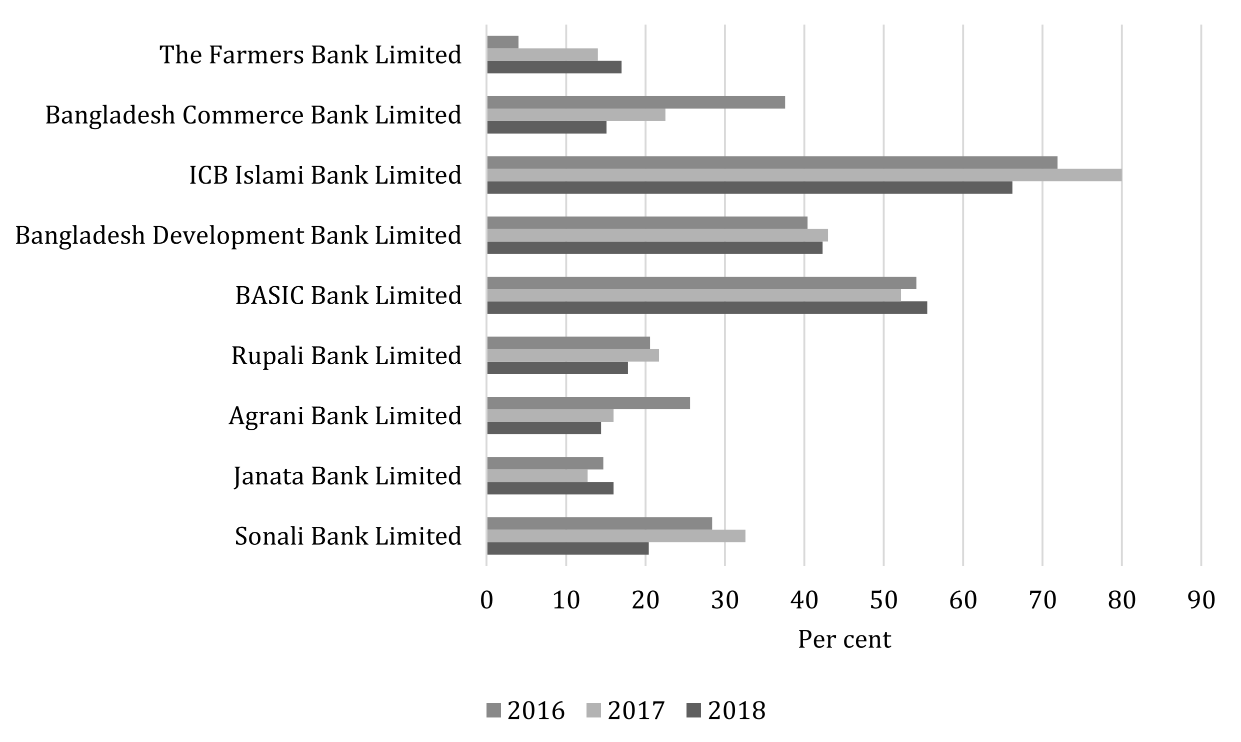
Source: Financial Institutions Division, Ministry of Finance (MoF).

Note: Data for 2018 are as of June.

In terms of asset quality, non-performing loans (NPLs) as a share of total loans was exceptionally high in SCBs and DFIs during 2008-2018 (Bangladesh Bank, 2018a) (Bangladesh Bank, 2018b).

As of June 2018, SCBs had 28.2 per cent NPL, which is highest in the last 10 years (Bangladesh Bank, 2018b). Classified loans as a share of total loans was more than 10 per cent for nine banks during 2016-2018 (FID, 2018). ICB Islamic Bank had more than 60 per cent and BASIC Bank had more than 50 per cent classified loans during 2016-2018 (Figure 8.2) (FID, 2018). The actual percentage of classified loans would be higher if loans were not written off. Classified loans are piling up because despite the existence and revision of guidelines, such as credit risk guideline, risk grading system and liquidity management system, they are not followed or implemented. Moreover, banks are not held accountable and not taken to tasks for not following the guidelines. Given that the primary role of the central bank is to supervise the banking sector, urgent improvements need to be made in terms of supervision and regulation, as well as political will, to recover loans.

Figure 8.2: Classified loans as a share of total loans

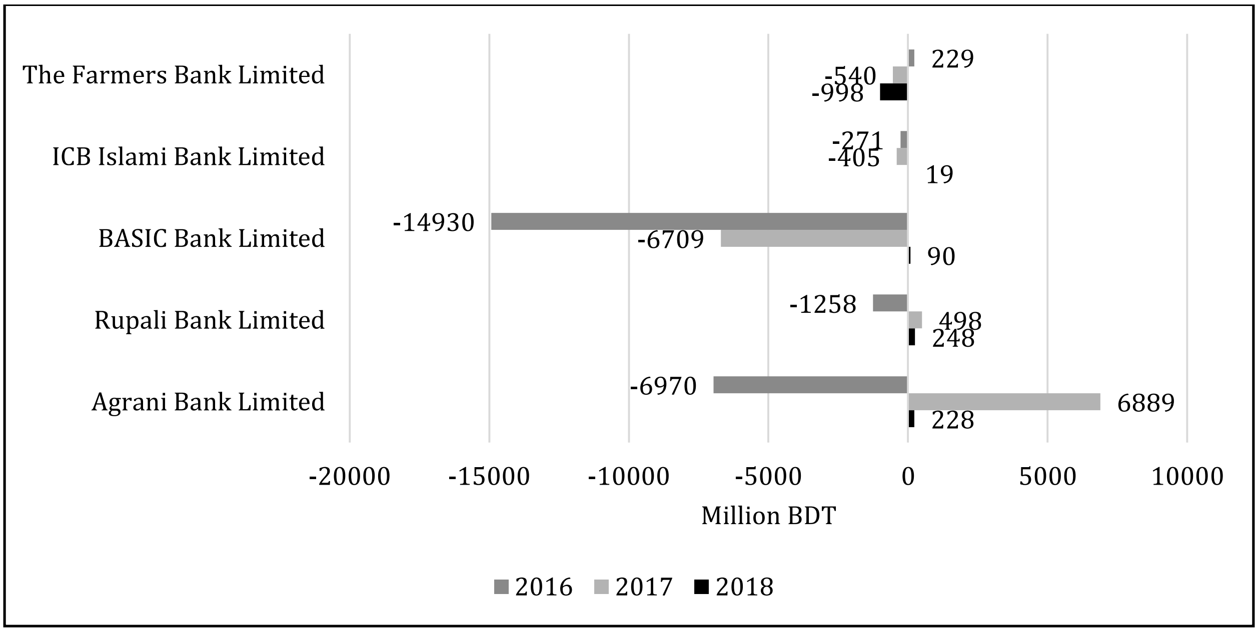


Source: Financial Institutions Division, Ministry of Finance (MoF).

Note: Data for 2018 are as of June.

The legacy of poor management of SCBs has persisted during the last decade. During 2016-2018, all SCBs had expenditure-income ratios greater than 0.5 (FID, 2018). This reveals poor management effectiveness of these banks during this period. SCBs also lagged behind PCBs and foreign commercial banks (FCBs) in measures of earnings. As of June 2018, Return on Asset (ROA) and Return on Equity (ROE) of the banking industry stood at 0.3 per cent and 5.3 per cent respectively (Bangladesh Bank, 2018b). However, performance of FCBs and PCBs were much better compared to that of SCBs during 2008-2017 (Bangladesh Bank, 2018a). Among the PCBs, ICB Islamic Bank and The Farmers Bank have been making losses during 2016-2018 (FID, 2018). BASIC Bank, Rupali Bank and Agrani Bank were the SCBs which made huge losses in 2016 (FID, 2018). However, losses made by BASIC Bank alone during 2016-2018 were greater than the losses of all other banks combined (Figure 8.3) (FID, 2018).

Figure 8.3: Net profit

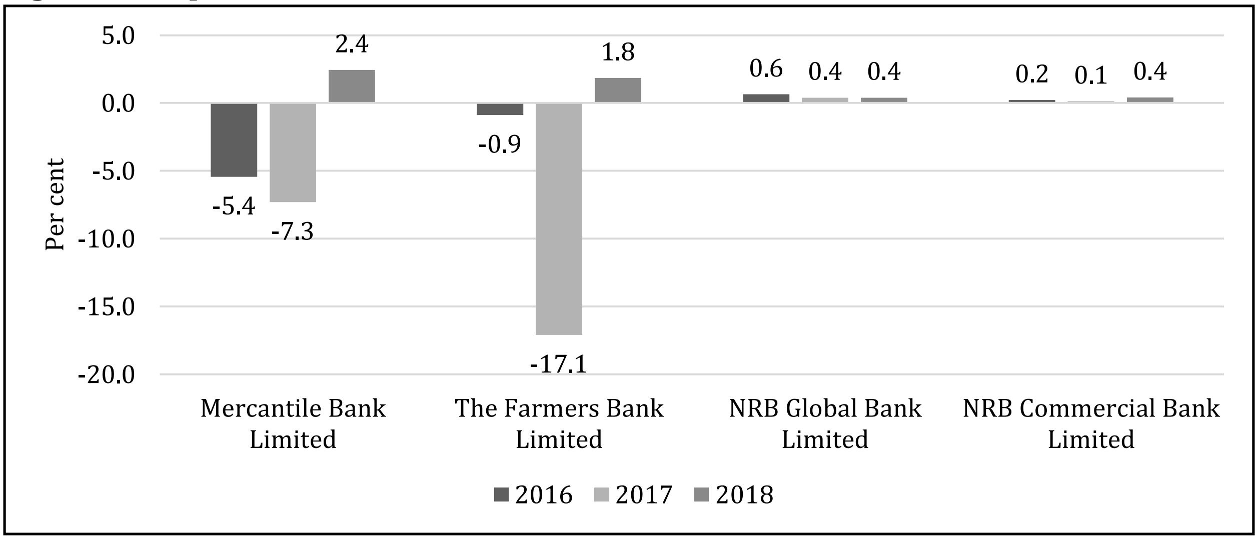


Source: Financial Institutions Division, Ministry of Finance (MoF).

Note: Data for 2018 are as of June.

Liquidity of the banks was not stable during 2008-2018. A fluctuating Advance Deposit Ratio (ADR) was observed during 2008-2018 (Bangladesh Bank, 2018a) (Bangladesh Bank, 2018b). This indicates inefficiency in liquidity management of some banks. This was manifested in the form of unusual incidences of both liquidity surpluses and liquidity shortages in the banking industry during 2008-2018. Fourth generation banks, such as The Farmers Bank, NRB Global Bank and NRB Commercial Bank, faced liquidity crisis during 2016-2017 (Figure 8.4) (FID, 2018). The problem was particularly acute in the case of The Farmers Bank, which had to be bailed out by the government. In May 2018, four SCBs and a financial institution signed share purchase agreements with The Farmers Bank to inject BDT 765 crore into the failing financial institution (The Daily Star, 2018).

Figure 8.4: Liquid assets as a share of total assets



Source: Financial Institutions Division, Ministry of Finance (MoF).

Note: Data for 2018 are as of June.

8.3 Major scams, irregularities, and heists in banks

Information on scams, irregularities and heists in the banking industry of Bangladesh are available through various media. According to media reports, during 2008-2018, total value of the money lost through 10 major scams, irregularities and heists is equal to BDT 22,501 crore (CPD, 2018c). The opportunity cost of such an amount of money is enormous for Bangladesh. This can be summarised in Box 8.1.

Box 8.1: Opportunity cost of money lost in banking sector during 2008-2018

Cost of major scams, irregularities, and heists:

- 34 per cent of total allocation for education in national budget of FY2017-18
- 39 per cent of income tax revenue in FY2018 as of May 2018
- 78.2 per cent of Padma Multipurpose Bridge (PMB)
- 64.3 per cent of Padma Bridge Rail Link
- 62.5 per cent of Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project (MUSCCFPP)
- 40.9 per cent of Deep Sea Port in Sonadia
- 19.9 per cent of 2x1200 MW Rooppur Nuclear Power Plant (RNPP) Main Project

BDT 22,501 crore would be enough for:

- Total allocation for health sector in national budget of FY2018 (BDT 20,651 crore)
- Dhaka Mass Rapid Transit Development Project (DMRTDP) (cost: BDT 21,985 crore)
- Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar border (cost: BDT 18,034 crore)
- 2×660 MW Moitree Super Thermal Power Project (MSTPP) in Rampal (cost: BDT 16000 crore)
- Construction of Bangabandhu Railway Bridge (cost: BDT 9,734 crore)
- Construction of Multilane Road Tunnel under River Karnaphuli (cost: BDT 8,447 crore)
- Deep Sea Port at Paira (cost: BDT 3,351 crore)

Source: Monthly Fiscal Report (various issues), Ministry of Finance; Various budget documents, Ministry of Finance; and CPD (2018): State of the Bangladesh Economy in FY2018 (Third Reading).

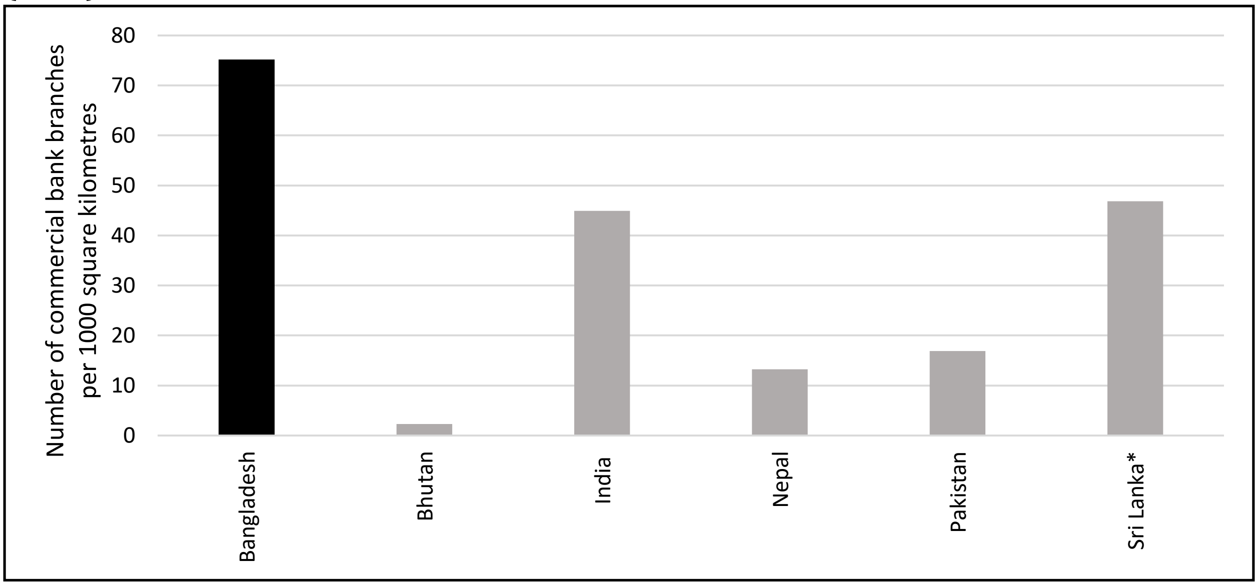
8.4 Do we need more banks?

According to the Bank Company (Amendment) Act 2013, the central bank will decide to grant licenses to new commercial banks after considering the need for such banks and the overall state of the economy. Ironically, this principle is not followed in Bangladesh in case of issuing bank license. Ninety-five per cent of the bank officials believed that the fourth-generation banks in Bangladesh were redundant (Nabi, 2016). In 2013, the government approved licenses of nine new private commercial banks: Meghna Bank Limited, Midland Bank Limited, Modhumoti Bank

Limited, NRB Bank Limited, NRB Commercial Bank Limited, NRB Global Bank Limited, South Bangla Agriculture and Commerce Bank Limited, The Farmers Bank Limited, and Union Bank Limited. All of these banks were backed by politically powerful owners.

License for opening a new commercial bank has, in fact, become a tool for misappropriation of public money. Giving licenses to new banks is clear example of how Bangladesh Bank's institutional ability to function as an autonomous body has been undermined, as it succumbed to the government's political demands. The fourth-generation banks (nine newly approved commercial banks) are beset with large amounts of NPLs, and are making losses. Bangladesh already has a very high concentration of banks and bank branches compared to regional and global standards. For example, Mexico has only 47 commercial banks, even though the Gross Domestic Product (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, 2018b). Globally, if microstates that have a land area less than 1,000 square kilometres are disregarded, Bangladesh has the eighth highest geographic concentration of commercial bank branches (CPD, 2018b). In 2016, Bangladesh had 75 branches of commercial banks per 1,000 square kilometres of land, which was the highest in the South Asia region (Figure 8.5) (CPD, 2018b).

Figure 8.5: Branches of commercial banks per 1,000 square kilometres in South Asia (2016)



Source: IMF Financial Access Survey Data.

Note: * indicates data for 2015

8.5 Measures taken?

Recurrent recapitalisation 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 recapitalising the banks during the period FY2009-FY2017 (CPD, 2018a). Though a number of reform measures in the banking sector of Bangladesh have been undertaken during 2008-2018, most of these measures have proven to be either ineffective or counter-productive.

Bangladesh Bank's autonomy: an unmet dream

An explicit illustration as to how the Bangladesh Bank's sovereignty is disrupted by the Financial Institutions Division (FID) of the Ministry of Finance (MoF) is observed in the mandate of the FID, which clearly states the primary function of FID is the "administration and interpretation of the Bangladesh Bank Order, 1972 (P.O. No. 127 1972) and orders relating to the specialized banks and other matters relating to state-owned banks, insurance and financial institutions" (MoF, 2017). By asserting this function in their mandate, the MoF has established their authority to oversee the governance of Bangladesh Bank.

What aggravates the concern of Bangladesh Bank's lack of independence is that, the board of directors, managing directors and deputy managing directors for the SCBs is controlled by the MoF, as opposed to being administered by the Bangladesh Bank (Islam, 2017). In SCBs, specifically Agrani Bank, the managing director was appointed by the MoF, despite Bangladesh Bank's opposition to his appointment (Alo, 2018). In September 2009, another controversial incident influenced by the MoF was the appointment of the chairman of BASIC Bank, under whose leadership, BDT 4,500 crore were embezzled, impeding the financial health of the once robust bank (The Daily Star, 2017). Although the Chairman resigned on 5 July 2014 as per Bangladesh Bank's advice, the fact remains that the MoF did not take any concrete actions to remove the individual responsible for the corruption rather gave him an opportunity to resign (Islam, 2018).

8.6 Time to act upon: recommendations

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.

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.

References: Banking

Alo, J. N. (2018, November 26). Scams, failures skipped, dev highlighted. *The Daily Star*. Available from: https://www.thedailystar.net/frontpage/news/ignores-scams-sings-about-development-1665298 (accessed on 6 December 2018).

Bangladesh Bank. (2014). *Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for banks in line with Basel III)*. Dhaka: Bangladesh Bank. Available from: https://www.bb.org.bd/mediaroom/baselii/dec212014basel3_rbca.pdf (accessed on 8 December 2018).

Bangladesh Bank. (2018a). *Annual Report 2016-2017*. Dhaka: Bangladesh Bank. Available from: https://www.bb.org.bd/pub/annual/anreport/ar1617/full_2016_2017.pdf (accessed on 8 December 2018).

Bangladesh Bank. (2018b). *Bangladesh Bank Quarterly, April-June 2018, Volume XV, No.4*. Dhaka: Bangladesh Bank. Available from: https://www.bb.org.bd/pub/quaterly/bbquarterly/apr-jun2018/overview.pdf (accessed on 8 December 2018).

CPD. (2018a). *State of the Bangladesh Economy in FY2017-18 (First Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Available from: https://cpd.org.bd/wp-content/uploads/2018/06/Bangladesh-Economy-in-FY2017-18-Interim-Review-of-Macroeconomic-Performance.pdf (accessed on 8 December 2018).

CPD. (2018b). *State of the Bangladesh Economy in FY2018 (Third Reading)*. Dhaka: Centre for Policy Dialogue (CPD). Available from: https://cpd.org.bd/wp-content/uploads/2018/06/Bangladesh-Economy-in-FY2017-18-Interim-Review-of-Macroeconomic-Performance.pdf (accessed on 8 December 2018).

CPD. (2018c, December 8). *Banking Sector in Bangladesh: Moving from Diagnosis to Action*. Dhaka: Centre for Policy Dialogue (CPD): Available from: https://cpd.org.bd/wp-content/uploads/2018/12/Banking-Sector-in-Bangladesh-Moving-from-Diagnosis-to-Action.pdf (accessed on 8 December 2018).

FID. (2018). *Financial Institutions Report 2017-2018*. Dhaka: Financial Institutions Division (FID), Ministry of Finance (MoF), Government of Bangladesh (GoB). Available from: https://drive.google.com/file/d/10Y_LXBl1DZ_iB6JOVsgOuhJK9dDwiGYA/view (accessed on 8 December 2018).

Islam, S. (2017, November 26). How independent is Bangladesh Bank? *Dhaka Tribune*. Available from: https://www.dhakatribune.com/business/banks/2017/11/26/independent-bangladesh-bank (accessed on 6 December 2018).

Islam, S. (2018, July 1). Ex-BASIC Bank chairman Bachchu gets one week to appear before ACC. *Dhaka Tribune*. Available from: https://www.dhakatribune.com/business/banks/2018/05/07/ex-basic-bank-chairman-bachchu-gets-one-week-appear-acc (accessed on 7 December 2018).

MoF. (2017, July 2). *Mandate of FID*. Dhaka: Financial Institutions Division, Ministry of Finance (MoF), Government of Bangladesh (GoB). Available from: https://fid.gov.bd/site/page/e0e6e343-e4c8-4c86-a0fa-cad36b1175fc/Mandate-of-FID (accessed on 6 December 2018).

Nabi, I. A. (2016). Necessity of new commercial bank. In *Bangladesh: A Study from the Bankers' and Customers' View Point*. Dhaka: Bangladesh Institute of Bank Management (BIBM).

The Daily Star. (2017, November 24). Basic Bank Scam: ACC to quiz Bacchu, 10 ex-directors. Available from: https://www.thedailystar.net/frontpage/basic-bank-scam-acc-quiz-bacchu-10-ex-directors-1495801 (accessed on 6 December 2018).

The Daily Star. (2018, May 18). Five entities sign share purchase agreement with Farmers Bank. Available from: https://www.thedailystar.net/business/five-entities-sign-share-purchase-agreement-farmers-bank-1577839 (accessed on 8 December 2018).

9. ENERGY AND POWER SECTOR: ITS PERFORMANCE AND FUTURE OUTLOOK

9.1 Introduction

The energy and power sector has passed a long way towards addressing the shortages of supply of gas and electricity in the country. In fact, the primary raw material for power generation, i.e. natural gas, was detected to be in short supply in 2006, and it was declared publicly in early 2008. This defined significant departure and a new era in the Bangladesh energy and power sector. The country which was fully energy independent until 2006, except for liquid fuel, gradually moved towards large-scale energy import (principally liquid fuel) for power production. Due to lack of authentic data regarding proven and probable gas reserves and production of energy, a flawed gas-based plan was undertaken in 2005. Subsequently, 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 government. This section examines the changes in plans, operations and management related issues of the energy and power sector during the last decades, and identifies a number of key takeaways for long-term energy sustainability in the country.

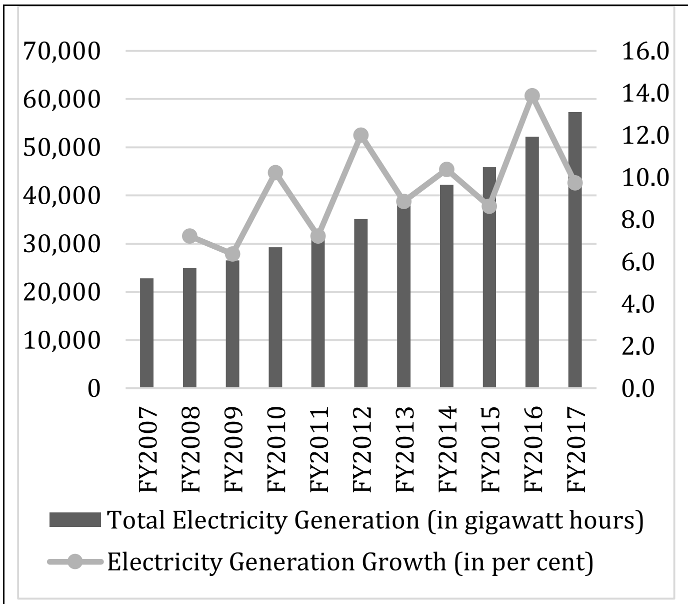
9.2 Generation, transmission and distribution of electricity

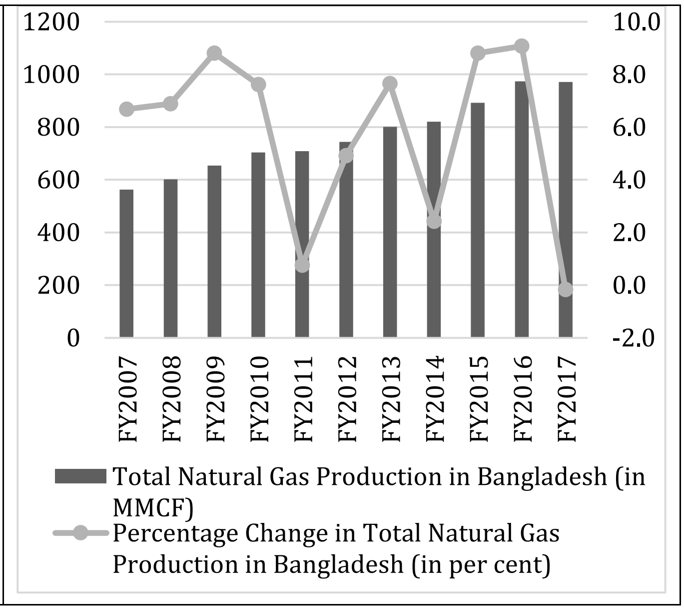
Since 2010, the growth in the power sector has been highly remarkable. In November 2018, the installed capacity was 18,275 MW (megawatts) (derated 17,637 MW), and the record peak production for the year was 11,623 MW.[22] Within eight years, the real capacity increased by a significant factor of 3.3, and the energy served, or actual energy generation was close to 60 GWh (gigawatt hours) – a 2.3 times increase within this period. Figure 9.1 presents generation of electricity during FY2007-FY2017. Shortage of primary energy (currently at least 1,500 MW generation capacity cannot be utilised due to gas shortage), a number of ageing power plants (producing about 500 MW), inadequate expansion of transmission (41 per cent) and distribution (83 per cent) and substantially lower demand growth of the industrial sector – had been some of the major problems. During the same period the per capita electricity consumption almost doubled, from 165 kWh (kilowatt hours) to 308 kWh in FY2016-17 (BPDB, 2017). This is a remarkable feat considering the population increase during this period. This growth in grid capacity mainly took place in the domestic sector. The electricity access also increased considerably - from 54 per cent of population under electricity coverage in 2009 to 90 per cent at present.[23] The government's goal of providing access to electricity to all by 2021 will probably be achieved ahead of time. The other area where the government achieved commendable success is reduction of system loss (transmission and distribution (T&D)), from 17 per cent to 12 per cent (BPDB, 2017). Another significant achievement of the present government has been the successful cross border electricity trade with India. It is not only a technical or commercial success but also a major diplomatic accomplishment, particularly because successive governments have been talking about energy trade and cooperation with India since 1985

[22] In FY2008-09, the installed capacity was only 5719 MW (derated 5,166 MW), and the peak production was 4,162 MW. During the same time the energy served was 26.53 GWh (BBS, 2012).
[23] Almost two crore new consumers have been added during this period.

without any success. The 1,200 MW current import is expected to increase to 9,000 MW in the medium-term future.

Figure 9.1: Generation of electricity and gas





Source: Authors' calculation based on BPDB and Petrobangla data.

9.3. Bangladesh energy architecture

The major components of the energy architecture in a developing country 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 to or detracts from economic development. According to World Economic Forum's Energy Architecture Performance Index (WEF, 2017), Bangladesh's position is not so encouraging – 104th out of 127 countries that were evaluated.[24] Bangladesh did very well in supporting economic growth and development (scoring 0.63 and ranked 23rd), but was at the bottom quarter in environmental sustainability (scoring 0.43 and ranked 111th) and energy access and security (scoring 0.46 and ranked 109th).

Commitment to a long-term direction for energy sector

Bangladesh had three long-term power system master plans, namely PSMP 2005, 2010 and 2016. These were however, discarded or modified within a very short period after their formulation. This shows the disconnect of the planners with the government leadership. The government policy also set different future generation goals that were outside these plans. The plant capacity plan of 2021 has been shifted from 20,000 to 24,000 MW and that of 2041 from 40,000 to 60,000 MW (Power Division, 2011). PSMP 2016 predicts actual peak demand of 14,500 MW in 2021 and 56,000 MW in 2041. These new government targets are more politically motivated rather than being results of any comprehensive study.[25] The demand side management is also largely

[24] Since 2015 the country has moved to the current position from the rank of 112th. That is a significant improvement no doubt but it is much below the global energy system average point of 0.62. Bangladesh scored 0.51.

[25] Assuming a 10 per cent increase the maximum demand will be about 16,000 MW in 2021. If the country achieves true generation capacity of 24,000 MW, a whopping 8,000 MW capacity will be sitting idle. The zero load-shedding during winter also gives an indication about the true industrial demand for grid power.

neglected and power demands are calculated based on long-term sustained high economic growth rates. The initial affordable coal-based power production scheme was clearly flawed.[26] None of the 23,000 MW approved coal-based power plants has materialised as yet.

Frequent changes of plans have serious consequences. The current priority shift to liquefied natural gas (LNG)-based power plants from coal-fired ones has completely jeopardised the future of those projects, putting them in a limbo. The long-term plan will have to have the flexibility of accommodating possible multiple scenarios in the future. Governments do change direction but failing to read the global trend may cost Bangladesh heavily. The greatest threat to such course of action is political interference and influence of special interest groups. The continuation of policies and plans with any change in government is also equally important.

Energy transition must be adaptable and co-designed

Bangladesh was largely energy independent for a very long time. Within a span of ten years, the country is transforming from an energy independent country to an import dependent one (90 per cent by 2030, according to Power Division (2016). Despite repeated warning, no government prior to the 2006 gas shortage, prepared for a transition. Apart from uncontrolled and unplanned expansion of gas use, no other decision was taken in the subsequent years since 1998 to find new gas fields despite several warnings. The result is the leanest period of gas discovery in the history of Bangladesh. Only the 0.5 tcf (trillion cubic feet) Bangura gas field was discovered from a known structure. The prediction of the 2002 Gas Utilization Committee has come into effect couple of years early due to unexpected and uncontrolled growth of captive power and compressed natural gas (CNG) sector. The present power crisis is closely entwined with the gas crisis. After adding almost 4,000 MW oil-based capacity, currently 61 per cent of the power generation capacity remains gas-based (BPDB, 2018). Over the years, media and general public have made much noise about lack of generation units. Ironically, today there is at least 1,500 MW stranded generation that cannot produce power due to lack of gas supply. Unfortunately adding more power plants will not solve the problem. The solution to the problem lies in ensuring sustainable and affordable primary energy.

To mitigate the immediate crisis of primary energy shortage for power production, the 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 – liquefied petroleum gas (LPG) for cooking purpose and LNG for industries. All these options are import-based. What was not realised for this transition was the need to build the necessary infrastructure for the energy import. The focus was so much on the generation part of the electricity value chain, that the challenges in supplying the fuel was ignored. 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 maritime border dispute with India and Myanmar had stalled the 2008 offshore bidding process. The current government resolved the dispute very successfully with India in 2012 and with Myanmar in 2014. After a lot of fanfare and rejoice it was expected that the much-awaited nonexclusive seismic survey would be conducted which is a prerequisite for any successful bidding process. Unfortunately, a company properly selected through two tender processes, to conduct the survey

[26] The planners struggled to figure out coal import facilities for principally Rampal project (first floated in 2010), and later also for other projects.

was rejected for some unknown reasons. 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 any 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. It is not understood why recently a government representative has declared that no international oil company (IOC) would be allowed to explore onshore although the record of IOCs in Bangladesh has been outstanding – both in terms of price and performance.[27] The import-bias mindset could take the country away from energy independency which is critically important for a growing economy in its early stage of development.

At the same time the country must look at exploiting local coal resources although the recent Intergovernmental Panel on Climate Change (IPCC) report of the United Nations (UN) has strongly urged all countries to reduce or abandon coal-based power plants. Although the economic case for local coal is overwhelming, environmental and engineering challenges are, no doubt, equally daunting. However, no serious evaluation of the attendant tasks has been conducted. The coal debate has also had a negative impact on ensuring energy independency. All aspects of the issues 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. The planners failed to focus on this. Instead, a significantly large part of the investment in the last decade was steered towards generation plants. As a result, we have now excess generation capacity that cannot produce power due to fuel shortage. There is also no immediate solution of the infrastructure problem. The floating storage and regasification units (FSRU) experiment has not been very pleasant. If the investment in a port, even with round the year dredging, could be started ten years back where both LNG and coal ships could berth, today we would have been able to see a large coal-fired and an LNG-run power plants. Land-based LNG regasification plants are robust and are not subject to seasonal operational hazards.

Some of the areas where Bangladesh will have to undertake significant investment of resources, relate to human resource development and setting up a central data depository, where all energy and power data, customer information, usage pattern etc. can be stored. Data collection and reporting must be mandatory. These are intangibles but potential game changers. A thorough study involving all involved stakeholders is required to identify a prioritised list of investment areas. This must be preceded by a well thought out energy road map with a clear vision and flexibility.

9.4 Way forward

Bangladesh should switch to integrated resource planning from its conventional planning

Integrated Resource Planning (IRP) requires addressing both supply side and demand side management for efficient use of energy in a country. Because energy efficiency is such a low-cost resource, IRP mandates that all energy efficiency options through demand side management be

[27] Even paying United States Dollar (USD) 5/mcf (thousand cubic feet) onshore gas is a much cheaper option than a USD 10/mcf LNG import.

exploited. This also reduces total resource costs for utilities, a core element of any IRP. In many countries, this is a requirement by the law. Regrettably, the efficiency drive concerning both supply and demand side in Bangladesh has been missing. Only recently after the creation of the Sustainable and Renewable Energy Development Authority (SREDA), a serious study has been undertaken by the Japan International Cooperation Agency (JICA) for the national energy efficiency and conservation plan (EE&C).

Infrastructure and import financing

Following a long absence in financing power plant projects by multi-party financing agencies, International Finance Corporation (IFC), the World Bank financing wing, has invested in a number of power plants in the last five years. The Asian Development Bank (ADB) has committed USD 616 million for new T&D projects and for upgradation of some of the existing ones. These loans/investments are on relatively easy terms but not adequate to support the energy sector development goal of the government. An estimated USD 57 billion will be required by 2030 to achieve all the power projects as planned by the government.[28] There is no other option but to get large Foreign Direct Investment (FDI) in the power and energy sector. The government was successful in securing Export Credit Agency (ECA) support for a few projects but its attempt to attract joint venture has not been that successful. No Independent Power Producer (IPP) should be awarded without outside investment. The government should also ease the rules for takeovers, mergers and acquisitions. Energy import not only has to confront infrastructure challenge, it also comes with huge financial burden. If the current course of action continues, within next 10 years, the country will require at least USD 20 billion per year to import all its energy requirement (LNG, LPG, liquid fuel, coal).

Energy pricing

Energy pricing is a major challenge for the government. Leaving aside the oil price adjustments, the current strategy of LNG import poses a major challenge. How a USD 12 gas (import price) can be incorporated in a USD 2.5 (domestic supply price) market? This is a straight forward calculation without considering many intrinsic policy decisions. Any gas price increase in power sector will increase electricity price. On the other hand, if this is kept untouched, other sectors will have to disproportionately bear the additional cost from LNG supply. While the previous policy was to discourage the CNG sector, ironically that is the only sector where gas is being sold at LNG import price (Bangladeshi Taka (BDT) 32 per cubic meter). Household gas would cost BDT 2,700 per month for the double burner at the import price under the current flat rate basis.

Since both LPG and LNG are now imported and Bangladesh already has a strong network of T&D pipelines, the government should switch to metered-piped natural gas (PNG). The greatest obstacle to metered-PNG as opposed to electricity is the cost of the meter.[29] The motor vehicle option should also be market based. Since all three types of fuel (oil, LNG and LPG) are being imported, there is no comparative advantage for any of the fuels. In fact, from environmental and infrastructure point of view, CNG should demand the priority. Under the current international price regime, it will be difficult for LPG auto gas to penetrate the market unless the government creates discriminatory pricing through regulation. The LNG can easily replace the expensive 1,000 MW diesel-fired power plants now in use in Bangladesh.

[28] That is almost USD 5 billion per year for the next 12 years.
[29] A good gas meter costs about BDT 15,000.

Many gas-fired power plants are currently stranded due to gas shortage. LNG can be used in these plants and a significant number of heavy fuel oil (HFO) plants can be retired. Exploring for own gas – both onshore and offshore are cheaper options and would have saved a large amount of foreign currency. The government did not take any serious visible effort in this regard.

Sustainable supply of primary energy

The financial and infrastructure challenge of supplying affordable and sustainable primary energy has multiplied because of deferment of development of local coal resources and not conducting any onshore oil and gas exploration bidding. The nuclear power plant is supposed to commence production in 2024/26. Along with the start of coal import by 2020 (through Payra seaport) and nuclear fuel, Bangladesh hopes to diversify its fuel source for sustainable energy security. Import of electricity can also serve as one of the options towards primary fuel replacement.

References

BBS. (2012). Statistical Yearbook of Bangladesh-2011. Dhaka: Bangladesh Bureau of Statistics. Retrieved from: http://203.112.218.65:8008/WebTestApplication/userfiles/Image/LatestReports/YB2011.pdf

BPDB. (2017). *Annual Report 2016-2017*. Dhaka: Bangladesh Power Development Board. Retrieved from: http://www.bpdb.gov.bd/bpdb_new/resourcefile/annualreports/Annual%20Report%202016-17%20(3).pdf

BPDB. (2018). *Annual Report 2017-18*. Dhaka: Bangladesh Power Development Board. Retrieved from: http://www.bpdb.gov.bd/bpdb_new/resourcefile/annualreports/annualreport_1542104191_Annual_Report_2017-18_2.pdf

Power Division. (2011). *Power System Master Plan 2010*. Dhaka: Power Division.

Power Division. (2016). *Power System Master Plan 2016.* Dhaka: Power Division.

WEF. (2017). *Global Energy Architecture Performance Index Report 2017*. Geneva: World Economic Forum. Retrieved from: http://www3.weforum.org/docs/WEF_Energy_Architecture_Performance_Index_2017.pdf

Part D
Social Sectors

10. INCLUSIVE AND EQUITABLE QUALITY EDUCATION: WHICH WAY TO GO?

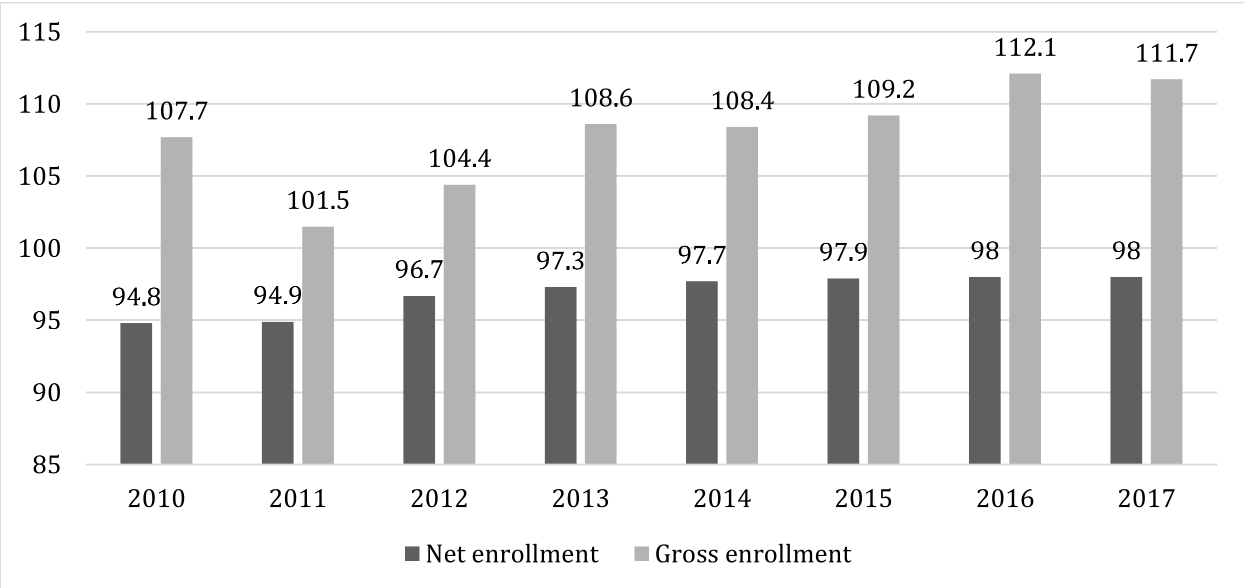
10.1 Context

The education system of Bangladesh is a formidable one – it has 150 thousand institutions; 40 million students are covered by the system with the number of teachers exceeding a million. As would be expected, primary- and secondary-level institutions form the bulk of the system with approximately 19 million students in primary education and 12 million at the secondary level5(including government-recognised madrasas) (MoPME, 2015). Basic education development in the country is guided by Compulsory Primary Education Act 1990, Education for All (EFA) National Plan of Action (NPA) I and II, National Non-Formal Education Policy 2006, National Education Policy 2010, National Skills Development Policy 2011, Seventh Five Year Plan (2016-2020), and Perspective Plan 2011-21. Various initiatives concerning the basic education such as Primary Education Development Programme (PEDP) I, PEDP II and PEDP III were implemented over the years. PEDP IV is being implemented to attain the Goal 4 of the Sustainable Development Goals (SDGs), which aims to "ensure inclusive and equitable quality education and promote lifelong learning opportunities for all" (UN, 2015)

10.2 Progress of education sector indictors

Since 2000, Bangladesh has experienced notable progress in a number of areas relating to educational achievements. These include: (i) Near-universal access to primary education and almost three quarters children in pre-primary class; (ii) Two-thirds of the secondary school age children in school; (iii) Adult literacy rate of 73 per cent in 2017 from about 57 per cent in 2008 (BBS, 2011;2018); (iv) Gender gap in access in primary and secondary education eliminated; (v) About 14 per cent of secondary level students (from 2 per cent 10 years ago) in the vocational track; (vi) Increased participation supported by expanding stipend scheme and free textbooks; (vii) Student-teacher ratio has improved, teacher salary has increased, student assessment reforms have been undertaken and school facilities have improved (Figure 10.1).

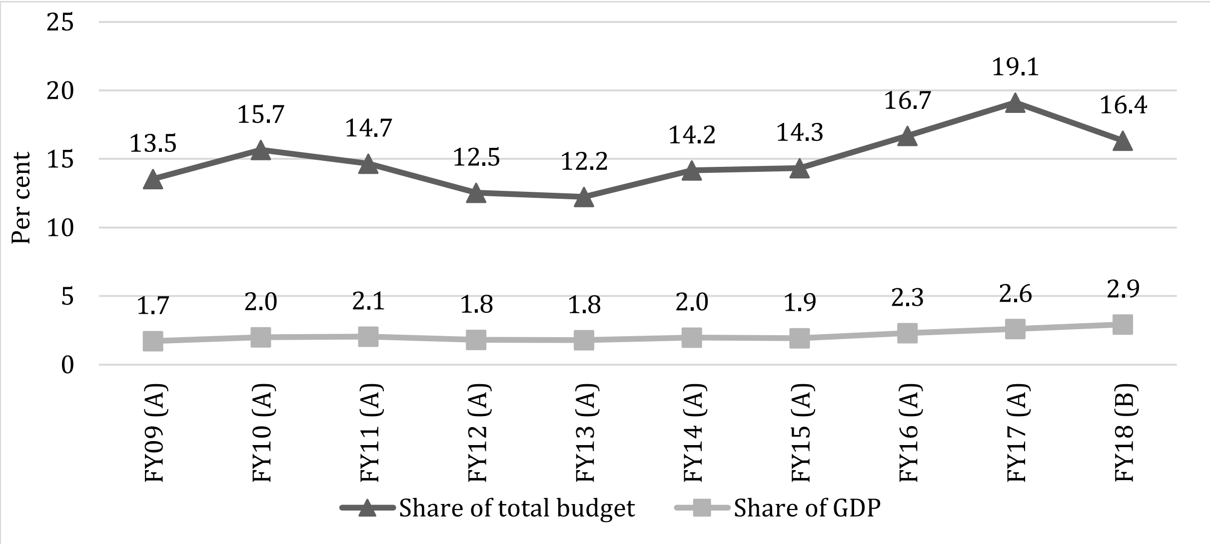
Figure 10.1: Gross and net enrolment trend from 2010 to 2017



Source: DPE (2017).

In the budget for FY2018, education received 16.4 per cent 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 per cent of total expenditure in FY2017 (Figure 10.2). However, in the past decade, actual expenditure on education as a share of GDP remained somewhat stagnant, hovering around the 2 per cent mark. The number in both cases remains below the standards set in the national Seventh Five-Year Plan (7FYP), and also for Education 2030 Framework for Action of the United Nations Educational, Scientific and Cultural Organization (UNESCO). The Education 2030 Framework for Action set 4-6 per cent of GDP and 15-20 per cent of public expenditure for the education sector. 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 and GDP

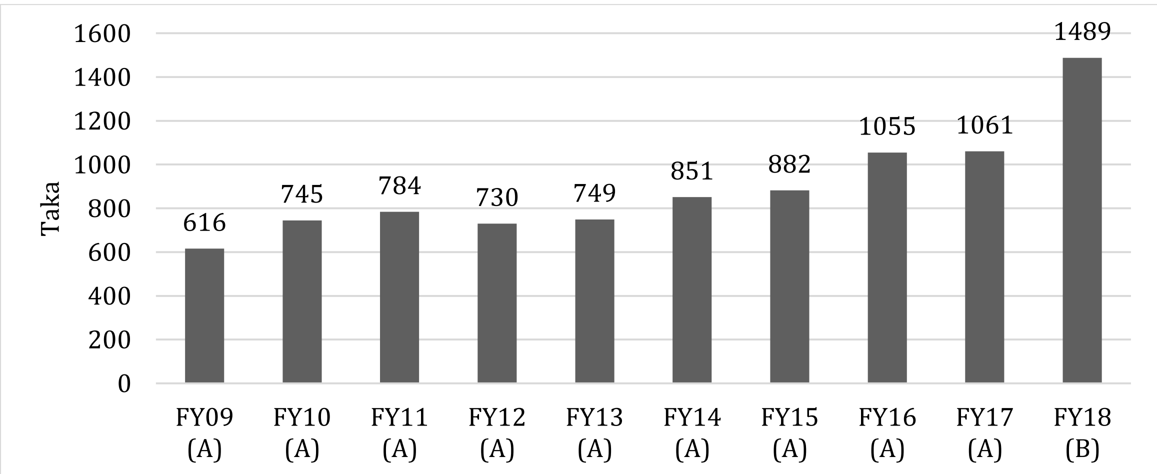


Source: Authors' calculation based on data from Ministry of Finance (MoF), Bangladesh.

Note: 1. Education budget includes figures only from Ministry of Primary and Mass Education, Secondary and Higher Education Division, and Technical and Madrasah Education Division.

2. 'A' refers to the actual expenditure of the corresponding fiscal year; 'B' refers to budgetary allocation.

Figure 10.3: Per capita real expenditure on education



Source: Authors' calculation based on data from Ministry of Finance (MoF), Bangladesh.

Note: 'A' refers to the actual expenditure of the corresponding fiscal year; 'B' refers to budgetary allocation.

10.3 Critical Areas of Action

For Bangladesh, many of the deficiencies that characterised the education system two decades back have been mitigated to a considerable extent. However, major shortcomings in resource availability and use, quality-with-equity measures and governance still pose a threat to attaining the progress that is required to fulfil the national development vision. A major task now, is to consolidate the current initiatives, and ensure consistency and alignment of education-related commitments with national priorities – in order to achieve the aspiration of building the capable human resources for the future. Some of the major areas that need attention from the policymakers in the coming years are the followings:

Increase resource allocation

The stagnation seen in recent years in public funds allocation for education, as share of GDP and the national budget, is inconsistent with the government's own proclaimed goals. In the medium-term, the allocation for public education budget should be raised to at least 4 per cent, and eventually to 6 per cent of the GDP, and at least to 20 per cent of the national budget.

Align education objectives with national plans

No specific universalisation plan exists in Bangladesh for education beyond grade 5. Steps have to be taken to reconcile global target of universal full secondary education by 2030, with national targets for grades 8, 10 and 12. The exercise to enact a new education law is a good opportunity to improve the legal framework for education governance and management, including resource provision and quality enhancement.

Decentralise education governance

Upazila- and district-based planning and management of basic and school education must be strengthened to make education services adapted and responsive to local needs and conditions. This could be incorporated in the education law foreseen in the Education Policy. A permanent statutory National Education Commission, also foreseen in the Policy, can be a mechanism for guiding the sector, exercising oversight, monitoring progress and assessing impact of reforms in education governance and management.

Make teaching a prestigious and attractive profession

A 10-year long plan has to be taken to bring about transformation in the teaching profession. Four key elements of this plan would be: (a) creating a National Teaching Service Corps (NTSC) with high remuneration package and prestige; (b) attracting bright young people with stipend and offer of NTSC jobs following a four-year teacher preparation track after higher secondary education; (c) introducing education as a subject in the four-year general degree programme (BA or BSc); and (d) ensuring high quality of this degree programme by enforcing quality standards in at least 100 government degree colleges in the country. A nucleus of quality teaching personnel in thousands of primary and secondary schools could be created in 10 years by placing two or three NTSC teachers in each school.

Improve quality of degree colleges

The low quality of degree colleges creates a vicious cycle of low-quality education since the corps of primary and secondary teachers come from them. Higher education quality improvement efforts at present are confined mostly to regular universities, leaving out the National and Open Universities. The relative neglect of the degree colleges under the National University and the widening tertiary education opportunities through the Open University system without reasonable quality assurance are not consistent with SDG 4, neither do they align with the national education agenda.

Support non-formal alternatives for out-of-school children

There should be a programme as part of the universal primary education strategy to serve out-of-school children of all types – dropouts, working children, those in remote areas, and those in other special circumstances. The NGOs which have proven their commitment and capacity in addressing this challenge should be made partners of the government in this effort.

Promote expansion of quality pre-primary education

A good start has been made in expanding by a year of pre-primary education which is now serving more than half of those entering primary school. A GO-NGO collaboration guideline was prepared by the Ministry of Primary and Mass Education for expansion of pre-schools with quality, but this has not been implemented. Early childhood development for younger children also needs to be expanded, for which the Ministry of Women and Children Affairs is the focal point. No specific target for early childhood development below pre-primary has been set; only scattered activities for young child development carried out mostly by the NGOs are in existence. This needs to be changed.

Provide life-long learning opportunity

A network of community learning centres (CLCs) offering relevant learning activities and complementing formal education, must be built up. Various NGOs have set up some 5,000 *gonokendros* (people's centres). These initiatives have to be supported by the government, and implemented through effective partnerships between the government and the NGOs.

Reform the TVET

The current supply-driven skills development system with its low quality and weak market relevance, and scant attention to apprenticeship and needs of the informal economy – need to change. Indeed, this was envisaged as the anticipated in National Skills Development Policy. Overall, participation in the Technical and Vocational Education and Training (TVET) is low for the secondary education age-group; for females this is even so. Low outreach and high gender disparity can be seen in non-formal/flexible shorter courses. At present, there are no major programmes for skill training for informal economy jobs, and there is very limited scope for formal/informal apprenticeship.

Bring all school education under one national administrative jurisdiction

School education, divided under two ministries (unlike anywhere in the world), creates several problems. These relate to curriculum continuity, student assessment, teacher preparation and supervision, and developing, guiding and implementing an overall quality-with-equity strategy in the national education system. A separate agency for primary education up to grade 5, introduced with the adoption of the compulsory primary education law, which later transformed into a full Ministry, has lost its value, and has become an impediment to school education development, especially in the context of SDG 4 target of universal education that embraces secondary education.

References

DPE. (2017). *Annual Primary School Census 2017*. Dhaka: Monitoring and Evaluation Division, Directorate of Primary Education (DPE), Ministry of Primary and Mass Education, Government of Bangladesh (GoB). Retrieved from: https://dpe.portal.gov.bd/sites/default/files/files/dpe.portal.gov.bd/publications (accessed on 4 December 2018).

MoPME. (2015). *Education for All 2015 National Review Report: Bangladesh*. Dhaka: Ministry of Primary and Mass Education. Retrieved from: http://unesdoc.unesco.org/images/0023/002305/230507e.pdf (accessed on 5 December 2018)

UN. (2015). *Transforming Our World: The 2030 Agenda for Sustainable Development*. New York: United Nations. Retrieved from: https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf (accessed on 5 December 2018)

11. HEALTHCARE FOR ALL: HOW FAR TO GO?

11.1 Brief overview of current health status in Bangladesh

Bangladesh has made commendable progress in terms of major health indicators over the last two decades. These are manifested through improvements in a number of health indicators, such as reduction in maternal mortality and under-five mortality, decline in total fertility, increased immunisation coverage, higher life expectancy at birth, and contraceptive prevalence rate. Success in undertaking preventive measure such as childhood immunisation, control of diarrhoea and tuberculosis has been remarkable. Economic development during the last two decades coupled with social progress, higher literacy rate and spread of female education, and better access to communication have helped to ensure this progress. 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: BBS (2011, 2018).

11.2 Policies and reforms undertaken to improve the health sector

Undeniably, the progress that has been achieved in the health sector so far, is remarkable; thanks to targeted policies and investment in the sector by major involved players such as the government, the private sector, the development partners and non-government organisations (NGOs). The Health, Population and Nutrition Sector Development Programme (HPNSDP) played an important role in achieving better health indicators. Health policies and reforms in Bangladesh primarily aim at providing basic healthcare to all. It is to be recalled here that, health has been acknowledged as a right in the National Health Policy 2011. The policy aims to strengthen primary health and emergency care for all, and expand availability of client-centred, equity-focused and high-quality healthcare services. It advocates for equitable access to health outcomes care by gender, disability and poverty to achieve better health for all (GoB, 2011).

The 4th Health, Population and Nutrition Sector Programme (4th HPNSP) covering the period 2017-2022 aims to move towards Universal Health Coverage in the country. It has the objectives to achieve health-related Sustainable Development Goals (SDGs). The programme recognises the need to expand existing services to underserved groups such as adolescents and the poor in urban and hard-to-reach areas. It refers to the need to stabilise population growth through education and family planning services.[30]

In order to improve coordination and alignment of donor supported projects, Sector Wide Approach (SWAp) was introduced in 1998 in the health sector. SWAps were implemented

[30] http://www.mohfw.gov.bd/index.php?option=com_content&view=article&id=78&Itemid=59&lang=en (accessed on 20 November 2018).

through Health and Population Sector Programme (HPSP; 1998–2003), Health, Nutrition and Population Sector Programme (HNPSP; 2003-2011), and Health, Population and Nutrition Sector Development Programme (HPNSDP; 2011-2016). The aforesaid fourth HPNSP is also being implemented through SWAp.

With the objective to achieve universal health coverage, the government has developed the Health Care Financing Strategy (HCFS) 2012-2032. The strategy also aims to reduce out of pocket payments (OOP) from 64 per cent in 2012 to 32 per cent in 2032, and raise the health budget to 15 per cent of the national budget by 2032 from the less than 5 per cent now (GoB, 2012).

In January 2016, a pilot project titled Shasthyo Suroksha Karmashuchi, was initiated by the government to provide health cards to one lakh extreme poor households with income of less than USD 1.9 per day. Health cardholders and their family members will receive free-of-cost healthcare for 50 diseases.[31]

In order to bring primary healthcare services to the doorsteps of people, 10,723 community clinics (CCs) at a ratio of one CC for every 6,000 population were established during 1998-2001. In 2009, the CC initiatives were revitalised by the government. It has been reported that, at present there are 13,500 CCs in the rural areas, and another 4,500 CCs will be set up soon.[32]

11.3 Major challenges in the health sector

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.

Inequity in health outcomes

There are inequities as regards accessing health services which is reflected through differential health outcomes for different groups of people based on their economic condition, geographical location and gender. This is evident in case of early childhood mortality, neonatal mortality, infant mortality, under-five mortality, vaccination coverage, child nutritional status and utilisation of antenatal care by women (WHO, 2015; Rahman *et al.*, 2017).

The poor are also exposed to a number of diseases caused by living conditions and lifestyles, and this is true for both rural and urban areas. Due to exposure to new infections, lack of access to safe and clean environments, and poor-quality healthcare, they are exposed to various health risks. Climate-induced health risks affect the poor most. Primary health coverage in urban areas, particularly among slums and street dwellers, remain a challenge.

Insufficient financing and high out of pocket health expenditure

Over the past few years, there has been only a marginal rise in health expenditure as share of the gross domestic product (GDP). Actual expenditure on health as a share of GDP was 0.72 per cent

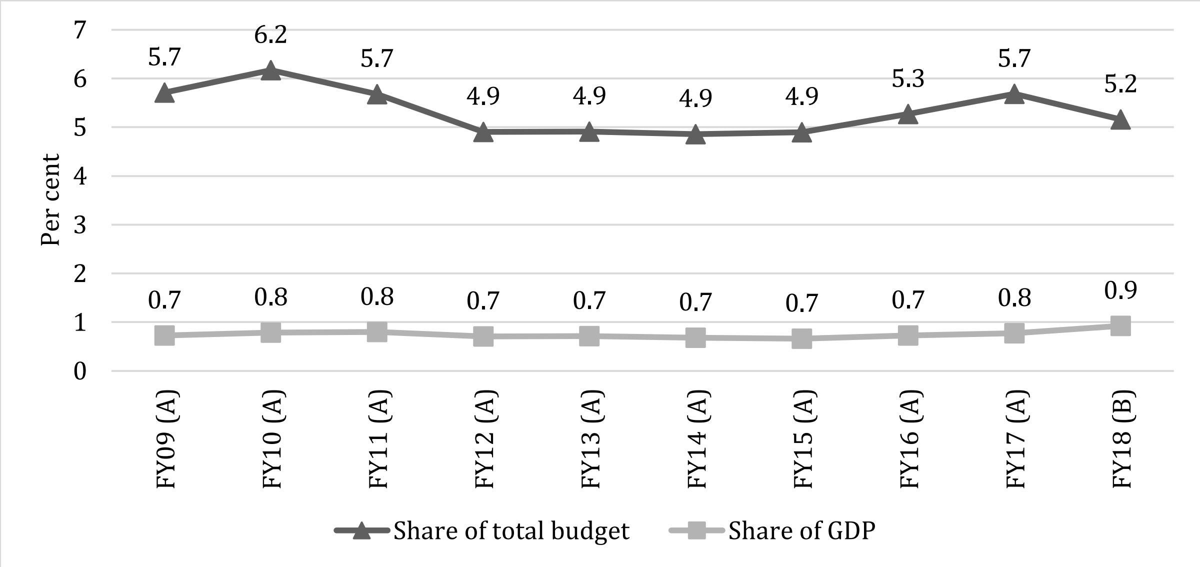
---

[31] https://www.thedailystar.net/frontpage/free-healthcare-ultra-poor-1199365 (accessed on 20 November 2018).

[32] http://www.theindependentbd.com/post/147427 (accessed on 20 November 2018) (accessed on 20 November 2018).

in FY2009. In the budget of FY2018 the share increased to 0.92 per cent (Figure 11.1). But this share of expenditure is below the targets set in the national Seventh Five-Year Plan (7FYP) and by the World Health Organization (WHO). As per the target of the 7FYP, the spending should be 1.2 per cent of GDP in FY2020. Allocation for health as share of total budget has also been falling. As may be mentioned, WHO considers a benchmark of 5 per cent of GDP or gross national income (GNI) of the country for health expenditure.

Figure 11.1 Share of health expenditure in budget and GDP

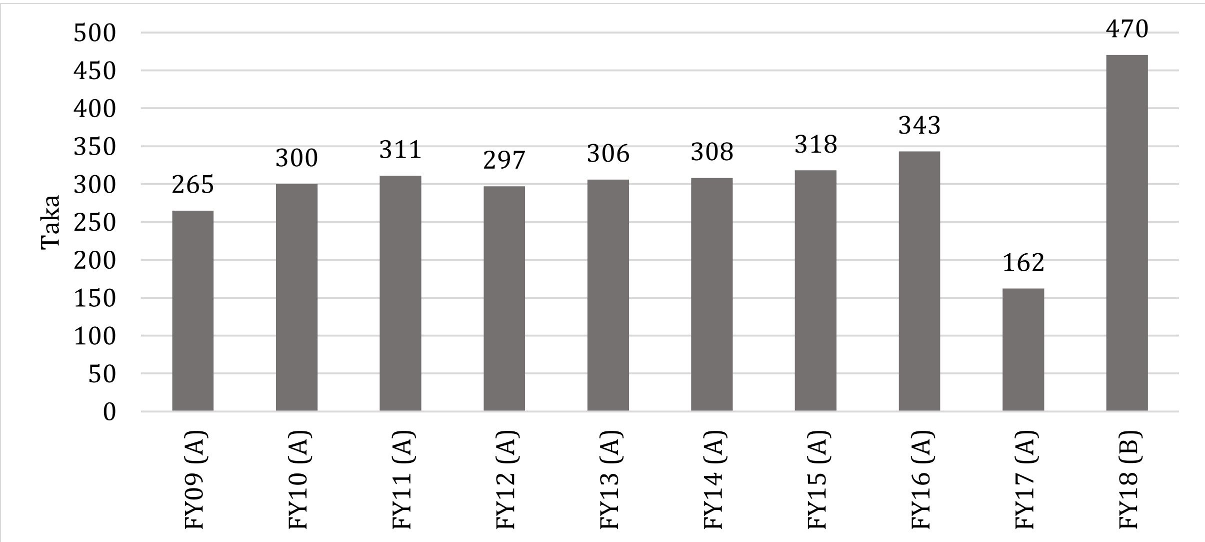


Source: Ministry of Finance (MoF), Bangladesh.

Note: 'A' stands for actual expenditure in fiscal year; 'B' stands for budgetary allocation in fiscal year.

Rise in per capita public expenditure on health has been rather insignificant. Per capita real public expenditure on health has increased by Tk. 205 during FY2009 to FY2018 (Figure 11.2). This is worrying as over two-thirds of total health expenditure is financed by out-of-pocket spending. In Bangladesh, 71.8 per cent of total health expenditures were out of pocket spending in 2015 which was highest among all South Asian countries (Table 11.2).

Figure 11.2: Per capita real expenditure on health



Source: Ministry of Finance (MoF), Bangladesh.

Note: 'A' stands for actual expenditure in fiscal year; 'B' stands for budgetary allocation in fiscal year.

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

Indicator	2008	2009	2015	2015				
	Bangladesh			India	Pakistan	Sri Lanka	Nepal	Bhutan
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.

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).

Inadequate human resources for health sector

Absenteeism in the health sector is widely prevalent. There are acute shortages of nurses, midwives and medical technologists. The vacancy rate is very significant in rural, remote and hard-to-reach areas. In some cases, equipment is available in public hospitals, but the post of technician or anaesthetist remains vacant. On a positive note, there has been large recruitment during the HPNSDP with vacancy rates declining to around 15 per cent in 2014, as opposed to 20 per cent in 2011. Over 7,000 doctors and 4,100 nurses have been recruited and in total over 42,000 positions in the sector have been filled up (GoB, 2014).

11.4 What should be done for a better public health system

In order to improve the current health system a number of measures need to be undertaken. These are mainly related to finance, efficiency in resource utilisation, human resources, regulation and governance.

Invest more resources on healthcare to reduce health inequity

With current level of investment in the health sector of Bangladesh, the sector is not in a position to provide better outcomes. Even though there is a rapidly expanding private sector in healthcare, the major part of the expenditure has to be made by the government to ensure affordable and accessible healthcare for all and to reduce inequity in health outcomes.

Mobilise resources from new and innovative sources

Higher demand for resources for the health sector should be met up from a diverse range of sources. While the private sector and development partners are important sources of financing, much will depend on mobilisation of additional resources through taxation financing as public sector will continue to play the key role. Imposition of higher taxes on products injurious to health, such as tobacco, could generate additional resources.

Improve efficiency of resource utilisation

There is an opportunity to improve efficiency in resource use through reducing wastage, improving budget management and allocating resources based on healthcare needs. The nature of expenditure in the health sector is such that the major part of allocation in the sector goes for physical infrastructure development. Procurement and budget for construction of infrastructure should be rationalised. Financial management should be improved in such areas as planning and budgeting, as also in matters of procurement. The focus ought to be on 'Results-based financing'.

Recruit and retain human resources for a better health sector

Given the nature of the services the health sector needs, human resources with specific professional and technical skills, as well as motivation, are essential. The problem with the lack of adequate health professionals in places where they are needed should be addressed through proper incentives.

- In order to retain health providers in rural and remote areas they should be encouraged through higher salaries and other incentives such as provision of education to their children, and other public amenities.
- Health providers outside the formal health system can fill up the gap of human resources in the health sector. Such informal health workers can reach out to hard-to-reach areas and contribute towards achieving the goal of universal health coverage.

Provide regular training for professional development

For professional development, health professional and workers should be given on the job trainings on a regular basis through specialised institutions. Community health workers should be adequately trained and skilled. They should be incentivised through adequate salary and clear career progression. Public health training should be mandatory for all senior officials in the Ministry of Health and Family Welfare.

Regulation and monitoring

- Private healthcare services should be regulated in an effective way, so that the quality of services is maintained and broader community can access the health services provided by those. The quality of health services varies across the unregulated private health providers that include clinics and hospitals, pharmacies, diagnostic centres and informal providers. The cost of accessing healthcare also varies across the private health system.
- Private healthcare system should be integrated within the overall national health system.
- Quality of pharmaceutical products should be monitored through strong oversight mechanism by the Ministry of Health and Family Welfare.
- Pilot projects, such as the Shasthyo Shuroskha Karmasuchi, initiated as part of Health Care Financing Strategy should be assessed properly. These should be scaled up only if they are found to be effective and efficient.

Encourage preventive and promotive health

Achievement of better health depends on multi-sectoral and cross-cutting issues. Social and environmental factors have significant impact on health. Harmful products and lifestyles should be discouraged. Hazardous road, harmful food, and air, water and noise pollution are undermining community health. The government has to take urgent measures to stop harmful practices and improve nutrition and environmental conditions. Awareness building on health issues among the citizens, particularly among the less educated and without educated people, should be carried out by the government, NGOs and the media.

Improve governance of the health system

Oversight of the multiple actors in the health system is critical. At present, the government, private sector, development partners and NGOs are engaged in healthcare. Within the government, apart from the Ministry of Health and Family Welfare, Ministry of Local Government, Rural Development and Cooperatives also deliver health services in urban areas. A decentralised governance structure should be put in place that is able to respond to local needs and will be accountable to stakeholders. A system of accountability in local healthcare services could reduce corruption, malpractices, absenteeism of doctors and poor services, and there is a need to establish such a system.

Invest in advanced health research

Research on both country-specific and global health-related problems and diseases is a pre-requisite for achieving better health outcomes. The government should set up high-quality health research institutes and medical colleges, and equip those with state-of-the-art technologies.

Develop strong database for the health sector

The need for developing information database on the health sector should be appreciated by the policymakers. There is a huge data gap in the health sector of the country. Most data are not updated regularly and as a result, the true picture of the health sector cannot be observed and monitored. Due to lack of good-quality, real-time data, research and analysis on health-related issues are severely constrained.

The above measures are not exhaustive, but critically important for improving the quality of health services in Bangladesh. If the country has to sustain its economic progress, policymakers have to provide universal and good-quality healthcare services to all citizens of the country. It is to be noted here that, Bangladesh is suitably positioned to take advantage of the demographic dividend. The share of young people in the population is significantly high, and this could enable Bangladesh to potentially reap multidimensional benefits in going forward. However, this will depend on the ability of the young people to be well-educated, healthy and productive. The health sector of Bangladesh should play an enabling role in this regard.

References

BBS. (2011). *Report on Sample Vital Registration System-2010*. Dhaka: Bangladesh Bureau of Statistics (BBS). Retrieved from: http://203.112.218.65:8008/WebTestApplication/userfiles/Image/LatestReports/SVRS-10.pdf

BBS. (2018). *Report on Bangladesh Sample Vital Statistics 2017*. Dhaka: Bangladesh Bureau of Statistics (BBS). Retrieved from: http://bbs.portal.gov.bd/sites/default/files/files/bbs.portal.gov.bd/page/6a40a397_6ef7_48a3_80b3_78b8d1223e3f/SVRS_2017.pdf

GoB. (2011). *National Health Policy 2011*. Dhaka: Ministry of Health and Family Welfare, Government of Bangladesh. Available at: http://www.mohfw.gov.bd/index.php?option=com_content&view=article&id=74&Itemid=92&lang=en (accessed on 2 December 2018).

GoB. (2012). *Expanding Social Protection for Health: Towards Universal Coverage Health Care Financing Strategy 2012-2032*. Dhaka: Health Economics Unit, Ministry of Health and Family Welfare, Government of Bangladesh. Available at: http://socialprotection.gov.bd/wp-content/uploads/2017/03/HCF-Strategy-Bd-2012-2032.pdf (accessed on 30 November 2018).

GoB. (2014). *Mid-Term Program Implementation Report (MPIR) of Health, Population and Nutrition Sector Development Programme (HPNSDP)*. Dhaka: Ministry of Health and Family Welfare, Government of Bangladesh.

Rahman, A., Nisha, M., Begum, T., Ahmed, S., Alam, N. and Anwar, I. (2017). Trends, determinants and inequities of 4+ ANC utilisation in Bangladesh. *Journal of Health, Population and Nutrition*, *36*(2). Retrieved from: https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5237328/

WHO. (2015). *Bangladesh Health System Review*. Manila: WHO Regional Office for the Western Pacific.

12. SOCIAL PROTECTION: IS IT ADEQUATE FOR THE "LEFT BEHIND"?

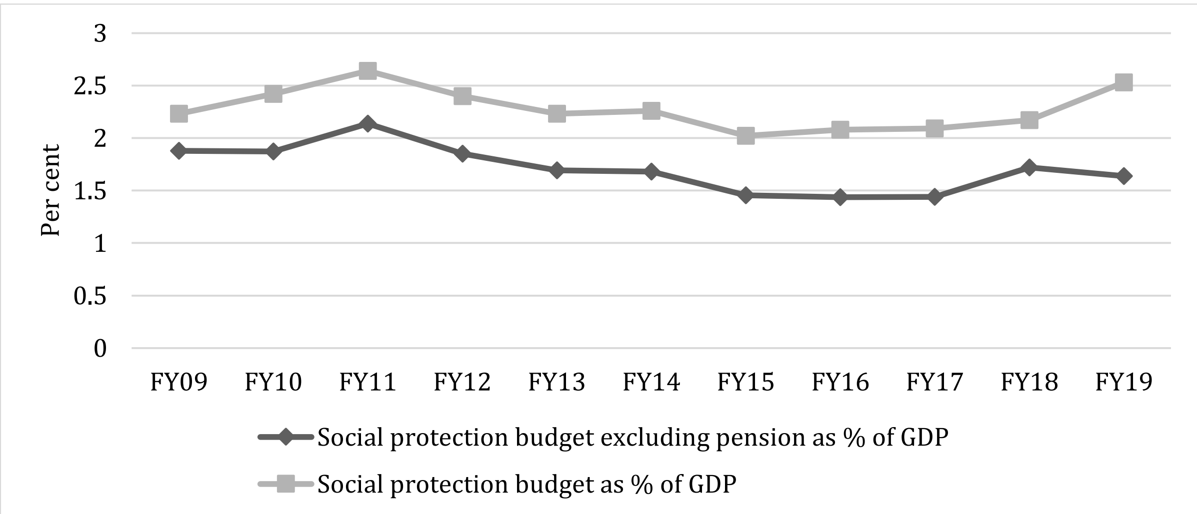
12.1 Introduction

In promoting inclusive growth in an economy which is characterised by a high incidence of poverty, and a high proportion of vulnerable population and with many engaged in informal employment—social protection ought to take a central place in development planning. However, the majority of social protection programmes in Bangladesh has been designed on an ad hoc basis, depending on the particular needs of the time. Thus, the programmes that we observe at present are rather disparate in nature. Many of these programmes do not have concrete targets, or detailed exit strategies for the beneficiaries. Tackling error, fraud, and corruption in social protection programmes of Bangladesh is a difficult task, since none of these terms are clearly defined in the first place. Most government ministries have neither the required information nor the capacity to conduct internal audits, for appropriately investigating and identifying the root causes of corruption in these programmes. Studies have shown that the greatest opportunity for error, fraud, and corruption occurs at the stage of selection of beneficiaries (Van Stolk and Tesliuc, 2010). In Bangladesh, it is common knowledge that social protection programme beneficiaries are not always properly selected. Due to limited monitoring and evaluation, such irregularities persist unabated. The inadequate assessment of the programmes means that there is no real mechanism in place for prioritising certain programmes over others.

12.2 Resources for social protection

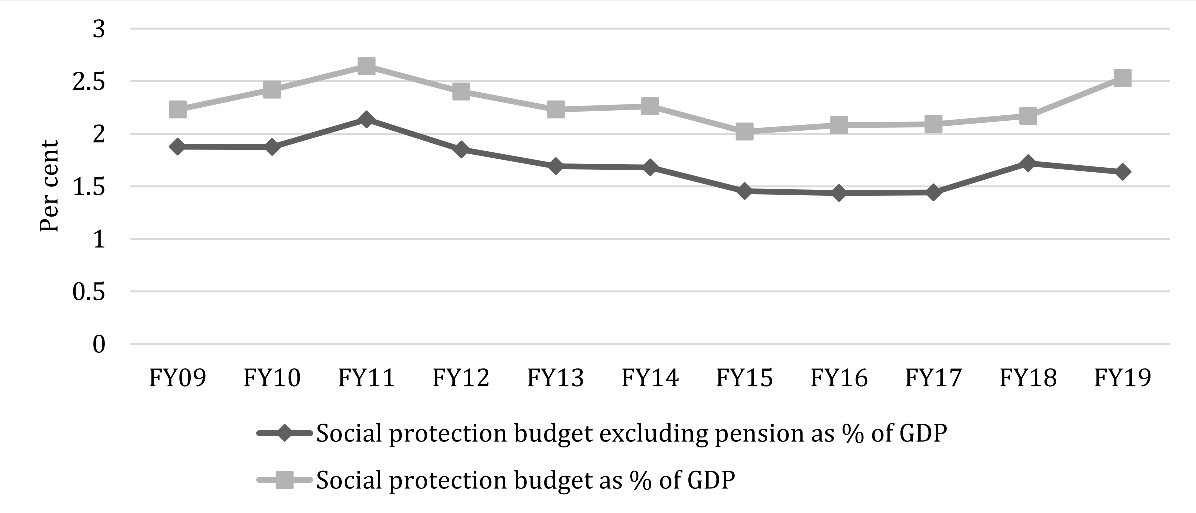
The social security budget has been hovering around 2 per cent of the GDP since FY2009, as illustrated in

Figure **12.1: Social security budget as a percentage of GDP**



12.1. 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 12.1).

Figure 12.1: Social security budget as a percentage of GDP

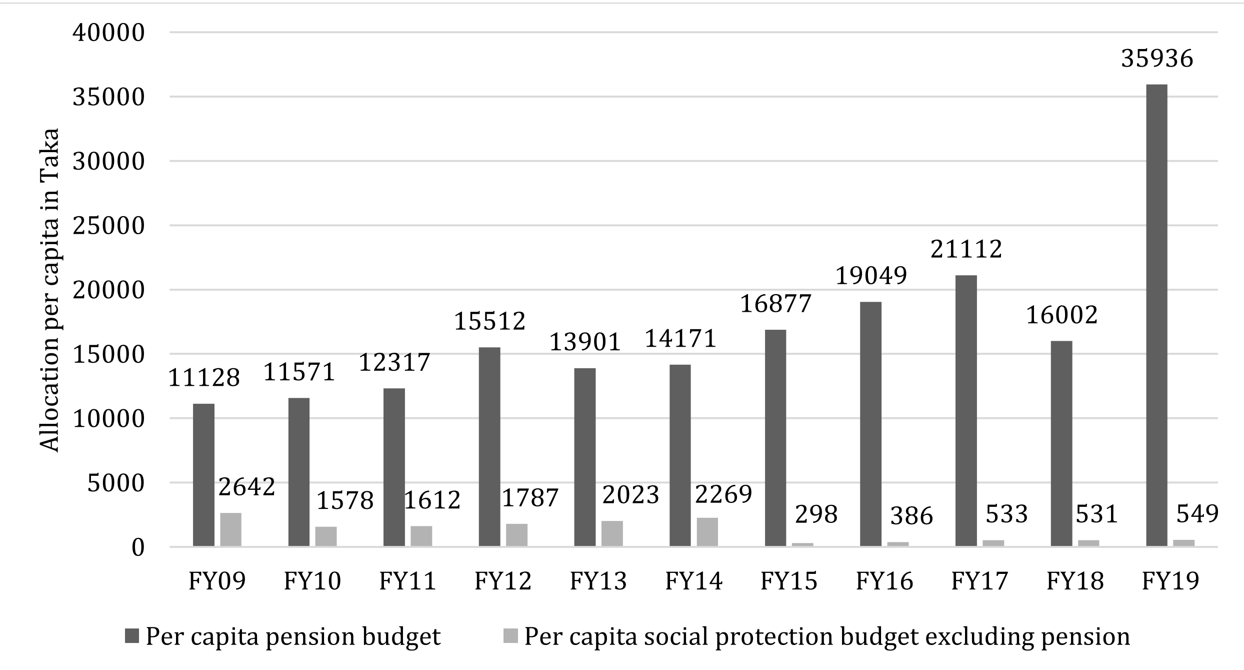


Source: Authors' calculation based on Social Security Policy Support (SSPS) Programme data and budget documents.

Total and per capita budget allocations for pension dwarfs the budget allocations for all other social security programmes. In FY2018, pensions received 41.3 per cent of the social security budget, which was equivalent to the budget allocations for the next 23 largest social security programmes combined (GED, 2018). Since FY2013, per capita budget allocation for pension has been on the rise, whilst per capita budget allocation for social security excluding pension has been on the decline (

Figure 12.2). In FY2018, per capita budget allocation for pension was BDT 16,002 per beneficiary per year, compared to BDT 531 per beneficiary per year for social security programmes excluding pension. This means that on average, pension beneficiaries received about 30 times more money than beneficiaries of other social security programmes.

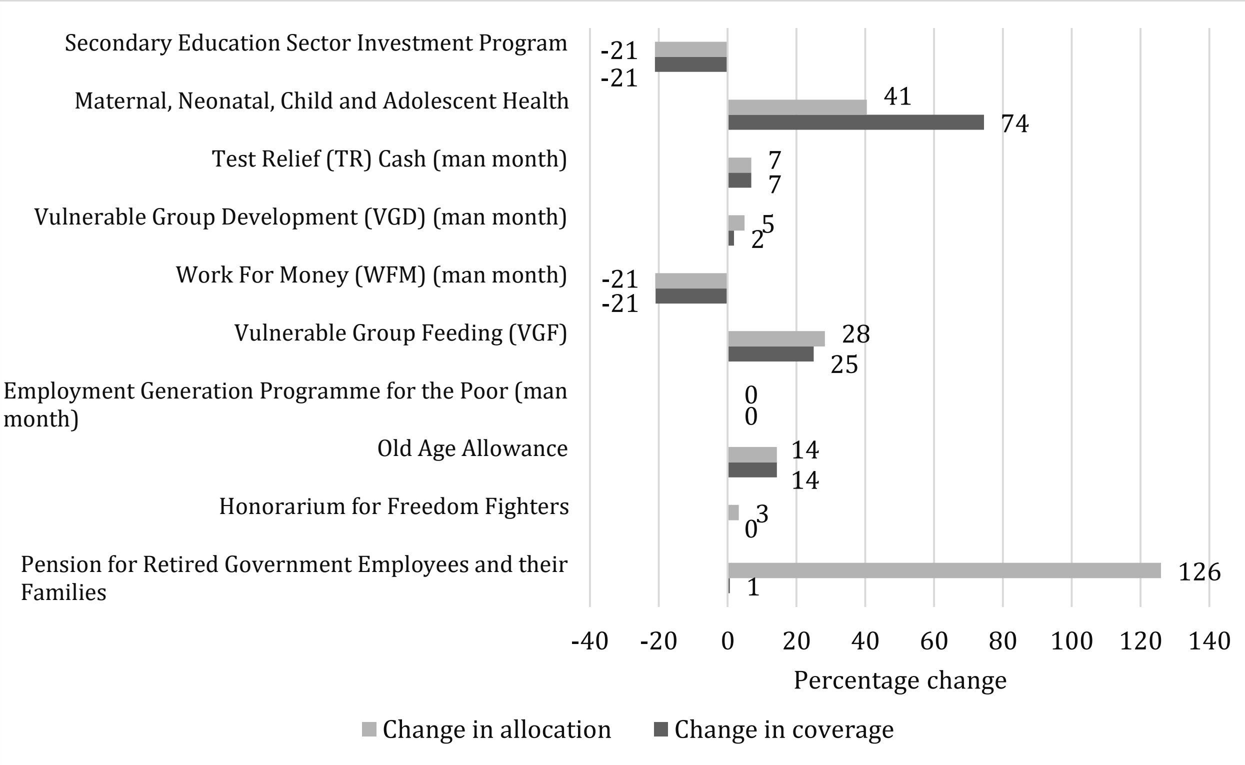
Figure 12.2: Annual per capita social security and pension budget



Source: Authors' calculation based on 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 (Figure 12.3). 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. This indicates that communities that host Rohingya refugees are the intended beneficiaries of the additional coverage and resources. A broad framework for a universal pension scheme was outlined in the budget speech for FY2018-19. However, no budget allocations were made for the scheme; the need for fundamental structural reforms and the huge costs involved were mentioned as obstacles.

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.

Balancing Asymmetry of Allocations

A particular note must be made of the pension budget in relation to the total Social Safety Net programmes (SSNPs) allocations. The National Pay-scale Amendment 2015, which nearly doubled the salaries of government officials, had a strong distortionary effect on social security in Bangladesh. Following the change, the pensions for government officials were adjusted in line with the increment in salaries. This caused a substantial reallocation of resources from other social security programmes towards pensions for the government officials. Meanwhile, the benefits for freedom fighters and their descendants have also been rising rapidly in recent years. Consequently, in FY2017, the two largest social security programmes were pensions for government officials and benefits for freedom fighters.

Box 12.1: Addressing income inequality—A tall burden for social protection

Although the Gini coefficient is the most widely used measure of income inequality, it can sometimes fail to capture the true extent of social injustice that is caused due to income inequality. Under such circumstances, it may be useful to look at the income shares held by the richest and poorest households in a country. 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. (Table 12.1).

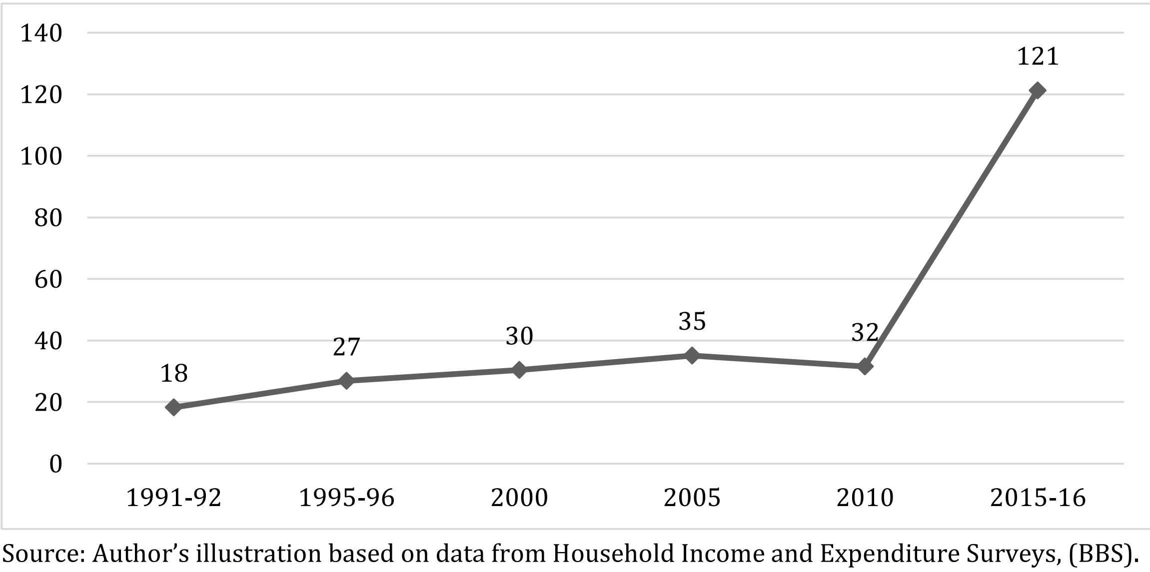
Table 12.1: Income share held by poorest and richest

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.

The income share of the richest 5 per cent of the households as a multiple of the income share of the poorest 5 per cent of the households increased dramatically over the past few years. 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 (Figure 12.4).

Figure 12.4: 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).

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. While in the case of poverty alleviation and income support, there is evidence to support that SSNPs have favourably affected specific groups and regions, it is not possible to establish such impact with regard to inequality. There are indeed some SSNPs which target empowerment and enhancement of opportunities—for example, initiatives for development, empowerment, awareness, and livelihood; investment component for vulnerable groups; productivity increase and opportunity for employment of women, among others. These are, however, rather limited in scale and ad hoc, and would need to be scaled up in a major way.

12.3 The National Social Security Strategy: An assessment

The National Social Security Strategy (NSSS) is designed to address some of the limitations and weaknesses of the present social security system; in particular, under-coverage of regional dimensions, lack of access to the programmes, underperformance in terms of benefits from safety net programmes, and leakages (Bangladesh Planning Commission, 2015). Identifying the issues and broadening the scope of social security will ease the undertaking of the necessary steps towards safeguarding social security. There is no coordination mechanism in the present social security system, which makes the system inefficient from various dimensions. The cause of proper utilisation of resources and appropriate targeting suffers as a consequence.

The newly designed NSSS presents a mechanism to build a social protection floor (SPF),[33] through the identification and categorisation of the needs and priorities of social assistance and insurance to cater to the demands of different lifecycle groups. The NSSS proposes five core lifecycle programmes consolidated along the lifecycle risks: (i) programmes for children; (ii) programmes for the working age; (iii) comprehensive pension system for the elderly; (iv) programmes for people with disabilities, and (v) special programmes for the freedom fighters. The mechanism will work well if it can be implemented in a systematic way, by checking the overlaps of the programmes and recipients, and arresting leakages.

The NSSS has identified these broad challenges, and the intent and broad objectives of the strategy are indeed noteworthy. The devil, however, is in the details. Bangladesh's NSSS with its lifecycle approach has the potential to develop a platform which could eventually create an effective SPF, as spelled out by the ILO, which also focuses on a lifecycle approach. The SPF is a campaign towards establishing social protection guarantees at nationally-defined levels, to support the poor, the vulnerable and the socially excluded. In this regard, the SPF proposes four guarantees as a minimum, over the life cycle: access to essential health care, including maternity care; basic income security for children, especially to underwrite access to nutrition, education, care and other necessary goods and services; basic income security for persons in active age who are unable to earn sufficient incomes, particularly because of disability, sickness, unemployment, and maternity; and basic income security for older persons.

In spite of the existence of several programmes to implement the SSNPs, the NSSS as a strategy, especially considering its aspiration to extend various lifecycle guarantees, is at present only in its infancy. The programmes and objectives are being reviewed and designed to conform to the lifecycle approach of the NSSS. However, it would be a long march to establish an appropriate

[33] See ILO's social protection floor (SPF).

SPF, as envisaged in the NSSS, and to attain the Sustainable Development Goals (SDGs) concerning social protection systems and measures for all, including floors (SDG Target 1.3) by 2030. The various challenges and some of the mid-term priority activities are well marked in the NSSS. However, given the constraints of resources and capacity, it is still unclear how these will be financed and implemented.

Financing of the NSSS would, in the long run, be based on cost sharing—one part would be financed through public expenditure (i.e. transfers and subsidies) and the other by the private sector, based on social insurance and employment-based regulations. However, the proposed financing source of broader social security seems to be vague. There is no proper clarification on how the financing will take place and who will take the responsibility. The social insurance component of financing is a negligible proportion; hence the NSSS will, for quite some time to come, have to be based on tax-financed transfers. Clear guidelines should be in place as regards the financing of social security and how various ministries and departments will coordinate with each other to make the strategy work.

12.4 Moving forward

In order to improve the existing social protection programmes, several measures need to be put in place. Some of these include the following.

- **Review of SSNPs:** The vast number of SSNPs needs to be reviewed in order to better establish the priorities of interventions under the shifting economic and social profile of beneficiary households.
- **Re-evaluation of existing SSNPs:** The review of the existing SSNPs needs to address some of the limitations, particularly by (i) better targeting, so that leakages and adverse selection are minimised; (ii) avoiding overlaps with other SSNPs and other NGO programmes; (iii) introducing finite planning with finite targets, so that an exit strategy is explicitly or implicitly incorporated.
- **Strategic prioritisation:** It is also important to strategically balance priorities to consolidate processes that would reinforce the SPF goals, thus directing the NSSS framework towards targeted universal goals, while digressing from random discretionary SSNPs.
- **Extensive examination and Scrutiny:** A thorough inspection of the SSNP beneficiaries, and their relative prioritisation, should be undertaken from various dimensions of vulnerability, both at the programme and sector level.
- **Comprehensive mapping of most vulnerable groups:** This extensive investigation process will entail an inclusive mapping of the most vulnerable groups that would help design SSNPs with the objective of meeting the SDG commitment to 'leave no one behind'.
- **Reallocation of skewed distribution:** There is a skewed distribution of allocation among the SSNPs, with a few large ones and many small programmes. More precisely, the pension budget is disproportionate to the rest of the SSNP programmes. Thus, consolidation is required to ensure that the interventions are effective and can provide concrete support to the beneficiary households in progressing towards the objective of the concerned programme.

- **Rigorous monitoring and analysis of programmes:** Programmes need to be monitored and analysed within a comparable database and framework, so that the relative progress and comparative significance of the SSNPs are made transparent for future planning and resource allocation. Again, their orientation must be guided by the needs of gradually moving to the lifecycle approach.
- **Better inter-ministerial coordination:** Better coordination is required among the multiple ministries that administer the SSNPs in order to enhance efficiency. Turf war must be avoided. This would allow to examine whether programmes can be merged. This will minimise administrative costs.
- **Effective collaboration for a collective goal:** It must be noted that the SSNPs cannot, on their own, achieve SDG target 1.3. Apart from the measures mentioned above, and on the broader front, the design of social protection, its pervasiveness, and the realisation of the vision of the NSSS (especially as regards attempts to merge the horizontal and vertical dimensions of social protection) will be contingent on three critical inter-related developments: i) trends in levels of poverty, inequality, vulnerability; ii) the goal of full-employment, formal jobs and labour market formations; and iii) fiscal stance and utilisation of fiscal space.
- **Identification of critical areas—extreme poverty, hunger, and the most vulnerable groups:** A first step would be to target extreme poverty and hunger, and the most vulnerable groups. This is significant to understand and reassess for whom the safety nets are intended, and by what measures and per capita allocations. In particular, this would help reorient SSNPs to attain the 2030 Agenda's call to 'leave no one behind''.
- **Comprehensive policy and programme for poverty-alleviation strategies:** In aggregate terms, current SSNPs are a miniscule addition to household income-consumption. The elimination of extreme poverty (SDG 1) and hunger (SDG 2) would require much more attention on a broader policy and programme front to secure food and income entitlements, and to ensure access to various opportunities such as jobs, skills and credit.
- **Need for greater emphasis on social protection measures:** Bangladesh has given inadequate attention to employment generation, and even less so on the need to develop social protection mechanisms. Apart from the political commitment to develop such a strategy, the institutions, along with legal and administrative architecture that are necessary to safeguard the outcomes of these policies, need to be built, as the economy progresses.
- **Assessment of social protection and safety net for inclusive growth:** Social protection policies towards the goal of full-employment must be seen as critically interrelated to developing a strategy of inclusive growth. An assessment of social protection and social safety nets is also needed to ensure that alongside the goals of employment promotion, there are policies and an institutional framework to protect employment and income security, especially of the vulnerable groups.
- **Fiscal stance and optimisation of fiscal space:** An expansion of the fiscal space is required to support the capacity building of institutions for better implementation of the NSSS. Furthermore, efforts should be undertaken to widen social insurance coverage in the informal sector, and in informal enterprises. An extension of financial incentives and subsidies will be needed if this is to be achieved.

References

Bangladesh Planning Commission. (2015). *National Social Security Strategy (NSSS) of Bangladesh.* Retrieved from: http://www.plancomm.gov.bd/wp-content/uploads/2015/04/Final-complete-Book- of-NSSS_13_10_15_launching.pdf (Accessed: 6 December 2015).

GED. (2018). *Social Security Policy Support (SSPS) Programme.* Dhaka: General Economics Division (GED), Planning Commission, Government of Bangladesh (GoB). Retrieved from: http:// socialprotection.gov.bd/en/ [Accessed: 9 July 2018].

Van Stolk, C. and Tesliuc, E. (2010). *Toolkit on Tackling Error, Fraud and Corruption in Social protection programs*. Washington, DC: The World Bank.

Part E
Recommendations and Outlook

13. 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 the 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 essentially 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 the rule of law

The balance of payment situation has seen a dramatic change of fortune in 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 structural features of employment generation had been the shift from traditional (crop sector) to industry and services sector. However, 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

In the agriculture sector, 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. Within the agriculture sector, 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, urbanisation and changes in the pattern of food consumption in view of the 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

The 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. 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
- Redesign 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 a 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 a impediment 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

The government has demonstrated significant success in the social sectors. These successes were reflected in education in areas of achieving gender parity, higher school enrollment ratio and adult literacy. However, the allocation to the education sector has increased only marginally.

Key recommendations

- Increase public education budget to at least 4 per cent, and eventually to 6 per cent 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 the Technical and Vocational Education and Training (TVET) system
- 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. However, 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. However, these interventions often lacked coordination and harmonisation during scaling up.

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 prioritization 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 of 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.