Independent Review of

iRBD

Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

The Eighth Five Year Plan

Addressing COVID-19 Challenges and Sustainable LDC Graduation

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CENTRE FOR POLICY DIALOGUE

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The CPD IRBD 2020 Team alone remains responsible for the analyses, interpretations and conclusions made in this presentation.

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Section I. Introduction

Introduction

- The Eighth Five Year Plan (8th FYP),which will be implemented during FY2021-25, is currently being finalised before placing it to the NEC for final approval
  - The draft plan document, which was prepared early, had to be revisited on account of adjustment because of the COVID-19 pandemic
- The 8th FYP is expected to take into cognisance the experiences and lessons learnt from the 7th FYP (FY2016–20)
  - The experience and result of implementing the 7th FYP have been rather mixed. The COVID-19 pandemic has caused major disruptions in macroeconomic management as the plan period reached its final year inFY2020
- The 8th FYP will need to be informed by three key challenges:
  - Economic recovery and rebound in post-COVID period
  - Graduation from the LDC group by 2024
  - Second crucial (five-year) lap in implementing the SDGs by 2030
- 8th FYP must also address electoral pledges of the ruling party made prior to 2018 National Election

Introduction

- The key objectives of the present analysis:
  - Capture the dynamics of the macroeconomic performance during the 7th FYP period with a view to understanding the benchmark macroeconomic scenario for the 8th FYP period
  - Review the impact of COVID-19 on macroeconomic performance during FY20 and FY21 and its possible implications for achieving the targets set forth for 8th FYP
  - Review possible impact and implications of Bangladesh's graduation from the LDC group in 2024
  - Recommend policy priorities in view of 8th FYP to enable Bangladesh have robust COVID recovery and prepare for sustainable LDC graduation, with a view to achieving key goals and targets of the SDGs
- A select set of issues will be taken up for review and analysis from the perspective of 8th FYP :
  - Revenue mobilisation and public expenditure
  - Employment-friendly investment and industrialisation
  - Monetary policy and banking sector
  - International trade
  - External finance for development

Section II. Public Finance

Revenue Mobilisation Targets

Achievement status of revenue mobilisation targets in the 7FYP (% of GDP)

Particulars	7FYP targets					Actual values				8FYP target*
	FY16	FY17	FY18	FY19	FY20	FY16	FY17	FY18	FY19	FY25
a. Tax Revenue	10.6	11.5	12.3	13.1	14.1	8.8	9.0	8.6	8.9	12.3
a.1 NBR Tax Revenue	10.3	11.1	11.9	12.7	13.7	8.4	8.7	8.3	8.6	11.6
a.1.1 Customs Duty	1.1	1.2	1.2	1.2	1.3	1.0	1.1	0.9	1.0	n/a
a.1.2 VAT and SD	5.4	5.7	6.4	6.6	7.0	4.7	4.8	4.7	4.9	n/a
a.1.3 Income Tax	3.7	4.1	4.3	4.9	5.4	2.6	2.7	2.6	2.6	n/a
a.1.4 Others	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	n/a
a.2 Non-NBR Tax	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.7
b. Non-Tax Revenue	1.5	2.0	2.0	2.0	2.0	1.2	1.2	1.0	1.0	1.8
Total Revenue (a+b)	**12.1**	**13.5**	**14.3**	**15.1**	**16.1**	**10.0**	**10.2**	**9.6**	**9.9**	**14.1**

Note: * indicates tentative targets

- The revenue-GDP ratio target of 16.1% by FY20 will be missed by a large margin
  - 9.9% in FY19 against the 7FYP target of 15.1%. FY20 alone cannot make up for the large gap notwithstanding COVID-19 induced economic slump
- Income tax share could not rise up to the role as was envisaged in 7FYP
  - Composition of revenue mobilisation has hardly changed
- The 8FYP may consider a revenue-GDP ratio target of 14.1% by FY25 – conservative compared to the ambition set out by 7FYP; but perhaps closer to reality!

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Public Expenditure Targets

Achievement status of the public expenditure targets in the 7FYP (% of GDP)

Particulars	7FYP targets					Actual values				8FYP target*
	FY16	FY17	FY18	FY19	FY20	FY16	FY17	FY18	FY19	FY25
Total Expenditure	17.2	18.5	19.3	20.1	21.1	13.8	13.6	14.3	15.4	19.1
Current Expenditure	11.2	12.0	12.5	13.1	13.9	9.0	8.9	8.5	9.4	n/a
ADP Expenditure	5.7	6.2	6.5	6.7	6.9	4.6	4.3	5.3	5.8	n/a

Note: * indicates tentative targets

- The ambitious total public expenditure target could not be reached
    - Total public expenditure-GDP ratio crossed the 15% mark for the first time in FY19. However, the related 7FYP target for the corresponding year target was 20.1%. The upcoming 8FYP may target this share to be 19.1% by FY25
- The target of ADP expenditure as a share of GDP could not be met during the 7FYP period
    - This scenario would have been better if the entire amount earmarked for ADP could be spent in each fiscal year - during FY16-FY19, ADP utilisation rate, on an average, was only about 80%
    - There are serious concerns as regards the quality of ADP spending along with programmed project cost, which have been repeatedly pointed out by CPD in successive IRBDs

ADP Targets

- ADP expenditure as share of GDP for a number of key sectors could not reach the targets envisaged in 7FYP

Achievement status of selected sectoral ADP expenditure targets in the 7FYP (% of GDP)

Sectors	7FYP targets					Actual values			
	FY16	FY17	FY18	FY19	FY20	FY16	FY17	FY18	FY19
Education and Technology	0.7	0.9	1.0	1.1	1.1	0.6	0.8	0.6	1.0
Health	0.3	0.3	0.4	0.4	0.4	0.2	0.2	0.3	0.3
Social Protection	0.2	0.3	0.3	0.3	0.3	0.1	0.1	0.1	0.1
Transport and Communication	1.4	1.5	1.6	1.6	1.7	1.1	0.9	1.4	1.2
Local Government and Rural Development	1.1	1.2	1.2	1.2	1.3	0.9	0.7	0.8	1.0

  - Although ADP expenditure in education and technology exhibited some improvement in the recent years, it is mainly due to the inclusion of Rooppur Nuclear Power Plant project as part of this particular head!
  - The failure to invest adequately in health and social protection became even more apparent in view of the COVID-19 pandemic

- In the upcoming 8FYP period, sectoral shares of education and technology, health and social protection in total ADP may increase while the opposite may be the case for transport and communication and LGRD

Implementation of Measures Mentioned in 7FYP

Mentions of measures in 7FYP	Implementation status
Tax Policy Reforms	
VAT and Supplementary Duty Act 2012	Delayed implementation with major compromises
New Direct Tax Code	Not implemented
New Customs Act	Not implemented
Introduction of a modern property tax	No step taken
Tax Administration Reforms	
Broadening of the taxpayers' base	Number of return submission almost doubled but more than 50% TIN-holders do not submit returns
Broadening of the tax revenue sources	Limited progress
Focusing on income from service providers and self-employed (who are difficult to tax)	No notable steps for effective enforcement
Automation of TIN registration and linking TIN with NID and	No adequate progress
E-Filing of income tax returns	Not implemented
Implementation of VAT online project	Not implemented within the stipulated time

Implementation of Measures Mentioned in 7FYP

Mentions of measures in 7FYP	Implementation status
Public Expenditure	
Spending on Education as a share of GDP to be increased to 3.0% of GDP	Not achieved, less than 2%
Spending on Health as a share of GDP to be increased to 1.2%	Not achieved, less than 1%
Spending on Social Protection as a share of GDP to be increased to 2.3% of GDP	Achieved in FY20 with COVID-19 on the scene, but ambiguity in definition prevails
Spending on rural infrastructure as a share of GDP to be increased to 3.0%	Not achieved, total expenditure is less than 2%
Energy subsidy to be cut by half to 1.0% of GDP	Achieved, thanks to not rationalising administered prices
Implementation of a number of major projects	Mostly not achieved
Public Financial Management	
Public Investment Management Review and Reform Road Map	Not adequate progress
Financial Management	Not adequate progress
Medium Term Budgetary Framework (MTBF)	Limited progress
Budget Execution Transparency	Not adequate progress

Key Challenges

- Very narrow fiscal space manifested particularly in the last two years that originated from low revenue-GDP (and tax-GDP) ratio leading to low public expenditure
  - COVID-19 pandemic has posed further pressure on revenue collection in the backdrop of higher public expenditure demands
- Reliance on indirect tax (including on import) with no improvement in share of income tax
  - This structural limitation will discourage undertaking further trade liberalisation and negotiating free-trade agreements
- High incidence of tax evasion and avoidance along with illicit financial flows
  - Weak enforcement and narrow tax base could not be adequately improved while ad-hoc provisions of tax incentives without any comprehensive assessment have become common practice
- Inability to deliver the planned reform agenda in the area of revenue mobilisation
  - Both technical preparations and creating consensus among stakeholders have been lacklustre

Key Challenges

- Sustained losses incurred by the state-owned enterprises
  - Effective steps to bring reform and efficacy have been absent
- Prioritising sectoral allocations in a constrained fiscal space
  - Allocations for social sectors continued to be undermined while financing framework for SDGs has become redundant
- Inability to deliver public investment projects in a cost-effective and timely manner
  - Among the countries, public investment is the costliest in Bangladesh; while both time-overrun and cost-overrun have become more common
- Inadequate good governance in public investment projects
  - Corruption in public investment projects overburdened lack of fiscal space
- Limited efforts to ensure transparency and accountability
  - Timely production and dissemination of data has become more difficult while audit reports continued to be delayed

Major Recommendations

Domestic resource mobiisation could become a binding constraint for implementing 8FYP

Implementing planned reforms and strategies

- ❑ Longstanding policy reform issues such as the Customs Act and Direct Tax Act should be implemented at the earliest
- ❑ Take sincere efforts to implement the programmed strategies including *PFM Action Plan 2018-2023* and *National Strategy for Preventing Money Laundering and Combating Financing of Terrorism 2019-2021*

Creating fiscal space by broadening domestic resource base

- ❑ Initiatives such as wealth tax, property tax and inheritance tax needs to be introduced in a time-bound manner; while sectors such as agriculture and services should be adequately brought under tax net
- ❑ Ad-hoc provisions of tax incentives must be restrained and a comprehensive assessment of all tax incentives needs to be undertaken

Major Recommendations

Strengthening institutions and ensuring good governance

- Automation of tax administration must be a priority which should include effective and timely implementation of VOP and e-tax return submission and payments; new measures should be taken such as the e-TDS
- Strengthening tax administration with ensuring corruption free enforcement should be a priority

Public expenditure priorities should be revisited in the 8FYP in view of addressing COVID-19, dual graduation and SDG implementation

Revisiting public expenditure priorities

- The 8FYP needs to be informed by a revised approach as regards financing of SDGs in view of the new realities originating from shrinking fiscal space and COVID-19
- In view of the COVID-19 pandemic, health, social protection and education should receive the highest priority when it comes to public expenditure, with introduction of universal health insurance and universal pension schemes - the 8FYP must lay out strategies in view of such public expenditure, with possible relevant projects and their financing plan

Major Recommendations

Raising efficiency of public expenditure

- A Public Expenditure Review Commission must be constituted to understand the dynamics behind high costs of public investment projects and to ensure efficient use of public money. Implementation of public investment projects in a timely manner must be ensured without compromising quality and avoiding cost-overrun

Establishing transparency and accountability

- The 8FYP must emphasise the need for drastic improvement in programming of budgetary targets for both revenue mobilisation and public expenditure
- A time bound reporting calendar for public finance data and audit reports needs to be mentioned in the 8FYP

Section III. Employment-friendly Investment and Industries

Employment-friendly Investment and Industries

3.1 Investment and Employment during 7FYP Period: Exploring Benchmark Conditions

- During the 7FYP period, total investment has made a moderate level of progress. However, this was below the targeted level (Table 1)
  - Except for public investment, both total and private investments could not reach the targeted levels. In other words, the rise in public investment could not generate an adequate level of 'crowd-in' effect for private sector investment
  - Only 64.6% of the targeted amount of FDI (USD30.2 billion) received during the 7FYP (USD19.5 billion)
  - Rise in efficiency in investment (ICOR) during the 7FYP period (except in FY20) has come under scrutiny as there are debates over official GDP estimates (WB; IMF; & CPD, 2020)
  - The persistent gap between target and actual investments (both in case of total and private investments) has further widened in FY2020 due to the COVID pandemic

Table 1: Investment during 7th FYP Period: Target & Achievement

FY	Public Investment (% of GDP)		Private Investment (% of GDP)		Total investment (% of GDP)		ICOR
	7FYP (target)	Actual	7FYP (target)	Actual	7FYP (target)	Actual	
FY15	6.8	6.8	22.1	22.1	28.9	28.9	
FY16	6.4	6.7	23.7	23.0	30.1	29.7	4.2
FY17	7.1	7.4	23.9	23.1	31.0	30.5	4.2
FY18	7.4	8.0	24.4	23.3	31.8	31.3	4.0
FY19	7.6	8.1	25.1	23.5	32.7	31.6	3.9
FY20	7.8	8.1	26.6	23.6	34.4	31.8	6.1

3.1 Investment and Employment during 7FYP Period: Exploring Benchmark Conditions

- Corruption, inadequate infrastructure, and inefficient government bureaucracy – were the top three problematic factors for doing business during the 7FYP period (CPD, 2018)
  - A number of institutional measures have been initiated/undertaken (VAT reform, FRC, OSS, setting up BIDA, Competition Commission and financial reporting council, reduction of number of regulatory hassles in opening businesses)
  - These initiatives have yet to generate expected results in the form of attracting local and foreign private investment
  - Major reforms targeting the ease of doing business are yet to be undertaken (e.g., reform of the public sector, banking sector, income tax, subsidy, tariff, regulatory etc.)
- During 7FYP, creation of total of 12.9 million additional employment was set as target (Table 2)
  - Of which 10.9 million jobs in the domestic labour market and 2.0 million jobs in the international labour market were to be created
- During FY16-20, a total of 9.5 million new jobs were created against the targeted number of 12.9 million (73.6 per cent of the target)
  - The slow growth of private investment, particularly in small and medium scale industries, has resulted in sluggish growth in employment
  - The higher GDP growth with a lower level of employment generation (targeted elasticity: 0.45 in 7FYP) indicates that growth of major economic activities was not able to generate the expected level of employment

Employment-friendly Investment and Industries

Table 2: Employment Targets under 7FYP

	FY2016	FY2017	FY2018	FY2019	FY2020
GDP growth (g) (% per Year)	7	7.2	7.4	7.6	8
Employment generation (million)	1.9	2	2.2	2.3	2.5
Migrant work (million)	0.4	0.4	0.4	0.4	0.4
Additional employment (million)	2.3	2.4	2.6	2.7	2.9
Additional Labour force (million)	1.9	1.9	2	2	2.1
Excess employment (million)	0.4	0.5	0.6	0.7	0.8

Table 3: Sectoral Distribution of Targeted Employment

	FY2016	FY2017	FY2018	FY2019	FY2020
Agriculture	45.3	44.2	43.4	42.1	40.8
Industry	15.9	16.7	17.2	18.4	19.6
Service	38.9	39.2	39.4	39.5	39.6

Table 4: Distribution of Targeted Employment in Terms of Nature of Jobs

	FY2016	FY2017	FY2018	FY2019	FY2020
Formal	13	13.5	14	14.5	15
Informal	87	86.5	86	85.5	85

Source: (7FYP, P-48)
Employed persons aged over 15 years by broad economic sectors (%)
Percentage of (a) formal and (b) informal employment as a share of total employment

3.2 Sectoral Performance of Investment and Employment During 7FYP

- ❑ Agriculture sector has maintained a consistent trend during 7FYP thanks to the development of modern and stress-tolerant varieties, discovering water-saving irrigation technologies and agricultural mechanisation etc.
    - ➢ Fisheries and livestock sectors are showing promising trend along with rice and vegetables
    - ➢ Despite this agriculture's contribution to GDP and employment has been on the decline: labour force employed in agriculture stood at 37.8% of total employment in FY20, which is 3% points lower compared to the target set for FY20 (Table 2)
- ❑ The outbreak of COVID 19, coupled with recent two devastating natural disasters (Amphan and flood), has created pressure on the agriculture sector of Bangladesh
    - ➢ Supply shock owing to the pandemic and natural disasters contributed to inflationary pressure on food items
    - ➢ Agro-based industries which heavily depends on export (e.g., shrimp) and those which mostly depend on import in sourcing their agricultural input could face major challenges due to the probable second pandemic wave
    - ➢ During the 8th FYP period, the agriculture sector was likely to confront other challenges such as decline of arable lands, increasing labour cost, seasonal scarcity of labour, climate change impact, and lack of modern technologies in cultivation, harvesting and storage facilities

Employment-friendly Investment and Industries

3.2 Sectoral Performance of investment and employment during 7FYP

- Performance of the industrial sector was impressive
  - Contribution of the industry in terms of GDP has crossed the target (from 30.4% in FY15 to 35.4% in FY20)
  - The share of manufacturing has increased from 20.2% in FY15 to 24.2% in FY20. However, the share of SSIs has marginally increased (from 3.6% in FY15 to 3.9% in FY20)
  - However, gap in growth between LMI and SSI has widened the differences in their contribution to GDP
- During the COVID period, major manufacturing industries have experienced slump in demand. SMEs were the hardest hit
  - Majority of enterprises have been in operation below their pre-COVID level capacities
  - Stimulus package provided to industries partly addressed the cash constraints of industries, mainly the LSIs
  - As of September 30, 2020, only 24.2% of the stimulus package for CMSMEs was implemented
  - As of October 12, 82% of the stimulus package for large industries and services was implemented. As of July, 99% of the stimulus package for export-oriented industries have been implemented

Table 3: 7FYP: Industries' targets and actual

Sectors	Sectoral Growth	
	7FYP	Actual
FY16	10.2	11.09
FY17	10.5	10.22
FY18	10.8	12.06
FY19	11.2	12.67
FY20 (P)	11.9	6.48
	Sectoral Shares	
FY16	28.9	31.54
FY17	29.8	32.42
FY18	30.8	33.66
FY19	31.8	35.00
FY20 (P)	33	35.36

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3.2 Sectoral Performance of Investment and Employment During 7FYP

- Capital market could not come out from structural and operational challenges throughout the plan period
  - (a) Lack of transparency in BO accounts; (b) Anomalies in financial reporting; (c) Poor quality of IPOs; (d) Suspicious trading in the secondary market; (e) Failure of institutional investors to perform; (f) Weak institutions and weak governance
  - New leadership of SEC (which has taken charge in May 2020) has taken a number of measures to address those challenges. Hopefully, there will be bear fruit in 8FYP period
- Weak state of SoEs has further worsened –combined net loss of six SoEs has increased 250% during the plan period
  - Government has recently taken decision to rationalise the operation of SoEs
  - Rationalisation should stimulate investment by the private sector

Table 4: Net Profit/Loss of Selected SoEs

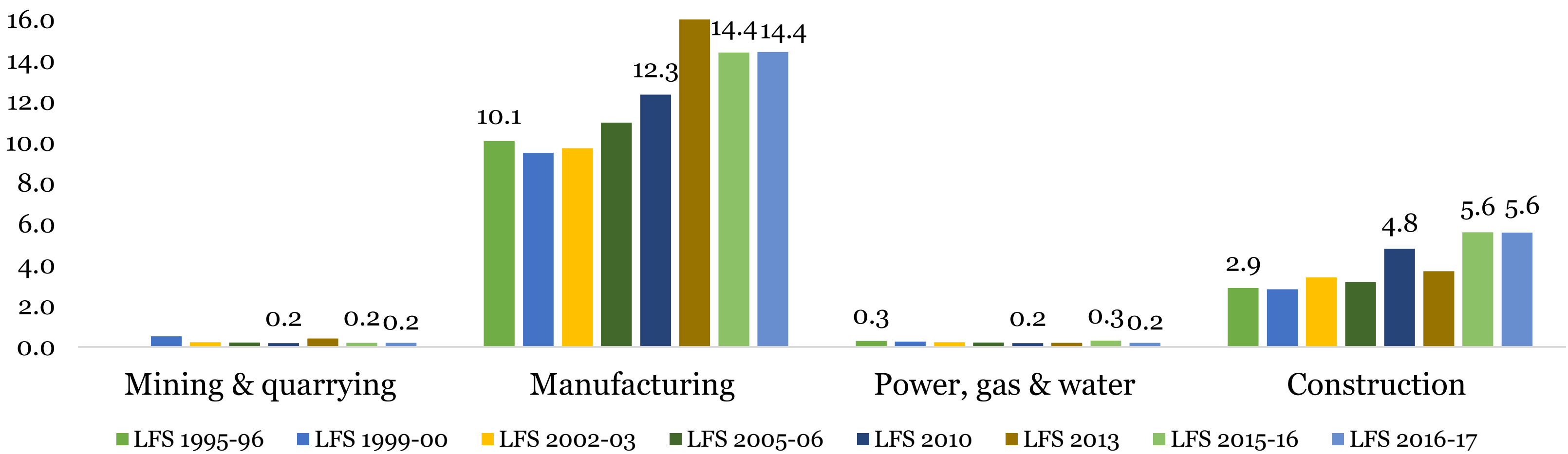
SoE Industries	FY15	FY20
BTMC	-23.49	-21.06
BSEC	57.33	81.85
BSFIC	-539.7	-1061.67
BCIC	103.14	-726.09
BFIDC	28.84	-21.11
BJMC	-726.05	-741.19
Aggregate	-1099.93	-2489.27

Employment-friendly Investment and Industries

3.2 Sectoral Performance of Investment and Employment During 7 FYP

- Consistent rise in employment in the manufacturing sub-sectors which was observed till the 6FYP period showed signs of stagnation during the first two years of the 7FYP (Fig. 1)
  - Low labour productivity is a major concern owing to skill shortages, poor quality of education and training
- Skill gap of Bangladeshi workers could rise in the post-COVID period – as the pandemic could transform the traditional manufacturing industry into a more technology-driven one, where Digital Literacy would become an important factor of production and employment

Figure 1: Share in employment in different sub-sectors of industries

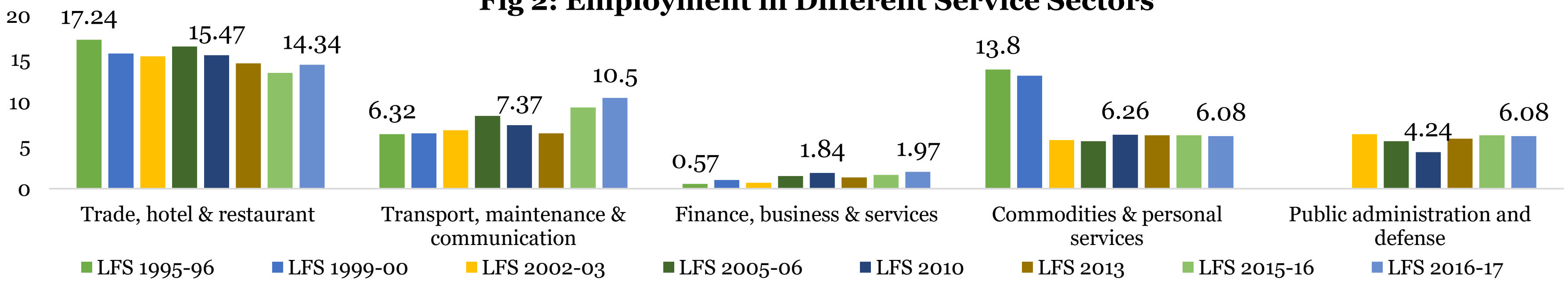


Employment-friendly Investment and Industries

3.2 Sectoral Performance of Investment and Employment During 7FYP

- Service sector's GDP contribution during the 7th FYP period has declined more than the targeted level (from 53.7% in FY15 to 54.1% in FY20). In FY20, the share of broad service sector in GDP stood at 51.30%, which is lower than the 7FYP targets
  - Sub-sectors which have experienced reduction include wholesale and retail trade, transport, storage & communication, real estate, renting and business activities, community and social and personal services
  - Subsectors which have experienced increased share include construction, financial intermediations, public administration, defence, education, health and social works
- Employment in few key sub-sectors has increased as per the last LFS (2017). These include trade, hotel & restaurant, transport & communication finance & banking
- The service sector has suffered the most during the pandemic. As of October 12, 70.7% of the stimulus package for large industry and service sector was implemented

Fig 2: Employment in Different Service Sectors



Employment-friendly Investment and Industries

3.3 Status as Regards Decent Employment during 7FYP Period

- A number of regulatory, compliance, and social issues related to decent employment has been addressed during the plan period
  - Major highlighted issues are: amendment of the labour act; the formation of labour rules and the formulation of a national occupational health and safety policy. Ministry of Labour and Employment (MoLE) and Fire Safety & Civil Defense (FSCD) have upgraded their organisational structure and activities
  - There has been notable progress in improving the workplace safety of export-oriented garment factories: over 90 per cent of problems identified through inspection under the Accord and Alliance initiatives have been remedied.
  - Minimum wage of a number of sectors has been revised, including that of RMG sector.
- In the next course of action, the industrial safety needs to be ensured beyond the RMG sector, covering major industrial sectors and activities, particularly also because of greater security in major export market
  - A new plan of action needs to be formulated for industrial safety for key industries and activities, including setting up an Industrial Safety Unit

Employment-friendly Investment and Industries

3.4 Possible future challenges in employment related areas in view of Bangladesh's graduation from LDC group

- The loss of preferential market access as an LDC in major export markets, particularly in the EU, would have an adverse impact on price advantages of Bangladeshi products
  - The possible fall in the export (around 5.7% annually) could cause loss in employment, particularly in the RMG sector
- According to the GED (2020), loss of preferences in major markets would cause a loss of USD7 billion per year
  - Since the RMG sector would be the major export sector in the post-graduation period, an estimated 538,770 RMG jobs could be lost due to preference erosion
- Bangladesh would face further competitive pressure in the international market due to the signing of regional and bilateral trade/investment/economic partnership agreements
  - RCEP, EU-Vietnam FTA and EU-India FTA
  - Employment in export-oriented industries would be under further pressure in view of these agreements

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Employment-friendly Investment and Industries

3.5 Overall observation regarding production, investment and employment during 7FYP

- During the 7FYP period, the economy has experienced further structural changes with a rising share of industries in GDP along with a declining share of agriculture and services
  - The economy did not experience commensurate changes in the share of employment in the aforesaid three sectors
- Targeted level of employment was not generated during 7FYP period
  - Manufacturing sector growth failed to ensure adequate jobs due to decline in employment elasticity
  - COVID-19 pandemic has made major disruptions in most of the value chains and affected production, export, and employment. Majority of SMEs will be in need of long recovery period
- Investment-led employment generation did not take place as per expected level during 7FYP period as rising public investment could not 'crowd-in' the expected private investment
  - Private investment is heavily focused on large scale investment, at the cost of small and medium scale investments
  - Large industries are increasingly using labour displacing technologies which is further squeezing employment opportunities

3.5 Overall observation regarding production, investment and employment during 7FYP

- Private sector considers corruption, inadequate infrastructure, and lack of efficiency of bureaucracy as major problematic factors considering their activities

- Employment creation in export-oriented sectors is likely to slow down further in view of LDC graduation in 2024 and bilateral and regional trade agreements signed by partner countries if timely steps are not taken

3.6 Projection of investment and employment in the 8FYP

- A major benchmark issue of the 8FYP for discussion would be whether the targeted public and private investments in the first year of the 8th FYP (2021) could be delivered in the backdrop of major shocks in FY2020
  - Total, public, and private investment are targeted to reach 36.9%, 9.2%, and 27.4% respectively at the end of 8th FYP. FDI is targeted to reach 3% of GDP
  - Projected trend in ICOR indicates a growing inefficiency in investment during 8th FYP period
- In continuation of the earlier plan period, the projected economic transformation targets a further rise in the share of industries (42% of GDP), including that of the manufacturing sector (30.5% of GDP).
- Based on ILOSTAT and employment elasticity estimated by Khatun and Sadat (2020), the projected employment during the 8th FYP would be only 89.1 lac
- It is apprehended that the recovery period of domestic and global economies would be longer than initially expected, which would slow down the scope of employment creation both in local and international markets (The Wall Street Journal, 2020)
  - Post-graduation would be a challenging period for ensuring employment growth, particularly in the export-oriented sectors
- A proactive employment-focused strategy through investment and industrialisation will be needed to address the challenges

Employment-friendly Investment and Industries

Table 5: Macroeconomic Scenario of the 8FYP & Projected Growth Path Under 8FYP

Macro Indicator	FY19 (Actual)	FY20 (Revised Estimate)	FY21 (Estimate)	FY22 (Projection)	FY23 (Projection)	FY24 (Projection)	FY25 (Projection)
Growth: real GDP (%)	8.15	5.24	8.20	8.22	8.29	8.32	8.51
Total investment (% of GDP)	31.57	31.75	32.96	33.37	34.32	35.11	36.99
Private investment (% of GDP)	23.54	23.63	24.81	25.17	25.64	26.25	27.35
Public investment (% of GDP)	8.03	8.12	8.15	8.20	8.68	8.86	9.24
FDI as% of GDP	0.87	0.54	0.83	1.35	1.90	2.50	3.00
ICOR	3.87	6.05	4.01	4.05	4.14	4.21	4.34

Table 6: Projected sectoral share during 8FYP Period

Sector	FY19 (Actual)	FY20 (Actual)	FY21 (Estimate)	FY22 (Projection)	FY23 (Projection)	FY24 (Projection)	FY25 (Projection)
	Share as% of GDP (constant prices)						
Agriculture	13.65	13.35	13.10	12.50	11.90	11.20	10.60
Industry	35.00	35.36	36.8	37.70	39.00	40.50	42.00
o/w Manufacturing	24.08	24.18	25.8	26.30	27.60	29.00	30.50
Service	51.35	51.30	50.10	49.80	49.10	48.30	47.40

CPD (2020): The 8FYP: Addressing COVID-19 Challenges and Sustainable LDC Graduation

Employment-friendly Investment and Industries

3.7 Possible Strategies for Enhancing Employment during 8FYP Period

- Transparency, accountability and improved efficacy will be required in the operation of investment and employment related institutions: BIDA, BEZA, BEPZA, BSCIC, BB, SEC, MoLE, DIFE, DoL, MoEWOE, MoYP, MoWCA, BCC, MoI, MoTJ and other service providing agencies
- Proper implementation of 'National Jobs Strategy for Bangladesh' during 8th FYP period
- CPD under its different IRBD studies identified major problems and some possible solutions
  - Bangladesh should put in place an operational, investment-related, employment-creating strategy aimed at facilitating business creation, and providing the necessary associated infrastructure and banking facilities (CPD, 2016)
  - A number of ministries and departments need to be restructured – particularly the Ministry of Industry needs a major overhaul to make it the leading ministry to deal with industry-related issues (CPD, 2015)
  - Fiscal incentives should be well-targeted and performance-oriented. There should be a proper institutional mechanism for assessment and monitoring of policy instruments used to provide support to industries (CPD, 2017)
  - 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 (CPD, 2019)
  - A comprehensive demand-driven skills development programme is an urgent necessity to take advantage of overseas labour market in a more effective manner (CPD, 2015)
  - New job opportunities outside Bangladesh should be explored both in existing and new markets. Targeted skills development programme and financial support schemes for the disadvantaged group of youth in particular should be prioritised (CPD, 2019)

Employment-friendly Investment and Industries

3.7 Possible Strategies for Enhancing Employment during 8FYP Period

- Meeting the electoral pledges as regards employment generation should get priority in the 8FYP strategy
  - Necessary initiative need to be taken to create additional employment for 1.50 crore people by 2023
  - Government facilities, including funding, and technology and innovation, will need to be increased for the young entrepreneurs who will be able to make a good impression in their respective fields
  - To create young entrepreneurs, a 'Youth Entrepreneur Policy' will need to be formulated
  - Cluster of small and medium industries based on local raw materials will need to be established in the district and outlying towns
  - The "One home one Farm" project of the Government will need to be linked with small and medium industries clusters
  - Initiatives will need to be taken to establish heavy and basic industries for strengthening the industrial base around which will develop modern and new industrial cities
  - Improvement and expansion of the garments and textiles sector, shipbuilding industry, leather, toy making, jewelry, furniture and tourism sectors will need to get benefits of this programme
  - Pharmaceutical industries and active pharmaceutical ingredient industries producing pharmaceutical raw materials will need to be encouraged
  - BIDA will need to be made more proactive

3.7 Possible Strategies for Enhancing Employment during 8FYP Period

- Fulfilling electoral pledges on employment generation should get the priority in the 8FYP strategy
  - Setting up of agriculture equipment servicing centres and workshop at village levels through these productive employment opportunities will need to be created by imparting training to rural youths and agricultural entrepreneurs
  - Cold storages at local levels, crop-processing and a skilled supply chain/value chain will need to be established
  - Current assistance to cultivate food grains alongside potato, vegetables, oilseeds, spices, various fruits, flowers, different plants-leaves-shrubs, medicinal plants etc. will need to be continued. To this end, the agricultural extension programmes will need to be strengthened even further
  - Agriculture loans will also need to be made more easily obtainable for the women farmers to cultivate crops in their yards and fields
  - Efforts will need to be continued to offer loans on easy terms, especially agriculture loans without mortgage for the tenant farmers
  - Setting up of small and medium sized dairy and poultry firms, and easy loans for fish cultivation, necessary subsidies, technological support and policy assistance will need to be increased and kept continuing

3.7 Possible Strategies for Enhancing Employment during 8FYP Period

- Fulfilling electoral pledges on employment generation should get the priority in the 8FYP strategy
  - Facilities, including providing improved varieties of fish fries, fish food, treatment facilities, capital resources and cheaper electricity connections for fish cultivation in ponds and in paddy fields, wherever possible, for further extension of its production will need to be ensured

Pledges on Training and Skill Development:

- The National Service Programme will need to be expanded to every upazila gradually with a view to creating employments for youths
- There will need to be youth training centre in every upazila. Apart from imparting training on different trades, these centres will need to be developed as 'Youth Employment Centre'
- Two new projects will need to be undertaken for skill development and employment creation. Under 'KarmathoProkalpo' (Hardworking Project), 'lowly educated/low skilled/unskilled' youths will be developed as industrious and made a workforce suitable for agriculture, industry and business

Employment-friendly Investment and Industries

3.7 Possible Strategies for Enhancing Employment during 8FYP Period

- Fulfilling electoral pledges on employment generation should get priority in the 8FYP strategy
  - At the national level, an integrated database, containing information of lowly, moderately and highly educated youths, will need to be created.
  - The National Youth Policy will need to be implemented comprehensively through formulation of a well-thought-out action plan
  - Separate Youth Division under the Ministry of Youth and Sports will need to be formed to bring the administrative dynamism in the work for the development and welfare of youths
  - A youth research centre will need to be set up under the Youth and Sports Ministry for research on different subjects related to young people
  - More investment in technical education and ICT sector will be needed to make education from school to university time-befitting in the face of the challenges of 21st century

3.7 Possible Strategies for Enhancing Employment during 8FYP Period

Pledges on Labour rights and Wages:

- The basic rights of the industrial workers will need to be protected. The system for the maternity leave of 4 months with salary for female workers will be implemented. Arrangement for providing health care, accommodation, safety in workplace and entertainment to the labourers will need to continue. Steps will need to be taken to provide rationing system along with other facilities in special considerations to labourers, including garment workers, ultra-poor and the landless rural farm workers
- The various measures for strong social safety and health, education, vocation and various activities taken in order to end child labour will need to be strengthened and expanded

Pledges on Gender Equality:

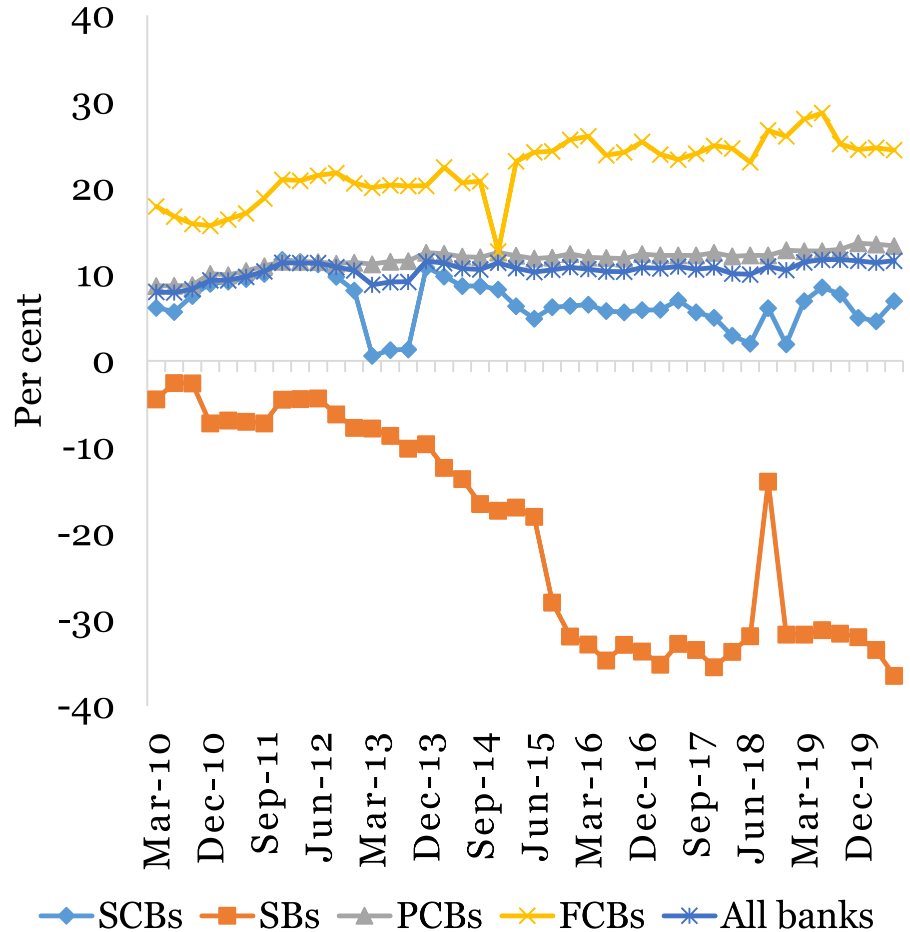
- To motivate and facilitate women entrepreneurs, necessary initiatives, including separate banking, credit facilities, technical support and criteria for recommendations, will need to be made
- Equal wages for both men and women will need to be ensured; employment opportunities will need to be created for rural women, and work environment for the women will need to be improved in all sectors. Women's capabilities will need to be scaled up through imparting proper education and adequate training

Section IV. Banking Sector and Monetary Policy

Health of the Banking Sector: Capital Adequacy

- Bangladesh Bank's Guidelines on Risk Based Capital Adequacy (2014) state that banks in Bangladesh must maintain a minimum total capital ratio of 10% (or Minimum Total Capital plus Capital Conservation Buffer of 12.5%) by 2019, in line with BASEL III.
- **State-owned commercial banks (SCBs) have failed to maintain minimum capital adequacy requirements since 2013.**
- Development finance institutions (DFIs) are critically under-capitalised.

Figure: Capital to risk weighted asset ratios by type of banks (in per cent)



Source: Bangladesh Bank

Independent Review of Bangladesh's Development

Health of the Banking Sector: Asset Quality

- NPL as a share of total loans increased from **10.3%** in September 2009 to **11.9%** in **September 2019**
  - During the same period the NPL as a share of total loans increased from 23.6% to 31.5% in SCBs and from 4.9% to 7.4% in PCBs
- Total amount of NPL has increased from **572.9 billion BDT** in Q1FY15 to **1162.9 billion BDT** in **Q1FY20**
  - During the same time, *the total amount of NPL in SCBs increased 2.04 times and the total amount of NPL in PCBs increased by 2.46 times*

Figure: Gross NPL ratios, by type of bank (in per cent)

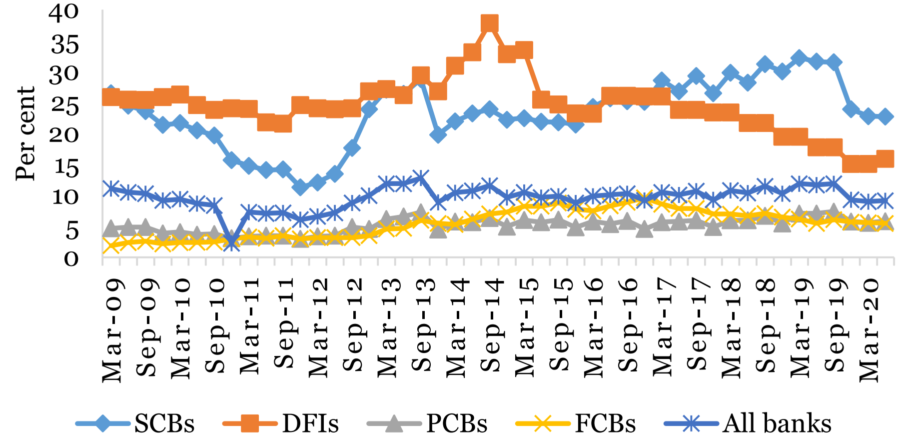
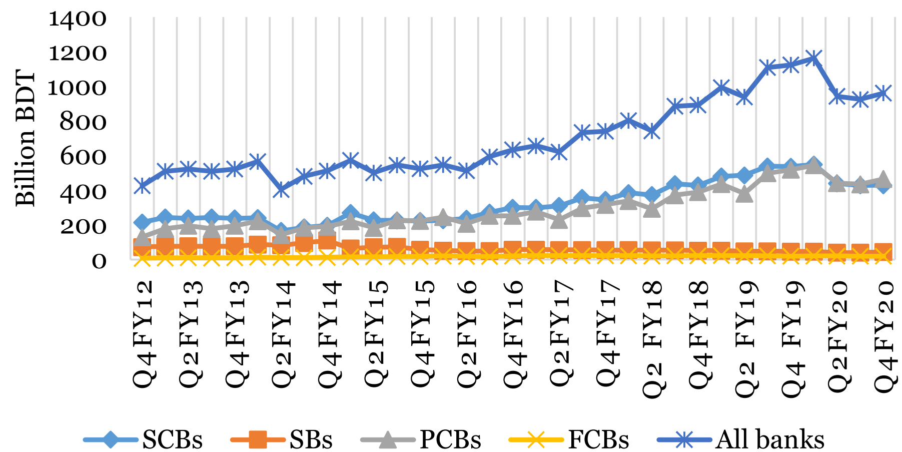


Figure: Total classified loan (in billion BDT)

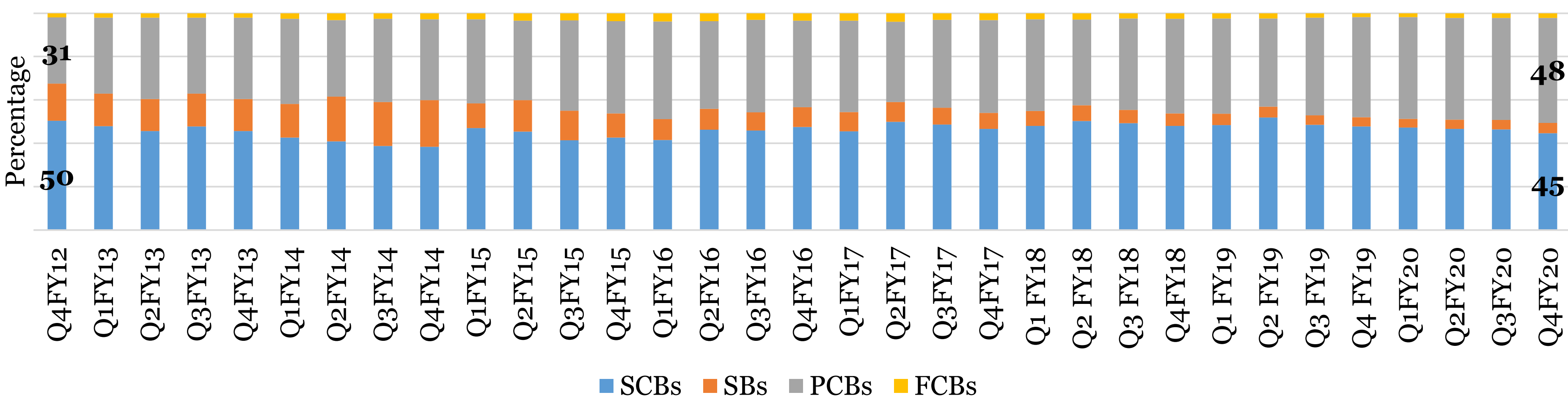


Source: Bangladesh Bank

Health of the Banking Sector: Asset Quality

- Over the years, the share of NPLs of DFIs in total NPLs of the banking sector has fallen
- On the other hand, the share of NPLs of PCBs in total NPL of the banking sector has risen
- However, it must be kept in mind that **the current state of NPLs in the banking sector cannot be ascertained since the central bank has frozen the classification of loans** for the period 1 January 2020 to 31 December 2020 in view of COVID-19

Figure: Distribution of NPL by type of bank (as percentage of total NPL in banking sector)

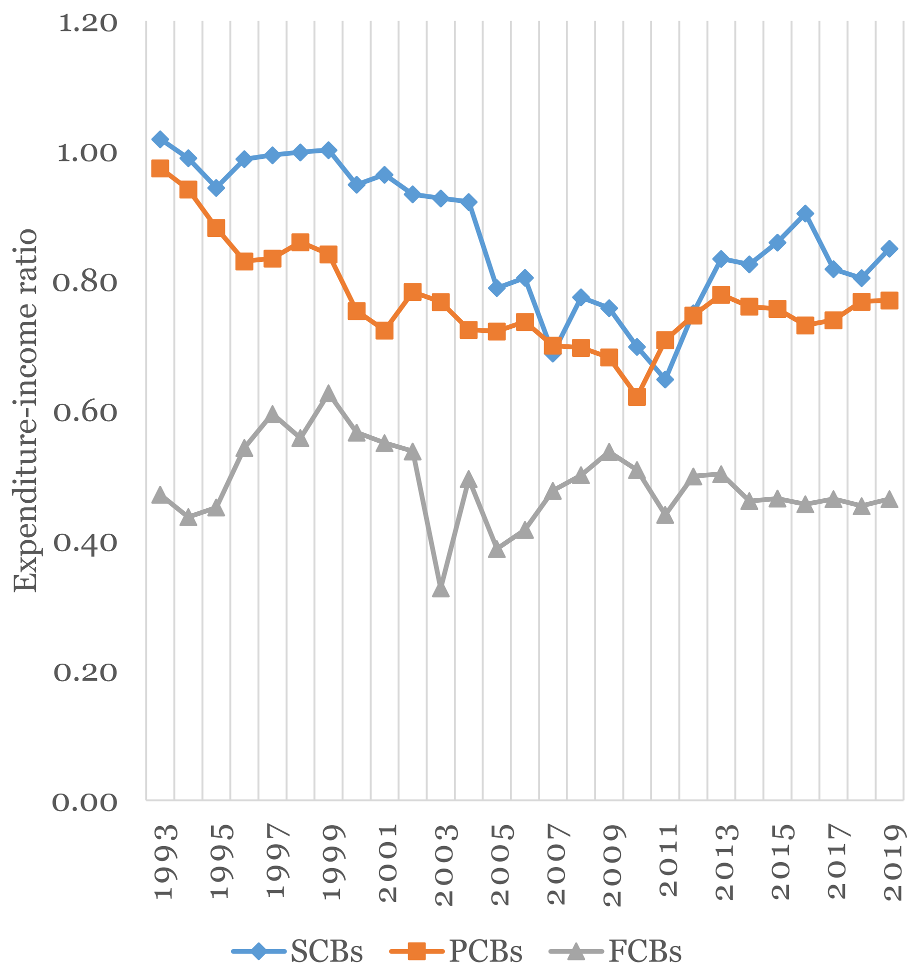


Source: Bangladesh Bank

Health of the Banking Sector: Management Efficiency

- *An expenditure-income ratio greater than 1 indicates that a bank is making losses*
  - As a rule of thumb, banks try to minimise expenditure-income ratio and *preferably keep it below 0.50*
- During the period 1993 to 2019,
  - **SCBs** had an average expenditure-income ratio of **0.87**
  - **PCBs** had an average expenditure-income ratio of **0.77**
  - **FCBs** had an average expenditure-income ratio of **0.49**

Figure: Expenditure-income ratio



Source: Bangladesh Bank

Health of the Banking Sector: Earnings

- During the period 1998 to 2020, the overall banking sector had an average 0.72% return on asset (ROA) and 10.97% return on equity (ROE)
- **For the past several years, the ROA and ROE of SCBs has been close to zero or negative**
- The gap between the ROA and ROE of FCBs and PCBs has closed down during the past decade, although both types of banks have experienced gradual decline in earnings

Figure: Return on asset (in %)

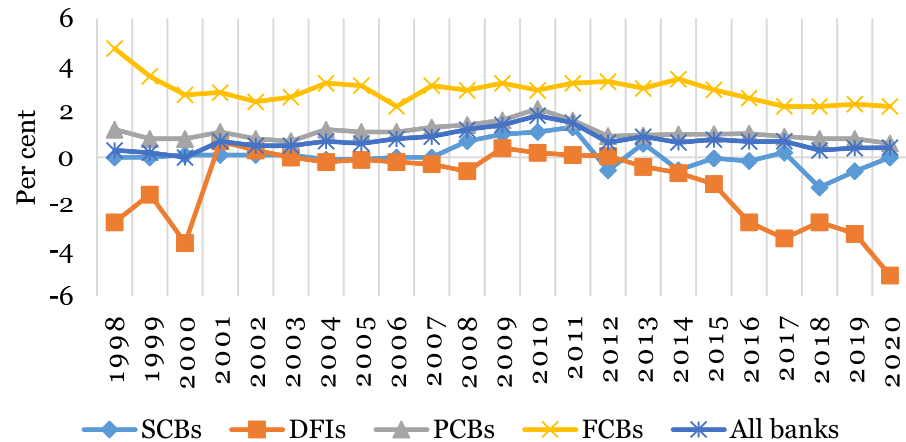
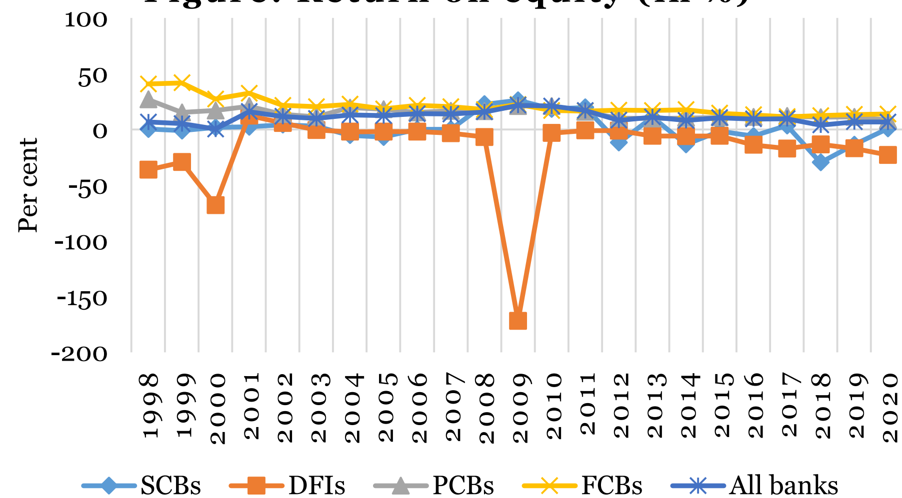


Figure: Return on equity (in %)



Source: Bangladesh Bank

Health of the Banking Sector: Liquidity

- **A fluctuating Advance-Deposit Ratio (ADR) was observed over the last ten years**
- This indicates inefficiency in liquidity management of some banks
- During last few years, the banking industry faced more than two unusual incidences of both liquidity surpluses and liquidity shortages
- The central bank recommends an ADR of 0.85 or less
  - As of September 2020, ADR was 0.83
- **In the past few months, both ADR and monthly average call money market borrowing rate have fallen, indicating surplus liquidity in the banking sector**

Figure: Advance-deposit ratio (ADR)

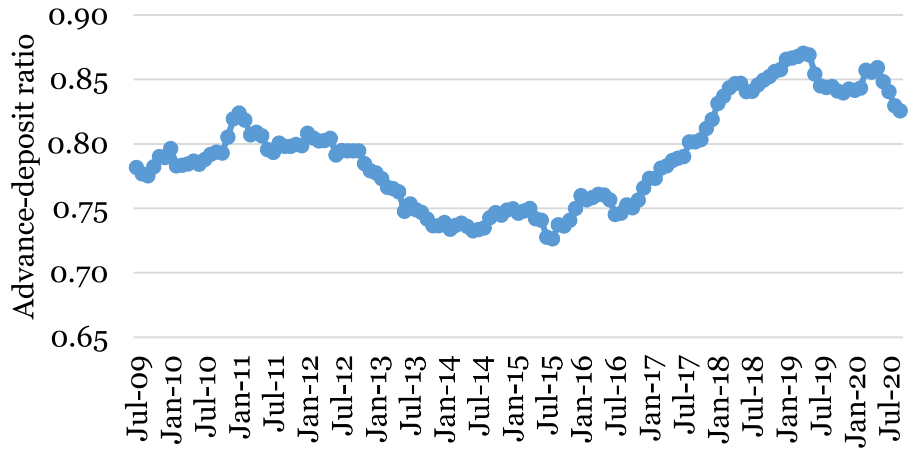
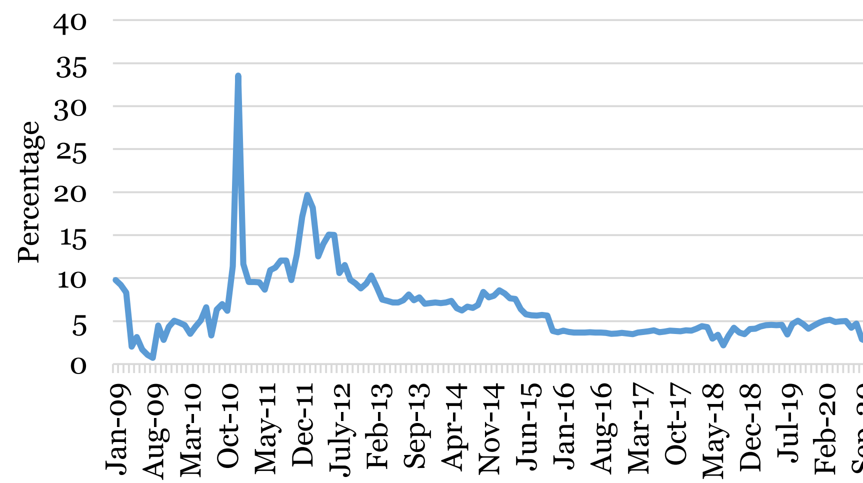


Figure: Monthly average call money market borrowing rate



Source: Bangladesh Bank

Health of the Banking Sector: Interest Rate

- On 24 February 2020, the Bank Regulation and Policy Department (BRPD) of Bangladesh Bank announced that **interest rates** on all loans, with the exception of credit cards, would be **capped at 9%** from 1 April 2020
- The experience of countries such as Kenya has shown that **capping interest rates restricts access to credit for micro, small and medium (MSME) enterprises, decreases the profitability and lending activity of small banks, reduces financial intermediation and distorts the signalling effects of monetary policy**
- Since September 2016, the **real weighted average deposit rate offered by scheduled banks was close to zero or negative**
- Capping the lending rate may lead to a further decline in the deposit rate which erode the value of the savings

Figure: Real deposit rate in banks (weighted average of all scheduled banks)

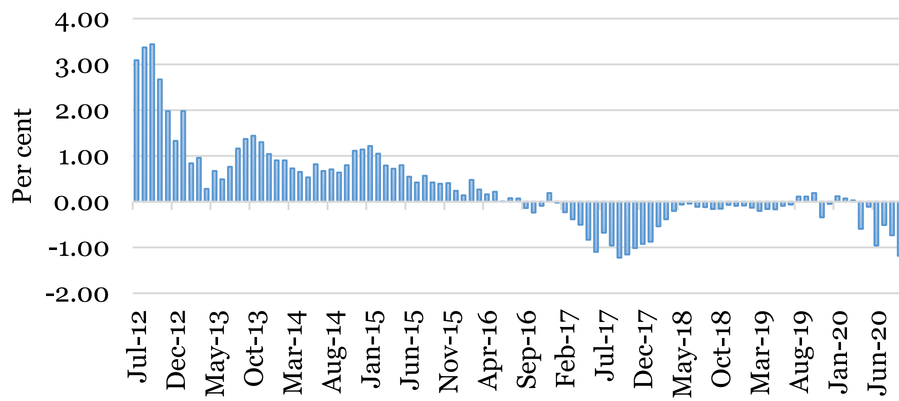
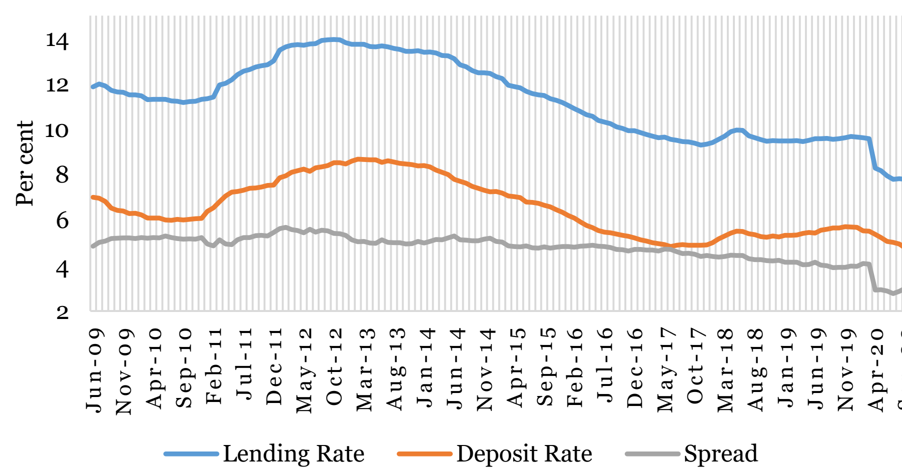


Figure: Interest rate spread



Source: Bangladesh Bank

Are Banks Contributing to Financial Inclusion?

- Although 11 new banks were awarded licenses to begin operations during 2013 to 2016 on the grounds of increasing financial inclusion of the poor, **districts with relatively higher rates of poverty had lower levels of banking activities**

Figure: District advances as a percentage of country's advances, as of 30 September 2019 (darker shades indicate higher values)

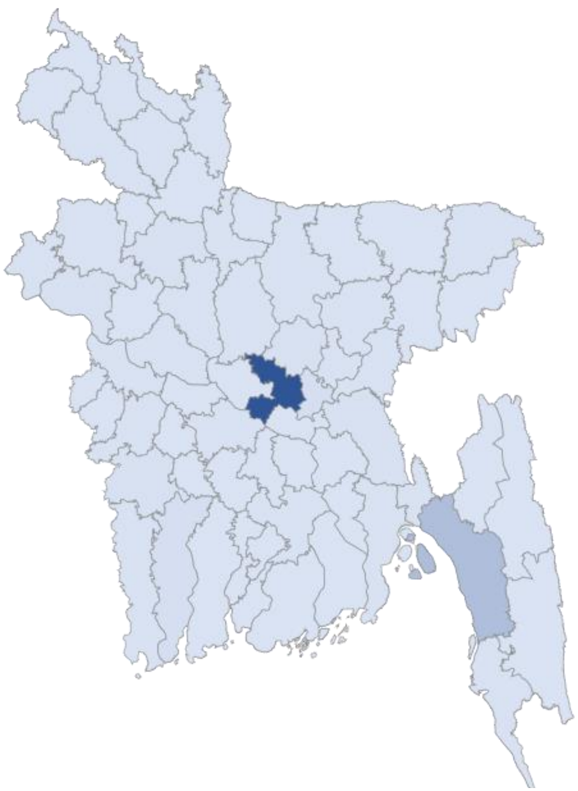
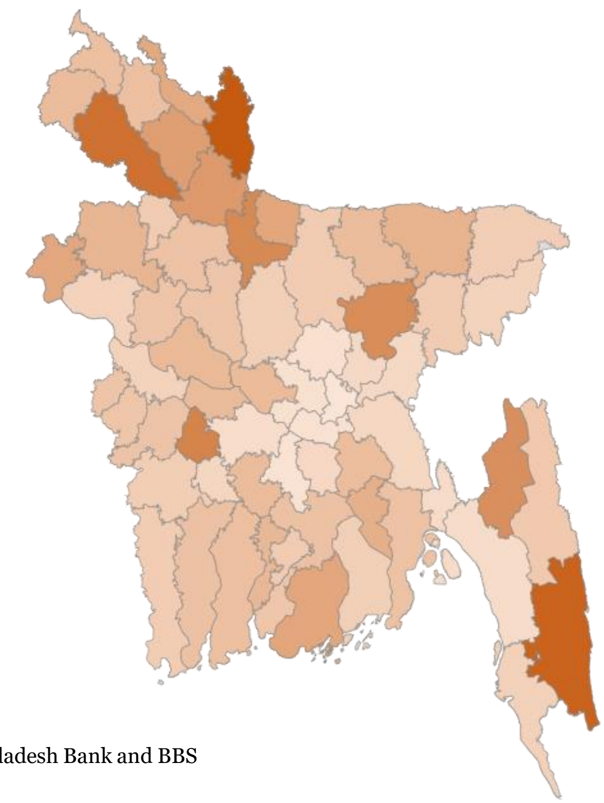


Figure: Percentage of district population below national lower poverty line, as of 2016 (darker shades indicate higher values)



Source: Bangladesh Bank and BBS

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Problems of the Banking Sector in Pre-COVID and Post-COVID Scenarios

	Pre-COVID Scenario		Post-COVID Scenario	
Problems in the banking sector	***Policy recommendations by CPD***	***Measures taken or planned by the government***	***New issues relevant to old problems***	***Probable implications***
Lack of good governance	Forming a goal specific, time bound, inclusive, transparent, unbiased and independent Citizen's Commission on Banking	Forming a Banking Commission	Government guaranteed and subsidised loans are being provided; weak and poorly governed banks will be able to offer loans	Adverse selection and moral hazard; delays in forming a commission may lead to worsening of the state of governance in the banking sector
Excessive regulatory forbearance, despite knowledge of poor governance	Ending the practice of bailing out weak and poorly governed banks with tax payer's money	Recapitalising commercial banks repeatedly, using vast sums of public money	Weak and poorly governed banks will take advantage of COVID-19 induced regulatory forbearance to continue business-as-usual	Performance of weak and poorly governed banks may get worse under lax regulations due to COVID-19

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Problems of the Banking Sector in Pre-COVID and Post-COVID Scenarios

	Pre-COVID Scenario		Post-COVID Scenario	
Problems in the banking sector	***Policy recommendations by CPD***	***Measures taken or planned by the government***	***New issues relevant to old problems***	***Probable implications***
High volume of NPLs	Taking strong legal steps against willful defaulters, strengthening the central bank, and broadly implementing reforms that would instill good governance	Forming an asset-purchasing type public asset management company which will issue government guaranteed bonds to buy NPLs from troubled banks	Loan defaulters will be allowed to apply for loans under certain COVID-19 related liquidity support packages	Some loans provided as part of the COVID-19 liquidity packages may become bad, increasing the volume of NPLs further; since loan defaulters will be able to access the COVID-19 liquidity support packages, they may take undue advantage of the new measures.

Independent Review of Bangladesh's Development (IRBD)

Problems of the Banking Sector in Pre-COVID and Post-COVID Scenarios

	Pre-COVID Scenario		Post-COVID Scenario	
Problems in the banking sector	***Policy recommendations by CPD***	***Measures taken or planned by the government***	***New issues relevant to old problems***	***Probable implications***
Money laundering and illicit financial outflows	Reinforcing the capacity of government agencies, such as the Transfer Pricing Unit of National Bureau of Revenue, to ensure enforcement of law in all areas related to illicit financial outflows	Bangladesh Bank has issued guidance notes and guidelines on money laundering and terrorist financing risk management and prevention	Banks may provide loans for import of coronavirus related essential medical items without repayment guarantee; many of these items may be imported at zero tariff under the current crisis situation	Import over-invoicing may be used to carry out trade based money laundering, taking advantage of absence of repayment guarantee and import tariff as added bonuses; illicit financial outflows may increase
Scams, heists and irregularities	Take immediate steps to bring perpetrators to justice and recover funds	Some steps have been taken, although they are mostly too little or too late; record of fund recovery is mixed	There is no clear definition of a COVID-19 "affected" business or individual based on objective and quantitative criteria	Fraudulent claims on government stimulus funds may be made by individuals presenting themselves as legitimate companies seeking assistance

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Problems of the Banking Sector in Pre-COVID and Post-COVID Scenarios

	Pre-COVID Scenario		Post-COVID Scenario	
Problems in the banking sector	***Policy recommendations by CPD***	***Measures taken or planned by the government***	***New issues relevant to old problems***	***Probable implications***
High number of commercial banks, relative to size of the country and the economy	Refraining from awarding licenses for opening new commercial banks	Bengal Commercial Bank Limited awarded license on the grounds of increasing financial inclusion	Direct cash transfers of COVID-19 related funds will be made through mobile banking channels, instead of the 60 commercial banks in the country	New commercial banks may not necessarily promote financial inclusion, since their borrowing and lending activities are largely based in Dhaka and Chittagong instead of districts with high poverty
Cronyism in banking	Reduce the number of family members allowed on board of directors of banks and decrease the tenure of each director	Number of family members allowed on the board of directors increased from 2 to 4 and tenure of each director increased from 6 years to 9 years	The greatest share of liquidity support has been offered to large industries	Crony capitalists may utilise their strong political foothold in banks to obtain more than their fair share of liquidity support

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Problems of the Banking Sector in Pre-COVID and Post-COVID Scenarios

	Pre-COVID Scenario		Post-COVID Scenario	
Problems in the banking sector	***Policy recommendations by CPD***	***Measures taken or planned by the government***	***New issues relevant to old problems***	***Probable implications***
Duality of interest rates of national savings certificates and bank deposits	Rationalising the interest rates of national savings deposits to make them sustainable in the long run; allowing interest rates on bank lending and deposits to be market determined	Capping the interest rate on lending to 9 per cent, and inducing the interest rate on deposits to be around 6 per cent	Some forms of COVID-19 related liquidity support will come with subsidised interest rates	Those who are eligible for liquidity support will borrow from the government's packages and those who are not eligible may not borrow at all; alternatively small savers will be suffer a double blow to their savings from the pandemic and the low interest rate on bank deposits. Capping interest rates may not stimulate investment in the post-COVID economy.

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Inflation Trends

- The 12-month average food and non-food inflation rates have fluctuated in a cyclical pattern over the past several years
  - Increases in food inflation were generally accompanied by decreases in non-food inflation, so the overall general inflation rate has remained largely stable in the short-term
  - In the long-term, the overall general inflation rate has experienced a slight decline

Figure: 12-month average inflation rate

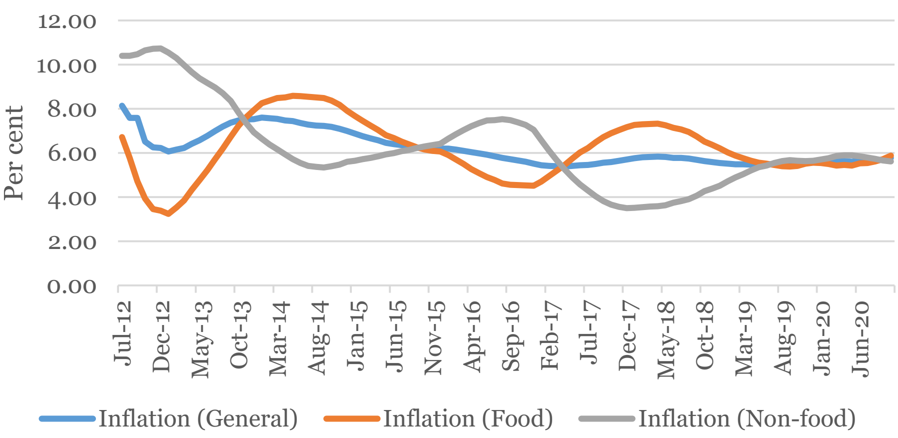
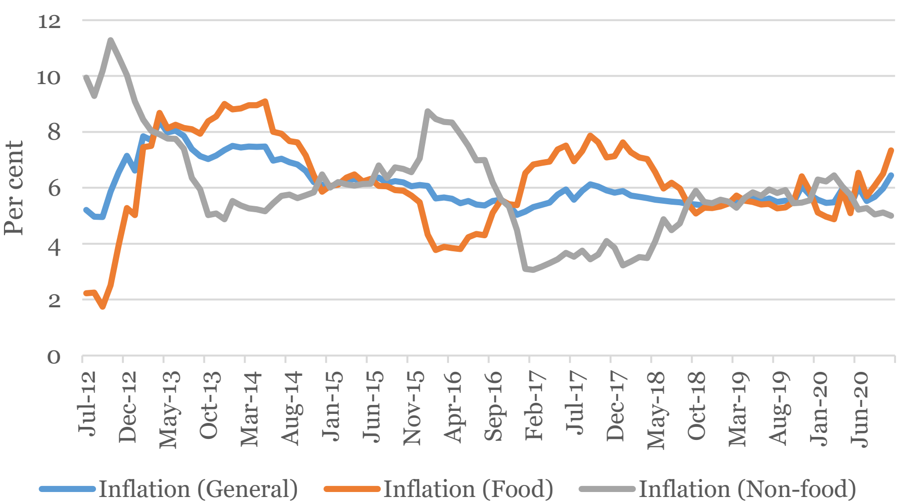


Figure: Point to point inflation rate

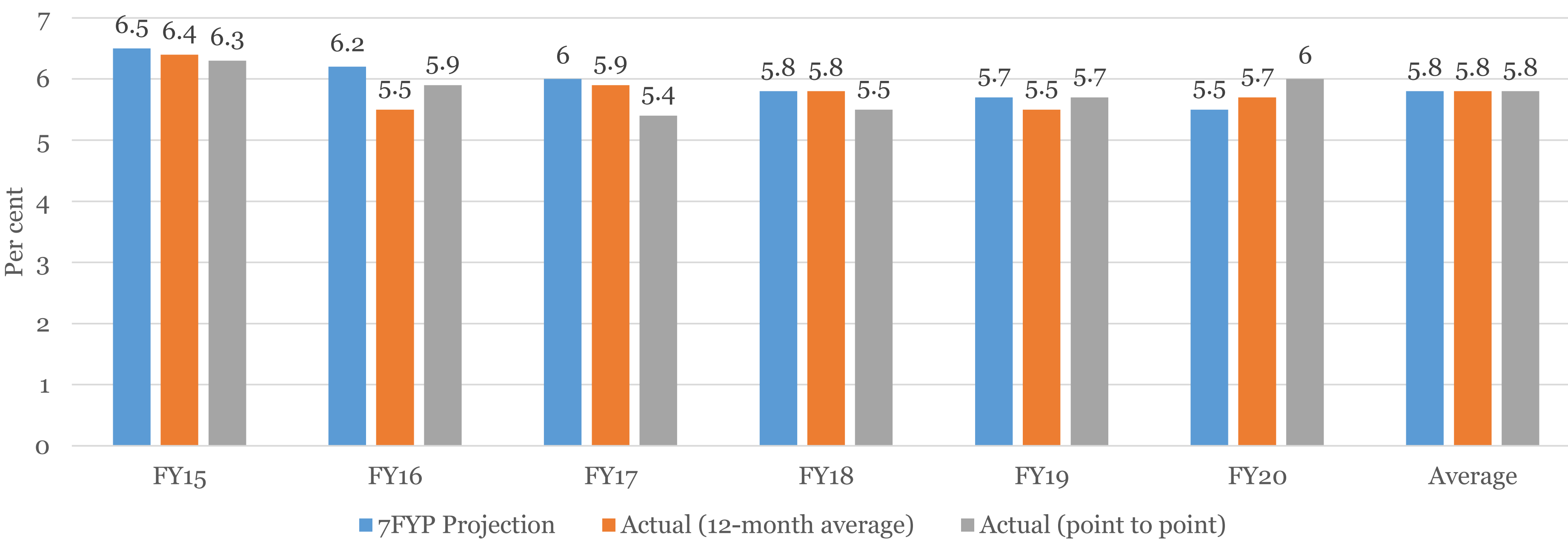


Source: Bangladesh Bank

CPI Inflation: Everything as Planned?

- Comparison of the inflation rate projections in the 7FYP with the actual inflation rates shows that the actual 12-month average inflation rate was consistently below the projected inflation rate in the 7FYP during FY15 to FY19
- However, in FY20 the 12-month average inflation rate was 5.7%, which was higher than the 5.5% projected for FY20 in the 7FYP

Figure: CPI Inflation, 7FYP Projections vs. Actual



Source: Planning Commission

CPI Consumption Basket: Does it Reflect Consumption Pattern?

Table: Food expenditure as a share of income (in per cent)

	National	Rural	Urban
2000	42	48	32
2005	45	50	36
2010	53	57	45
2016	46	52	37

Table: Food expenditure as a share of consumption expenditure (in per cent)

	National	Rural	Urban
2000	55	59	45
2005	54	59	45
2010	55	59	48
2016	48	50	43

Table: Weights used for food in calculation of CPI (base year 2005)

	National	Rural	Urban
2000			
2005	56	61	47
2010	56	61	47
2016	56	61	47

Source: BBS

- **Engel's law** states that *as income increases, people spend a smaller proportion of their total income on food*
  - In Bangladesh, *nominal* household income increased by 7.86% per year on average and *real* household income increased by 0.16% per year on average between 2010 and 2016
    - *food expenditure as a share of income* **decreased** from **53%** in **2010** to **46%** in **2016**
    - *food expenditure as a share of total consumption expenditure* **decreased** from **55%** in **2010** to **48%** in **2016**
- However, the *weights used for food in the calculation of CPI are significantly higher than share of food expenditure in either income or consumption expenditure*
- **Thus, the consumption basket used for calculating overall general inflation was created in 2005 and does not reflect the current consumption pattern of consumers or the actual prices in the market**

CPI Consumption Basket: Does it Reflect Consumption Pattern?

Table: Weights used for calculating CPI vs. actual distribution of consumption expenditure

	Weights used for non-food items in calculating CPI (base year 2005)	Distribution of consumption expenditure based on crowd-sourced data
Non food	44	60
Clothing	7	3
Rent	15	17
Transport	6	21
Recreation	4	7

Source: BBS and Numbeo

- Crowd-sourced data of prices of 5,621 items contributed by 449 respondents during November 2019 to November 2020 show that
  - share of **non-food** items in actual consumption expenditure was **16% higher** than the weight in CPI
  - share of **rent** in in actual consumption expenditure was **2% higher** than the weight in CPI
  - Share of **transport** in actual consumption expenditure was **15% higher** than the weight in CPI
- **Thus, the consumption basket used for calculating non-food inflation does not accurately portray the behaviour of the consumers at present or the market prices prevailing at the moment**

Monetary Aggregates
7FYP Projections vs. Actual

- **Actual growth of broad money** has been **lower** than the **projected growth of broad money** in the 7FYP in all the years between FY15 to FY20, with the exception of FY16
- **Actual growth of credit to the private sector** was **higher** than the projected growth of credit to the private sector in the 7FYP **during FY15 to FY18**
- However, **in FY19 and FY20** actual growth of credit to the private sector was **lower** than the projected growth of credit to the private sector in the 7FYP

Figure: Broad money (% change), 7FYP projection vs. actual

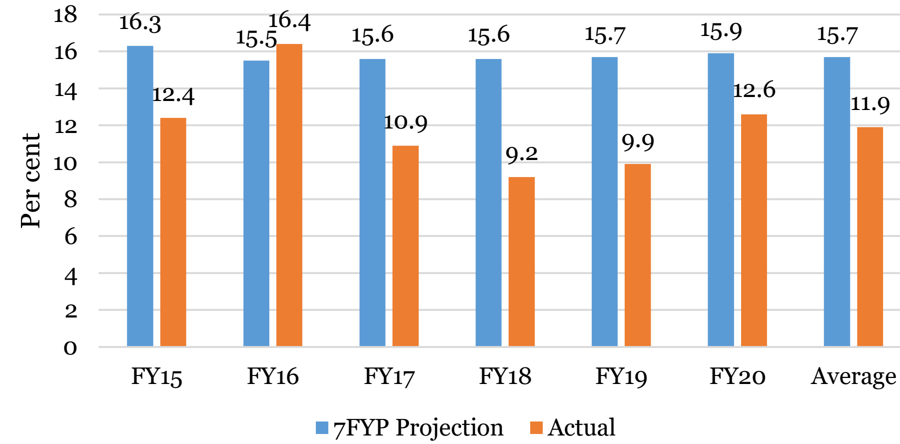
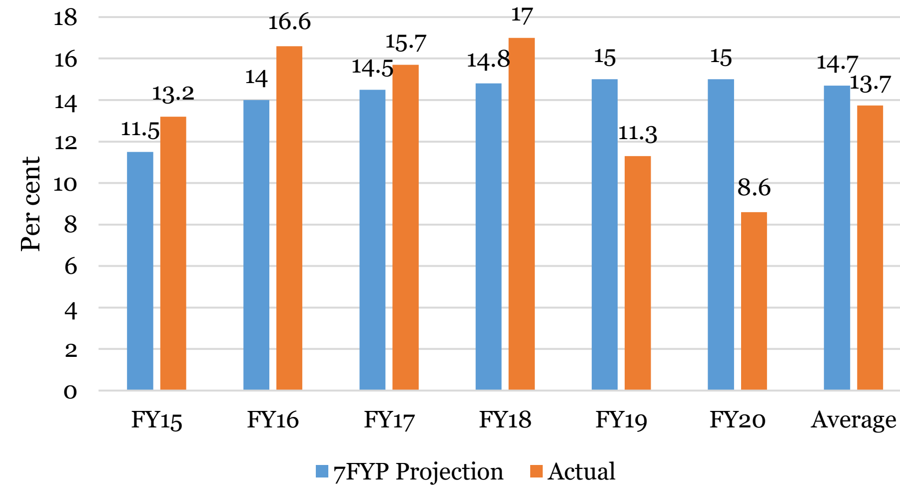


Figure: Credit to private sector (% change), 7FYP projection vs. actual



Source: Planning Commission

Policy Recommendations

- **Loan defaulters should not be allowed to access** any of the COVID-19 related liquidity support packages
- Weak and poorly governed banks should be barred from participating in the COVID-19 related liquidity support packages
  - **Banks which are not fully compliant with BASEL III or the Banking Company Act should be not be allowed to participate** in the COVID-19 related liquidity support packages
- Clear, objective and quantitative criteria should be declared to properly **identify "affected" businesses and individuals**
- **Transparency and accountability mechanisms** should be built into all COVID-19 related liquidity support packages

Policy Recommendations

- A **multi-stakeholder taskforce** consisting of representatives from the government, central bank, commercial banks, international development partners, civil society, non-government organisations and academia should be formed for **monitoring the delivery** of the COVID-19 liquidity support packages and **evaluating their effectiveness**
- A goal-specific, time-bound, inclusive, transparent, unbiased and independent **Commission on Banking** should be set up in order to bring transparency in the prevailing situation, identify the root causes of the manifest problems and suggest credible measures for improving the situation sustainably
- For calculating CPI inflation, **a new consumption basket should be formulated** based on rigorous research of consumer behaviour and expenditure patterns, and all targets, projections and plans in the upcoming 8FYP should be revised in accordance with this new consumption basket for CPI and new base year for inflation

Section V. Prioritising Trade Issues in the 8FYP

Context of 8FYP

- Trade is playing an increasingly important role in the Bangladesh economy in terms of employment, foreign exchange earnings, exchange rate stability, import capacity and debt servicing and contributing importantly to the country's overall macroeconomic performance
- **All recent Five Year Plans have talked of export-led growth strategy as a key Pillar of the Plans**
- **In view of Bangladesh's LDC graduation, in 2024, trade issues have assumed even more significance in view of the 8FYP**
- The rise of the mega trading blocs, likely adverse consequences of LDC graduation, growing competition in Bangladesh's key markets and a weakened multilateral trading system will make Bangladesh's trade journey a challenging one during 8FYP period
- **Majority of 7FYP targets in trade areas have remained unattained.** The ongoing COVID-19 pandemic has further exacerbated trade performance as 7FYP entered its final stage
- **8FYP strategy in trade must be informed by both depressed benchmark scenario and the challenges ahead**

Context

Draft 8FYP document prioritises the following Strategies:

- **Reorienting trade regime for export-led growth**
- Growth acceleration driven by export-oriented industrialisation
- Private sector to remain as the driving force in export-led industrialisation
- Strengthening skills base and productivity to raise competitive strength
- ***Diversification to be key to export-led growth:*** Product diversification; Geographical diversification; Quality diversification; Goods to services diversification; Intermediate goods diversification
- Wider access to the global market through **market diversification**
- Tariff modernisation and reduction of effective rates of protection by **bringing down the dispersion between input and outputs tariffs**
- Export diversification **through removal of anti-export bias** and anti-intermediate goods trade bias in policies
- Improved Trade Logistics and Improve Ease of Doing Business Index to enhance competitiveness
- **Leverage FDI to strengthen Global and Regional Value chains and establish Production Networks**

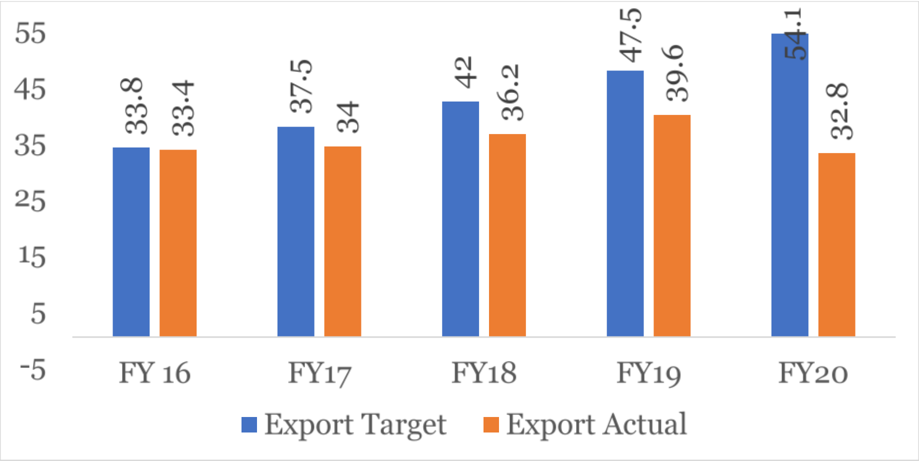
7FYP Benchmark Scenario

7FYP Benchmark Scenario

- **However, many of these policies and strategies were also prioritised in the 7FYP document**
- **7FYP talked of 'Strategy for Manufacturing Sector Development with Export-Led Growth'**
- **Rising gaps between Targets and Achievements in external sector areas have been a key feature of 7FYP**
- **Adverse impacts of COVID-19 can not explain the significant under-performance and the widening gaps**

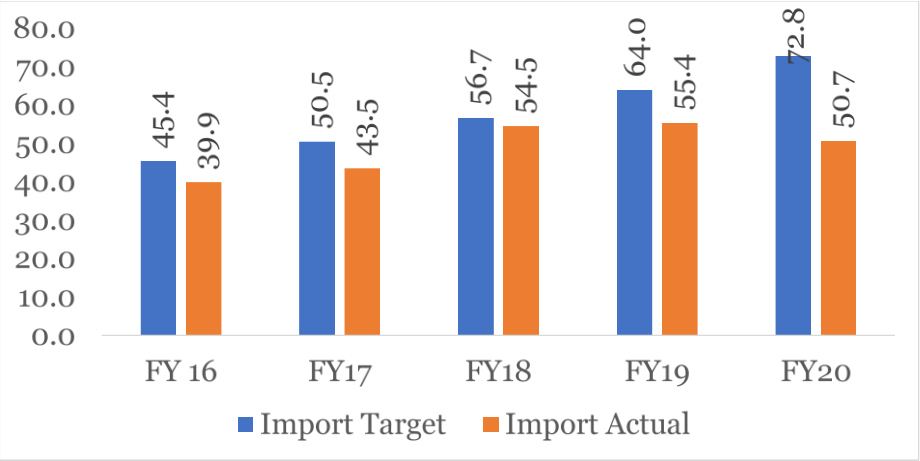
Rising Gap Between Targets and Achievements in 7FYP Period

Figure: Export Target and Actual Export in 7FYP Period (In Billion USD)



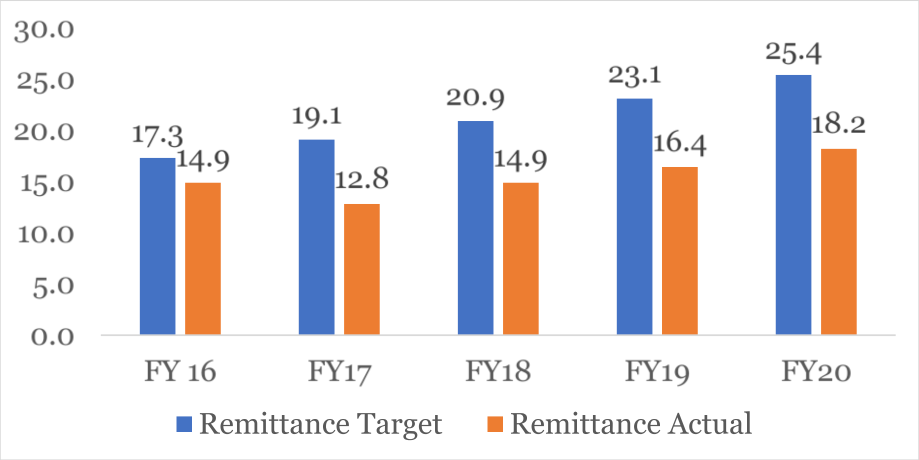
Source: 7FYP and Export Promotion Bureau

Figure: Import Target and Actual Import in 7FYP Period (In Billion USD)



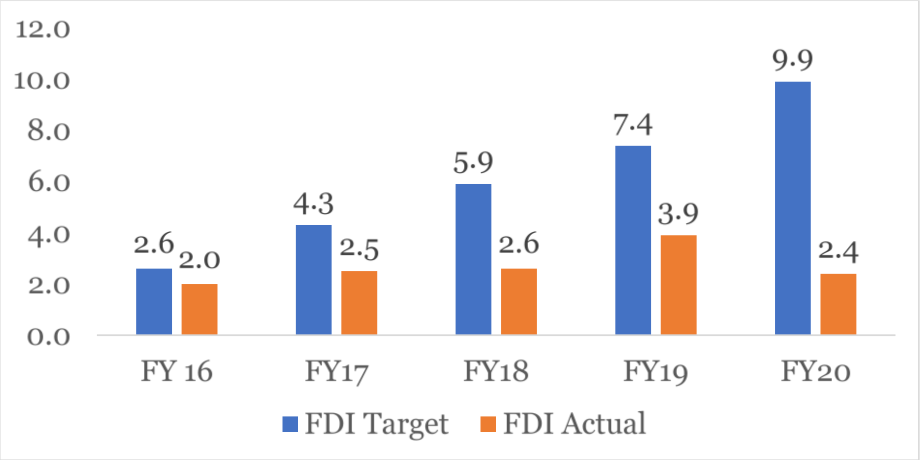
Source: 7FYP and Bangladesh Bank

Figure: Remittance Target and Actual Remittance in 7FYP Period (In Billion USD)



Source: 7FYP and Bangladesh Bank

Figure: FDI Inflow Target and Actual Inflow in 7FYP Period (Net) (In Billion USD)



Source: 7FYP and Bangladesh Bank

Rising Gap Between Targets and Achievements in 7FYP Period

- **The gaps between 7FYP Targets and Achievements are quite striking,** and not only in the COVID impacted FY2019-20. These relate to key 7FYP indicators of Export, Import, Remittance and FDI, as the graphs in the previous slide demonstrate
- **Falling Trade-GDP ratio:** Target set at 50.0 per cent for FY2019-20. Actual: 32.8 per cent of GDP
- 7FYP had set the target of 130th rank, by 2020, in terms of World Bank's Ease of Doing Business Index. Bangladesh was actually ranked 168th in 2019

Rising Gap Between Targets and Achievements in 7FYP Period

Table: Relative Performance of Bangladesh and Competitors in US market

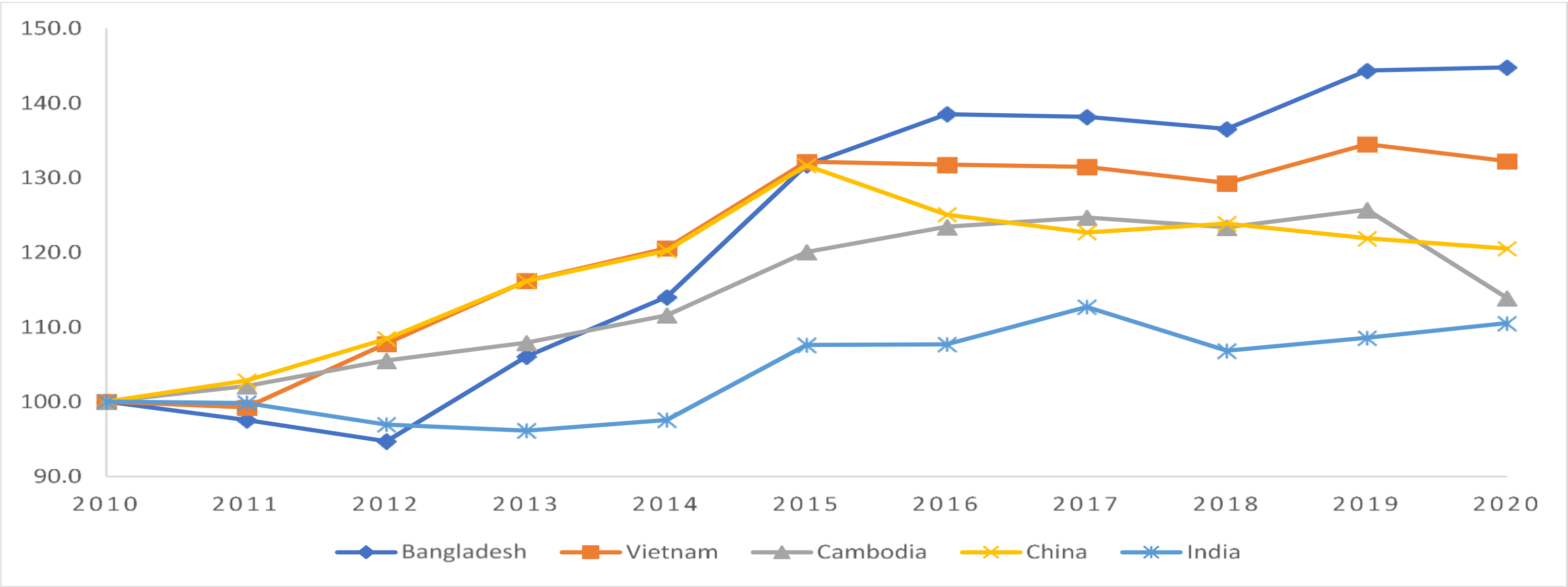
Export to USA
Base Year 2015-16 = 100

	Bangladesh				China				Cambodia				Vietnam			
HS Codes	**61**	**62**	**RMG**	**Total**	**61**	**62**	**RMG**	**Total**	**61**	**62**	**RMG**	**Total**	**61.0**	**62.0**	**RMG**	**Total**
FY16	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
FY17	94.0	95.1	94.8	95.9	91.5	92.7	92.1	103.0	88.7	97.1	90.8	97.8	105.6	101.5	103.9	111.0
FY18	99.3	95.3	96.4	98.0	91.2	89.6	90.4	113.1	99.2	105.2	100.7	118.9	115.4	111.2	113.6	117.3
FY19	108.7	109.9	109.6	111.2	96.3	91.7	94.1	110.3	110.7	113.6	111.4	151.6	125.8	126.2	126.0	145.2
FY20	104.8	98.0	99.9	102.4	70.0	72.6	71.2	89.5	116.7	135.9	121.5	203.3	120.0	129.1	123.8	168.7

- Bangladesh has been able to put a strong footprint in the huge global market of apparels. However, as the table indicates, **the space vacated by China is being increasingly captured by Bangladesh's competitors such as Cambodia and Vietnam (in US market, for example)**
- **Intra-RMG diversification (for e.g. man-made fiber items) should receive priority in the incentive system**

Rising Gap Between Targets and Achievements in 7FYP Period

Figure: REER of selected countries

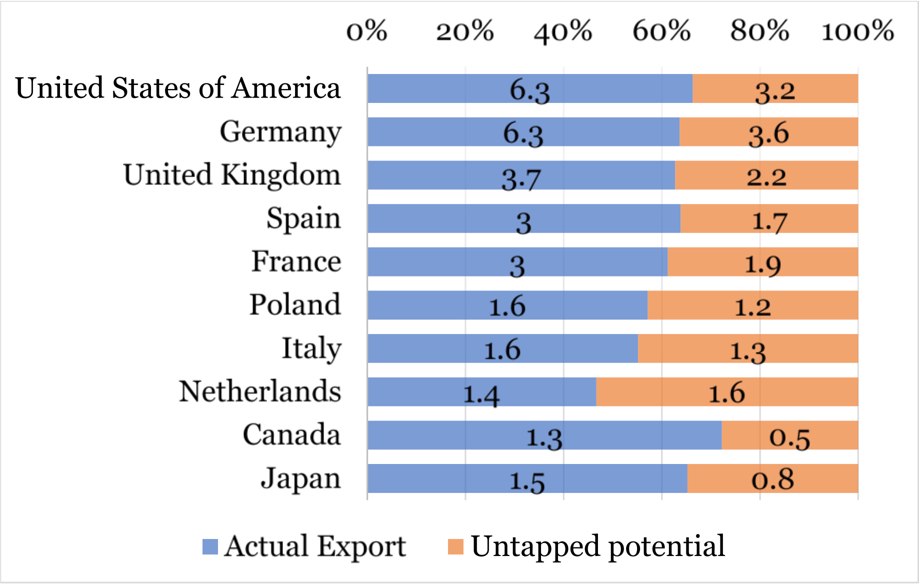


Source: Darvas (n.d)

- **BDT exchange rate (REER) has remained over-valued vis-à-vis key competitors, undermining her export competitiveness**
- **A gradual depreciation policy needs to be pursued over the 8FYP period**

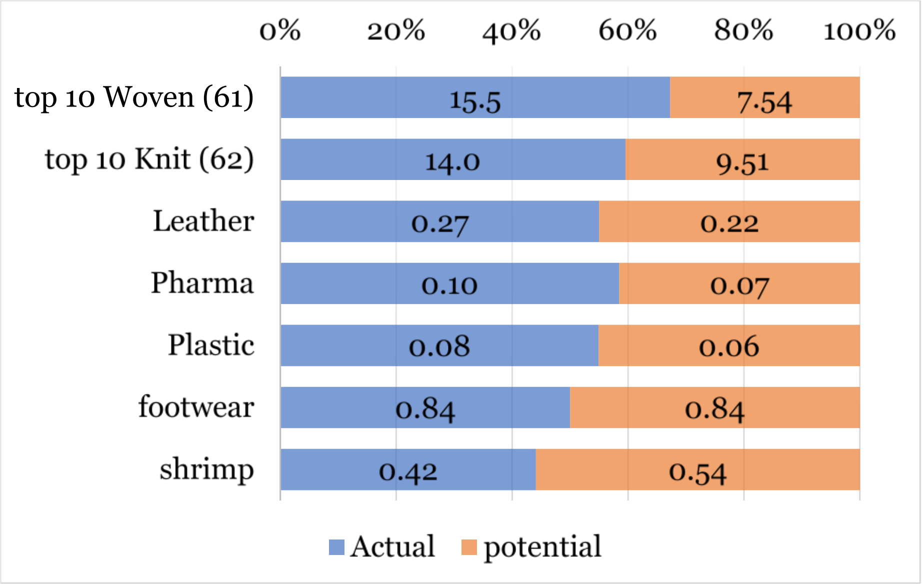
Realising Export Potentials: Markets and Products

Figure: Export potentials of Bangladesh by country (In Billion USD)



Source: Estimated based on Trade map data

Figure: Export potentials of Bangladesh by products (In Billion USD)



Source: Estimated based on Trade map data

- **There are significant unexploited export opportunities, both in terms of markets and products**
- **8 FYP should strategise how best to take advantage of untapped opportunities in the context of current markets and products and in view of those with high export potentials**

Strategising in view of LDC Graduation

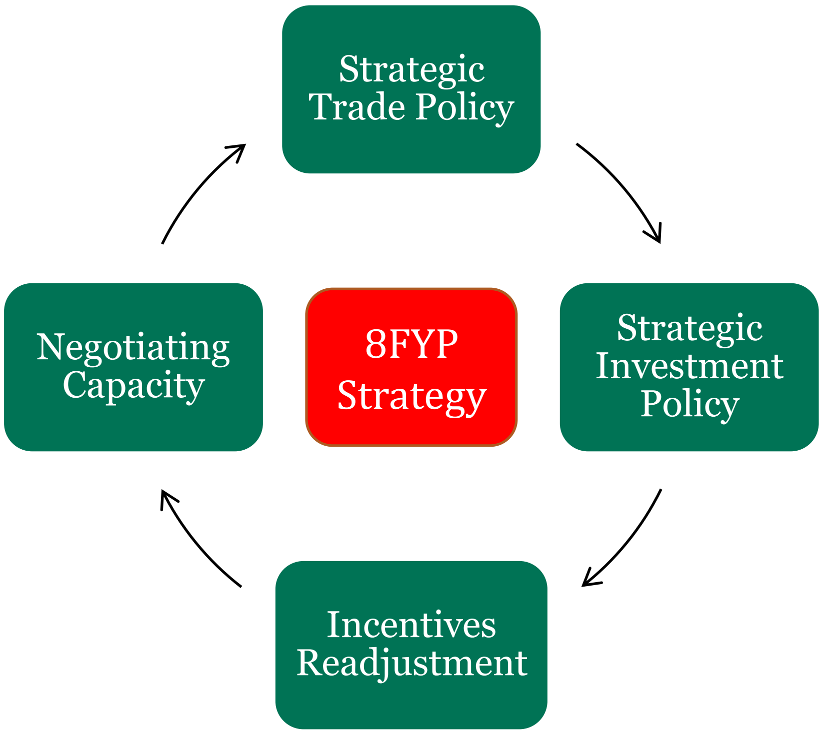
- ***Bangladesh has decided not to ask for deferment of its expected LDC graduation, by the year 2024***
- Sustainable LDC graduation will call for proactive steps towards strengthening of domestic capacities in various areas
- ***LDC graduation will entail significant preference erosion and loss of S&D flexibilities*** currently enjoyed by Bangladesh. Average tariffs facing Bangladesh's export is set to rise by 9.0 per cent, and potential export loss could be to the tune of 14.0 per cent of the country's global export. Sectors such as the pharmaceuticals could lose the current flexibilities in terms of patenting and licensing requirements
- ***Three-pronged strategy:***
    - Getting ready by taking advantage of flexibilities currently available
    - Preparing for future as a developing country
    - Pursuing proactive policy, regionally and globally, to safeguard Bangladesh's trade and business interests

Strategising in view of LDC Graduation

- ***Towards this:***
  - Strengthen Bangladesh's role in the WTO, Particularly in view of the discussions in support of graduating LDCs. ***The Geneva Mission's capacity will need to be further strengthened*** taking into cognisance demand of future engagements in the WTO
  - ***Bangladesh will need to pursue proactive negotiations to enter into comprehensive economic partnership agreements (CEPA)*** with regional and key trading partners. This will require domestic policy reforms in areas of trade, e-commerce, IPR,NTBs, copyrights, TBT, certification and standards
- Bangladesh's negotiating capacities will need to be significantly strengthened in view of deepening bilateral and regional integration through CEPA type of arrangements. ***A separate Negotiating Cell should be created in the Ministry of Commerce or the BFTI***
- FDI, particularly in SEZs, must be geared towards creating regional value chains and production networks to take advantage of preferential access offered by RTAs. ***BIMSTEC FTA should be seen as an opportunity to enter into the growing ASEAN market***

Strategising in view of LDC Graduation

- **A thorough review of the incentive structure will be needed to take advantage of new product and market opportunities**
- **Incentives and policies should be geared to realising export opportunities in the regional markets of particularly Japan, China and India**
- **New export opportunities in e-commerce, digital platform based sectors and IT-related areas will need to be incentivised**
- **Triangulation of investment connectivity, transport connectivity and trade connectivity will be required. 8FYP need to provide strategic direction in view of this**



Section VI. External Finance for Development

Overview of Foreign Aid in 7FYP

- The 7FYP noted that a national policy on Development Cooperation was being prepared to guide development cooperation in Bangladesh from "a wider, strategic perspective"
  - The National Policy on Development Cooperation (NPDC) was drafted in early 2016
- This 7FYP stipulated that all aid data be made public and the Aid Information Management System (AIMS) should be the principal means of data sharing by DPs in Bangladesh
  - AIMS has been **technically updated over the years** with funding from the UNDP to reduce administrative time spent on reporting requirements
  - However, the online portal **lacks user friendliness** as there are **several limitations** as regards filtering and downloading of data

Foreign Aid

- The plan highlighted that government will continue its efforts to strengthen the Joint Cooperation Strategy (JCS) 2010-2015, signed in 2010, and the Local Consultative Group (LCG)
  - GoB holds its dialogue with development partners, civil society, academia and private sector period through the Bangladesh Development Forum (BDF) and LCG
  - During 7FYP period, BDF has taken place in 2016, 2018 and 2020
  - The Global Partnership for Effective Development Co-operation (GPEDC) had noted that there is a **lack of inclusiveness** within the LCG
  - BDF documents are uploaded as scanned images which limits user-friendliness

Foreign Aid

- Over the years, volume of grants disbursement has gone down while disbursement of loans have been rising
  - The declining trend was more drastic after FY11
- As a result, grants represented only 4% of the overseas development assistance (ODA) to Bangladesh in FY19

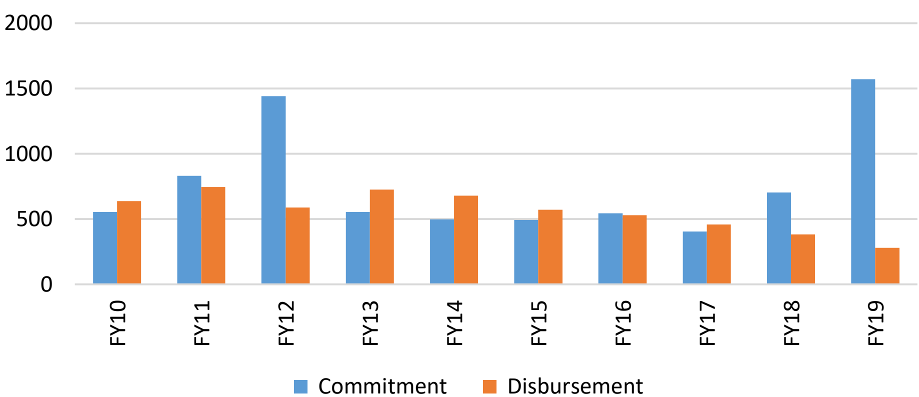
Figure: Share of grants and loans in ODA

Source: MoF (2019)

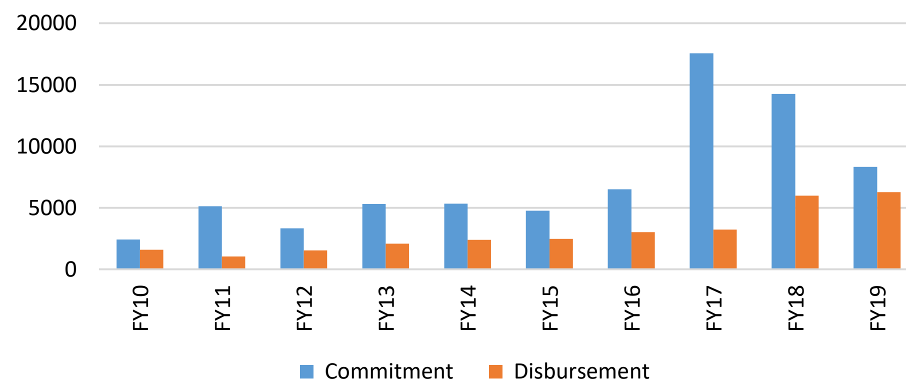
Foreign Aid

- ❑ There is a large variation between commitment and disbursement of aid, particularly for loans
- ❑ Since FY18, commitment of **grants** have increased while **disbursement has gone down**
- ❑ Much of the **loan commitments made by donors have not been met**
  - ➢ Considerable gaps are observable since FY11 with gaps widening further inFY17
  - ➢ However, since FY17, differences in commitment and disbursement of loans have been narrowing

Commitment and disbursement of grants (USD million)



Commitment and disbursement of loans (USD million)



Source: MoF (2019)

Foreign Aid

- Since the country's inception in 1971, Bangladesh has received USD 85.9 billion in ODA constituting of USD 27.7 billion in grants and USD 58.3 billion in loans
  - The United Nations (UN) has been the largest provider of grants (USD 4 billion)
  - The World Bank's International Development Association (IDA) has been the biggest provider of loans (USD 20.5 billion)

Figure: Top ten grants providing development partners (FY1972-2019)

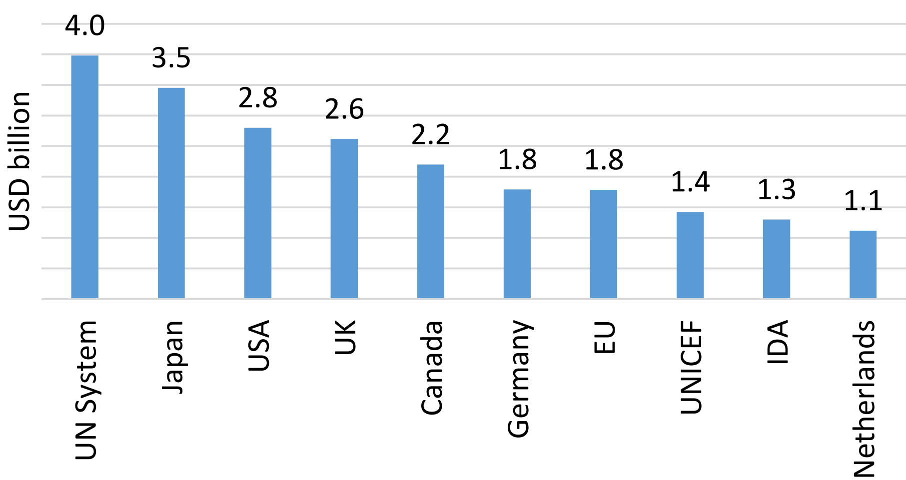
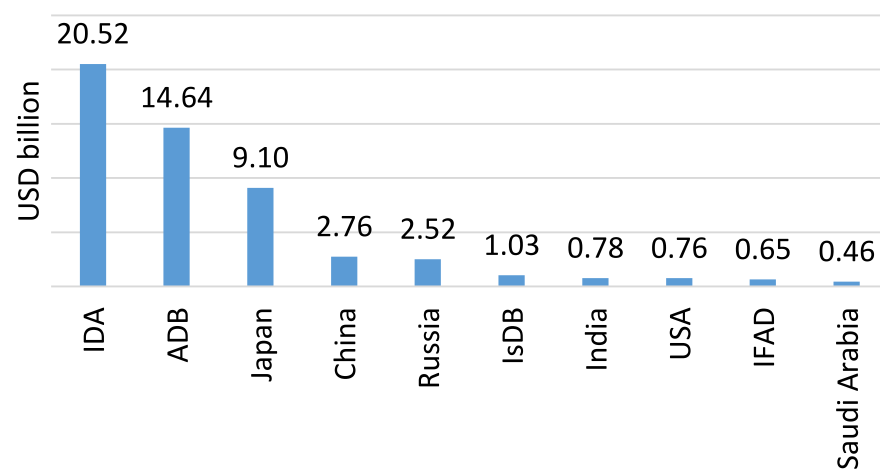


Figure: Top ten loans providing development partners (FY1972-2019)



Source: MoF (2019)
Note: According to ERD, Germany is the 9th major development partner in terms of providing ODA. However, Germany's position as a loans provider could not be determined due to absence of data

Foreign Aid

- Between 2016 and 2018, the largest disbursements were from **USD 3.87 billion** from International Development Association, **USD 3.25 billion** from Japan and USD **2.72 billion** from Asian Development Bank
  - Nearly 60% of the assistance came as loans while almost 27% was grants

Figure: Development finance disaggregated by type (2016-2018)

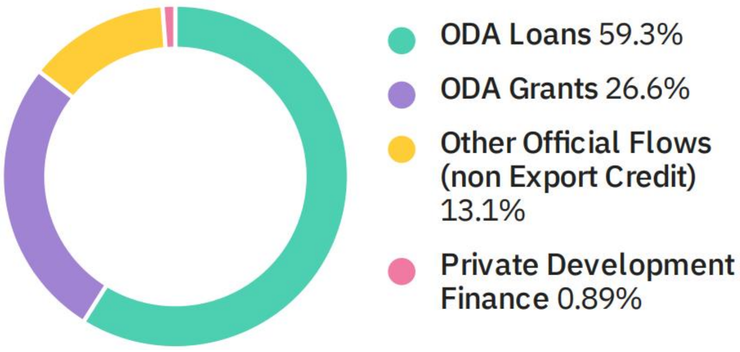
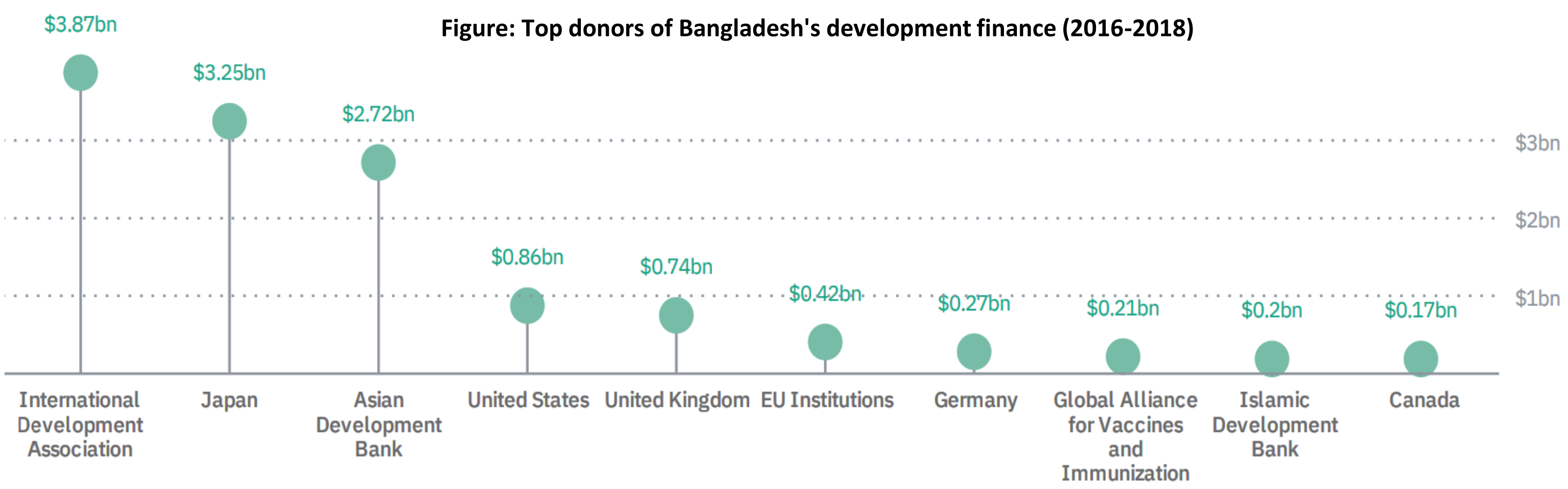


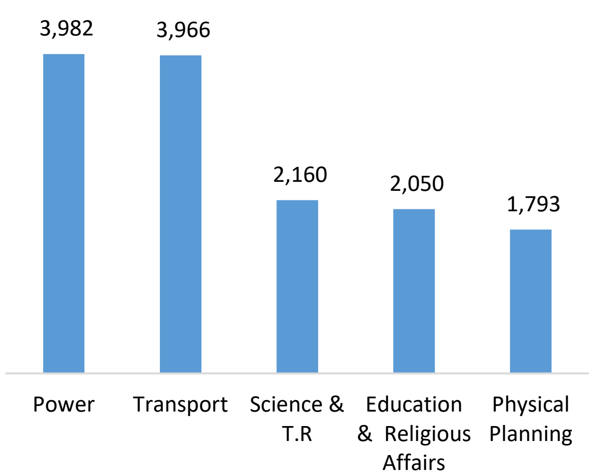
Figure: Top donors of Bangladesh's development finance (2016-2018)



Source: Stockholm Environment Institute (2020)
Note: SEI did not include ODA from China

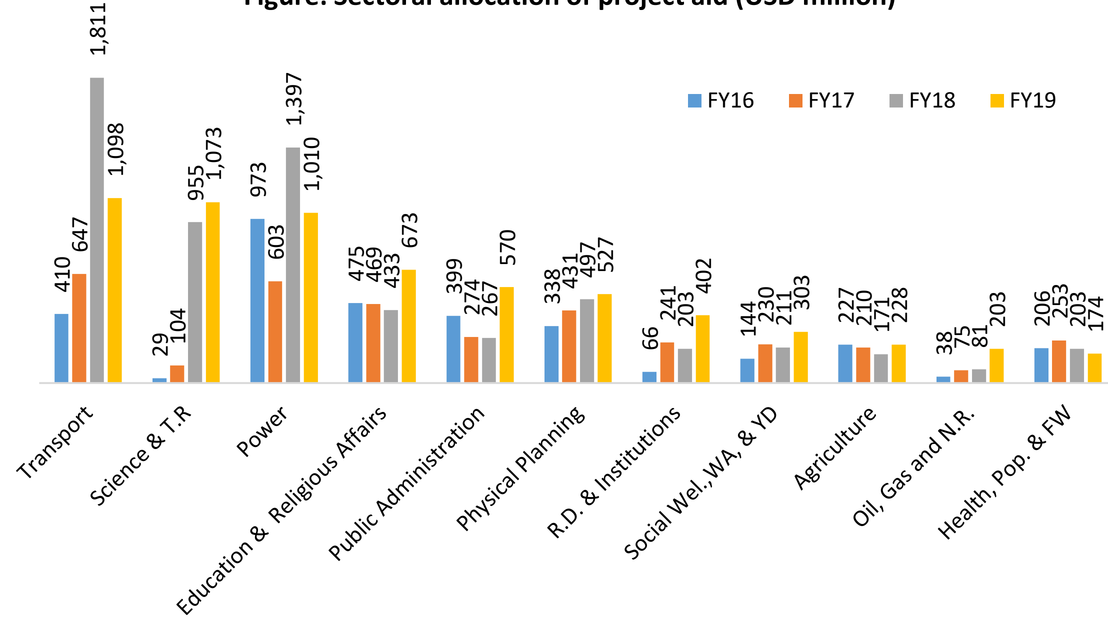
- During 7FYP, transport, science and technology, and the power sectors have been the largest recipients of project aid
  - Allocations for transport and power sectors peaked in FY18
  - Although lower than previous year, allocations for transport, science and technology, and the power sectors were the highest in FY19

Figure: Sectors receiving highest allocation of project aid during FY16-FY19 (USD million)



Source: MoF (2019)

Figure: Sectoral allocation of project aid (USD million)



Overview of Debt Management in 7FYP

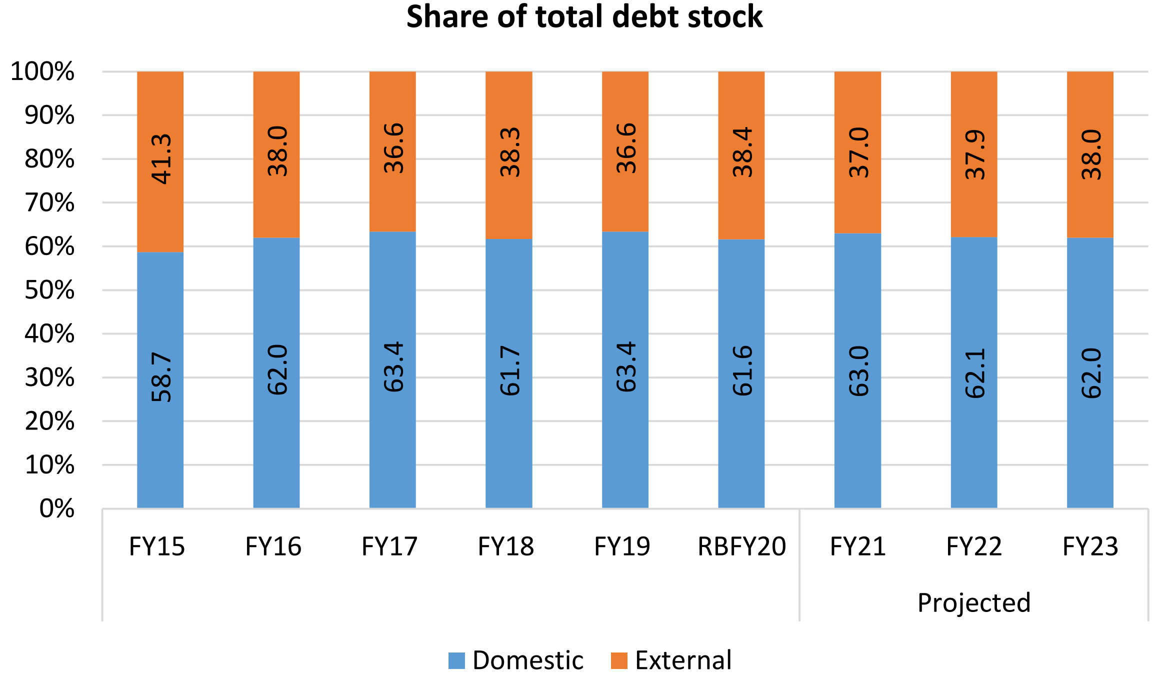
- The government had planned to increase its dependence on domestic borrowing to finance the fiscal deficit
  - The level of domestic debt in relation to GDP was projected to increase to 25.1 per cent by FY20
  - External debt was projected to be 11.2 per cent of GDP in FY20
- The Plan aspired to maintain prudency in the use of external sources by leveraging concessional official bilateral and multilateral sources

Debt Sustainability

- The Plan's external financing strategy included:
  - widening of external funding channels
  - establishing greater scope for private investors to better secure external financing through reduced country/sovereign risk
  - relying on official bilateral and multilateral sources to finance large public sector projects or to achieve social sector objectives in line with the plan
- Highlighting the risk of crowding private sector investment due to domestic borrowing, the plan mentioned that borrowing will be synchronised with monetary policy and the growth of private sector credit demand

Debt Sustainability

- Domestic debt's share in total debt stock has increased during the 7FYP period, with intermittent rise and falls
  - Currently, about 61.6 per cent of the total debt is attributable to domestic debt
  - In FY21, share of external debt in total debt stock (37%) is projected to decline and then increase

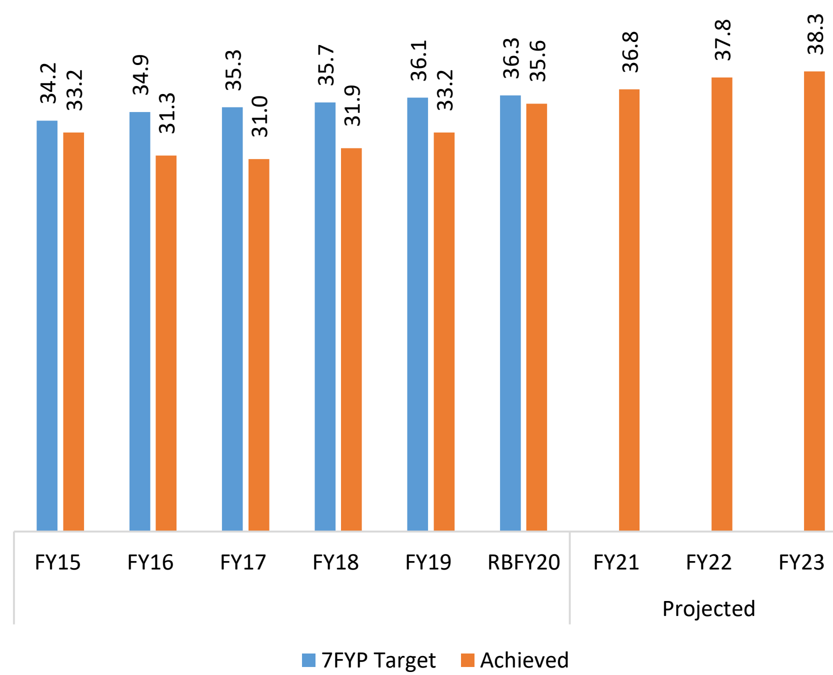


Source: MoF (2020)

Debt Sustainability

- ❑ Overall, GoB has **kept the total debt-GDP ratio below the 7FYP target**
  - ➢ RBFY20 figures show that debt-GDP ratio is 35.6% which is 0.7 percentage point lower than the 7FYP target
- ❑ However, total debt-GDP had an increasing trend during FY15 and RBFY20
- ❑ During FY21 and FY23, the **debt-GDP ratio is projected to increase**
  - ➢ According to the Medium Term Macroeconomic Policy Statement (2020-21 to 2022-23), the government will require additional financing to rebound the economy from the damage caused by the pandemic

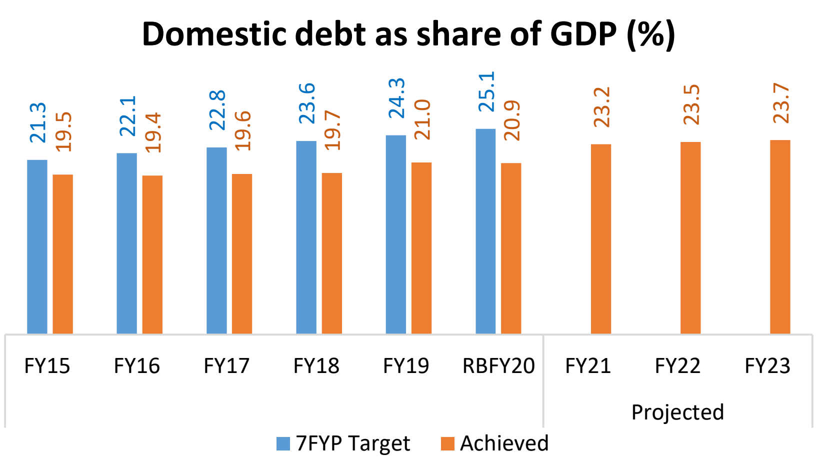
Total debt as share of GDP (%)

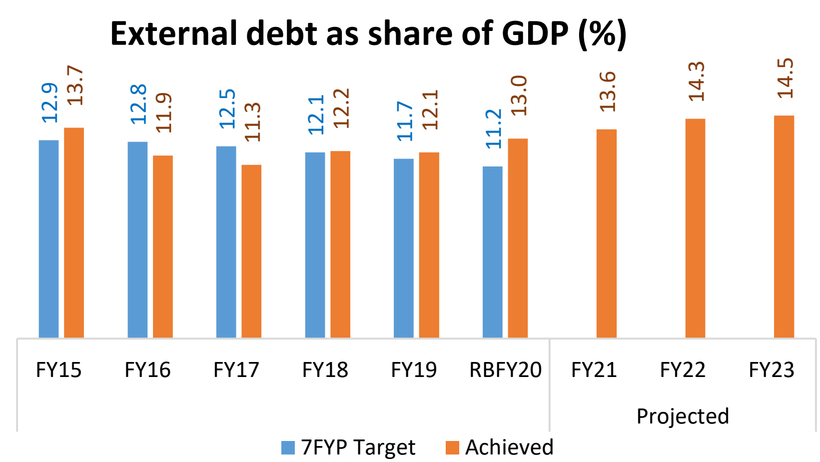


Source: GED (2015); MoF (2020)

Debt Sustainability

- Domestic debt as share of GDP remained at a reasonable state during 7FYP
  - Despite increasing since FY17, domestic debt has remained below the targets throughout the 7FYP period
  - Actual external debt-GDP ratio exceeded 7FYP target after FY17, reaching 13.0% in RBFY20
- Both domestic and external debts as share of GDP is **projected to increase during the 8FYP period**
  - During FY21, the government aims to leverage external debt as it expects the global interest rate to remain low due to the slow economic growth

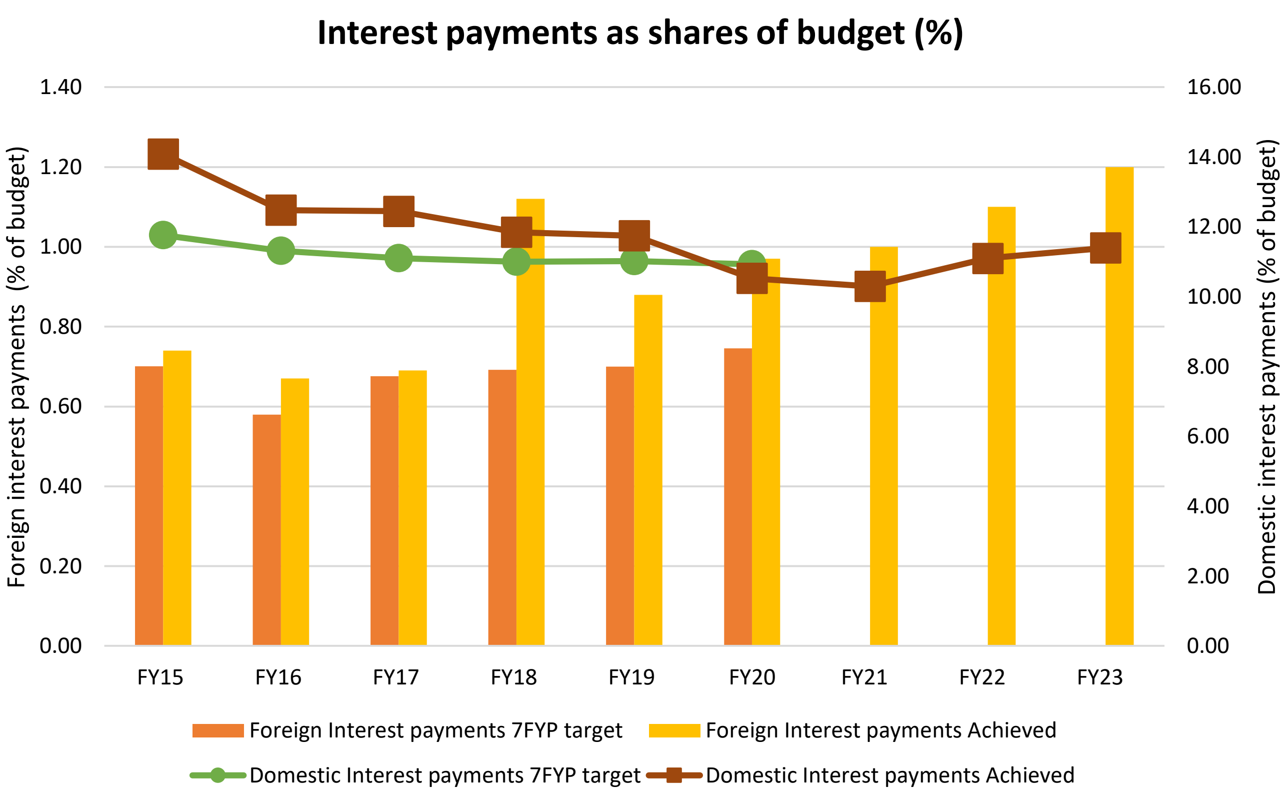




Source: GED (2015); MoF (2020)

Debt Sustainability

- ❑ Interest payments as shares of budget was higher than 7FYP targets
  - ➢ Sharp increase in foreign interests is observable in FY18 largely due to rising share of loans and declining share of grants in external financing
- ❑ In the 8FYP period, the shares are projected to increase



Source: GED (2015); MoF (2020)

External Support During COVID-19

- The government declared several COVID-19 response measures worth BDT 1.03 trillion (MoF, 2020)
  - This is **3.7 percent of the projected GDP in FY20**
- The government also sought budgetary/Balance of Payments (BoP) support from major development partners:
  - ADB has already disbursed USD 500 million
  - World Bank and AIIB committed USD 100 million respectively
  - World Bank also approved USD 1.05 billion for three projects to help Bangladesh create quality jobs and accelerate economic recovery from the pandemic, and build resilience to future crises
    - USD 500 million for Private Investment and Digital Entrepreneurship (PRIDE) Project
    - USD 295 million for Enhancing Digital Government and Economy (EDGE) Project
    - USD 250 million for Second Programmatic Jobs Development Policy Credit
  - IMF has provided USD 732 million in BOP support
- The government also expects to receive another USD 2 billion additional support in FY21 from its development partners (MoF, 2020)

Challenges

Debt Sustainability

- Earlier analysis by CPD revealed that interest payments for domestic debt has already risen considerably
  - 18.3% of total revenue expenditure will be spent for debt servicing in FY21 of which 91.3% is for domestic debt
  - **Debt sustainability may become an issue** in the future as servicing for foreign-financed large infrastructure projects financing is likely to put additional pressure

SDG implementation

- For SDG implementation, it will cost USD 66.32 billion annually (at constant prices)
  - Due to the wide ranging areas covered under the SDGs, external support, including aid, will become increasingly important
  - The global slowdown caused by the pandemic might hurt Bangladesh's prospects to leverage development assistance

Challenges

Issues with Development Partners

- An assessment on Bangladesh’s development cooperation arena by GPEDC identified several challenges faced by the country in terms of development cooperation
  - There is **a high degree of aid fragmentation** which is **challenging for effective development cooperation**
  - The large number of development partners, including South-South co-operation (SSC) providers, operating in the country, generally, **do not follow best practices** with regard to successful development cooperation
  - This **hurts country ownership in Bangladesh**, and **weakens government’s ability** to ensure that development partners' commitments are properly aligned to national plans and priorities without duplication
  - Additionally, **development effectiveness principles are not well institutionalised** in the private sector or civil society
- The Global Partnership for Effective Development Co-operation 2019 Progress Report observed several challenges globally:
  - A **declining trend in the alignment** of development partner projects to partner country objectives, results indicators, statistics and monitoring systems
  - Although predictability has improved, challenges remain due to **mismatch in planned and actual disbursements** which can impede partner countries’ effective planning, budgeting and execution

Challenges

Bangladesh government's capacity to utilise aid

- According to a report (2011) by the Economic Relations Division (ERD) of the MoF, aid effectiveness in Bangladesh is less than its potential due to a number of interlinked and interdependent structural, procedural and capacity problems
- This is reflected through low implementation of the Annual Development Programme (ADP) each year
- CPD's analysis had revealed **a lower utilisation** (35.5%) **of foreign aid** July-Feb of FY20 which is lower than both FY18 and FY19 for the corresponding period, particularly for
  - Roads and Highways Division (e.g. Dhaka Metro Rail project)
  - Ministry of Railway (e.g. Padma Rail Link Bridge)
  - Ministry of Science and Technology (e.g. Rooppur Project)
- During the same period, the utlisation of originally planned allocation for ADP was only 38.8% and 38.5% and in FY19 and FY 20, respectively

Challenges

- Earlier analysis by CPD had also revealed that **institutional weakness**, **delayed implementation** and **cost overrun** are the major reasons for low ADP implementation include
  - **Procedural lapses** concerning projects**, incomplete proposal**, **illogical expenditure target** and **inadequate feasibility study** also reduce the implementation of ADP
  - Projects cannot take off due to **bureaucratic delays in land acquisition** and **procurement** after approval
  - It becomes **impossible to effectively utilise the budget** for the full fiscal year by the time the project activities commence

Challenges

Future financial stress due to Rohingya refugees

- Only 58 per cent of the appealed USD 1.06 billion for the Rohingya refugees arrived in the last 10 months
  - The joint response plan (JRP) sought USD 877 million for 2020 and later appealed for another USD 181 million to address the COVID19 pandemic
  - Nearly two-thirds of appealed amount was funded in the previous years
  - Bangladesh would face considerable financial challenge if funding declines despite anticipated rises in spending

Recommendations for 8FYP

- ***Seek budgetary support from external sources***
  - Bangladesh should capitalise on G-20's decision to provide low income countries with funds at zero or low interest to combat COVID-19 pandemic
  - Prospects of suspension of debt service payments and debt cancellation may also be available from both OECD development partners and G-20 members in the South. These should be discussed and pursued proactively
  - Bangladesh should more actively explore other sources of external finance, including blended finance and South–South Cooperation
- ***Strengthen domestic resource mobilisation***
  - Bangladesh needs to increase its tax–GDP ratio by making use of appropriate regulatory framework and technological upgradation
  - Establishing online VAT registration and filing system, digitalising the VAT process and getting more companies into the system needs to be underscored in the 8FYP

Recommendations for 8FYP

❑ *Strategies needed to create robust capital market to utilise idle funds*

- Rahman, Khan and Farin (2019) observed that significant quantities of life insurance assets (approximately USD 4 billion) are invested in various short-term commercial bank deposits
- In an optimal situation, such funds should be invested in long-term ventures like infrastructure
- A sound capital market is needed to bring in the right players to make use of such funds

❑ *Address the challenges with aid utilisation*

- Enhancing the capacity of human resources, especially those associated with the design and implementation of foreign-supported projects, is critical for effective utilisation of aid
  - Even when public administration training is provided, such practical skills cannot be taught as it is specific to the sector in hand
  - Frequent transfer of trained officials from one ministry to another should be avoided
  - This will increase the country's absorptive ability to use international assistance at a higher pace, which will help minimise the amount of aid in the pipeline
- Timely implementation should also be prioritised, particularly for the large projects
- To ensure that line ministries and the external economic divisions or other ministries are well aligned and harmonised, more frequent communication is needed among the agencies
- In that case, the government should consider setting up inter-ministerial committees to meet frequently to evaluate if there are any coordination problems, ensure that the ministries are operating in line with the projects, objectives, and address other issues

Recommendations for 8FYP

- ***Coordination strategies needed to avoid aid fragmentation***
  - The government has to be the driver in this regard since most of the aid is channeled through the public sector
  - The government has to identify the gaps in coordination and address the underlying causes
- ***Create short, medium and long term strategies to deal with the Rohingya refugee crisis***
  - Since the beginning of the crisis in 2017, not a single Rohingya has been repatriated
  - Funding requirements have also not been met
  - Government needs to design the plan with time-bound indicators attached to a time frame to address this issue

Section VII. Concluding Remarks

Concluding Remarks

- The 8FYP is being formulated in view of challenging times ahead:
  - In spite of achievements in some areas, the benchmark 7FYP scenario was below the targets set for FY2019-20 in a number of key areas. Indeed, in many cases, the gaps have widened over years. 8FYP will need to revisit those targets and set the new targets in a realistic manner
  - The COVID pandemic has no doubt exacerbated many of the challenges facing the Bangladesh economy in 7FYP period. These have undermined achieved success in terms of many indicators such as poverty, employment, distribution of income and overall GDP growth. However, our analysis also demonstrates that many of these challenges predates COVID and their negative impacts have accumulated over time. 8FYP must identify the underlying weaknesses and try to address those, mitigate their adverse implications on the economy

Concluding Remarks

- LDC graduation, in 2024, will require Bangladesh to take adequate preparation so that we can graduate with momentum and graduation is sustainable. This will mean that 8FYP foresees needed steps in anticipation of significant preference erosion and demands on raising competitive strength of the Bangladesh economy
- 8FYP period covers the mid-way journey towards attaining the goals and targets of the SDGs by 2030. Accordingly, issues of inclusiveness and equity, and leaving no one behind, must be prioritised in the plan document

❑ In our analyses in the preceding sections, we have focused on three dimensions, concerning a select set of challenging areas:

- 7FYP benchmarks
- Emerging areas
- Policy recommendations

Concluding Remarks

- In view of the 8FYP, we have underlined the need of:
  - Reforms and institutional strengthening to enable the economy to create greater fiscal space through higher domestic resource mobilisation, raise allocative efficiency and efficacy of resource allocation concerning public expenditure, raise labour productivity and enhance competitive strength of the economy
  - We have drawn attention to some of the fault lines in view of fiscal-monetary management, banking sector performance, debt sustainability issues, labour market pressure, skills deficit, and demands of compliance required of a post-LDC global system
  - We have put forward a number of policy recommendations to address the embedded weaknesses and to tackle newly emerging challenges
  - We have pointed out that implementation of the 8FYP will call for a renewed political commitment in view of the election pledges made by the ruling party in its election manifesto which had put the vision of the economy that will need to be geared to higher growth, of a society which will be inclusive and a development process which is founded on well-governed institutions and corruption-free implementation

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