Analytical Review of Bangladesh's Macroeconomic Performance in Fiscal Year 2013

(Second Reading)

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As part of the CPD-IRBD tradition, CPD organised an Expert Group Consultation on 1 June 2013 at the CPD Dialogue Room. The working document of the *Analytical Review of Bangladesh's Macroeconomic Performance in Fiscal Year 2013 (Second Reading)* prepared by the CPD-IRBD 2013 team was shared at this in-house meeting with a distinguished group of policymakers, academics and professionals. The CPD team is grateful to all of those present at the consultation for sharing their views, insights and comments on the draft report. A list of the participants of the meeting is provided below (in alphabetical order):

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The CPD IRBD 2013 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

1. INTRODUCTION

Bangladesh economy experienced fluctuating fortunes in FY2013 with the economy moving towards a lower level equilibrium in the course of the ongoing fiscal year. On the one hand, the macroeconomic stability was partially restored and rising inflationary trends somewhat tamed, while on the other, economic growth slowed down for a second consecutive year to remain below the target set out in Sixth Five Year Plan (SFYP). The prevailing stagnation in private investment was further aggravated by uncertainties emanating from the ongoing violence and confrontational politics. Although both remittances and exports have posted robust performance inspite of adverse global scenario, it was the domestic factors which had impacted in an overriding manner on the macroeconomic performance in FY2013. A number of weaknesses with regard to macroeconomic management including governance of the banking sector and the debate surrounding financing options for the Padma Multipurpose Bridge Project (PMBP) were on the policy radar screen throughout the year. The economic governance of the country's power sector was also under the spotlight as the incumbent government approached towards the finishing line of its tenure. The external sector of the country also faces formidable challenges in the backdrop of global uncertainty and faltering image of country's readymade garments (RMG) sector. In the backdrop of these challenges, it appears that confrontational and uncertain political environment had direct and indirect implications for economic performance in FY2013, particularly true for the second half of the fiscal year. One is apprehensive that the ongoing political impasse and the resultant adverse implications will leave an unfavourable footprint for economic performance also over the upcoming fiscal year. Overall, Bangladesh economy is likely to remain in a difficult terrain in FY2014. As it is, the forthcoming budget will be the last one to be presented by the present government. In the run up to the forthcoming national elections, the government may like to revisit its pledges in the manifesto and in the SFYP, but in view of the past record, the continuing fragility of the institutions and the looming political uncertainties, many of the objectives and the indicators will likely remain unattained. The macroeconomic performance in FY2014 will critically hinge on the state of both economic and political governance.

The present review of Bangladesh's macroeconomic performance is the second and final reading of the state of the economy in the current fiscal year. Taking cognisance of the current context of the Bangladesh economy, the report includes six sections. Section 2 presents the review of macroeconomic management in FY2013 and puts forward a set of recommendations for the forthcoming fiscal year. A review of banking sector's performance and the role of the central bank with regard to the governance of monetary and banking sectors is presented in Section 3. Section 4 examines the state of power sector in Bangladesh in light of the subsequent changes in the power sector development plans. Section 5 undertakes an evaluation of the financing alternatives for the Padma Bridge project and examines the consequent macroeconomic impacts. Section 6 reviews performance of the external sector and examines some of the emerging challenges. The report concludes with Section 7 which outlines impact of adverse political environment and politics of conflict on the Bangladesh economy.

2. MACROECONOMIC MANAGEMENT IN FY2013 AND OUTLOOK FOR FY2014

2.1 Growth Performance: Off Target

For the second consecutive year, GDP growth rate in FY2013 has failed to attain the target. This is certainly a setback for the present government's plan to move the economy towards a higher growth trajectory which is a necessary factor for attaining the middle income status by 2021. According to the provisional estimates from Bangladesh Bureau of Statistics (BBS), GDP growth for the current fiscal year is expected to be 6.0 per cent; i.e. 1.2 percentage points lower than the target (7.2 per cent) and 0.2 percentage point lower from final GDP growth estimate for FY2012.[1] One may recall that, early projections by analysts were in agreement that the growth rate in FY2013 would remain below 6.0 per cent.[2] The SFYP planned to elevate the average GDP growth rate during FY2011-FY2015 period to 7.2 per cent; thus, GDP growth rate was expected to be 8.0 per cent by FY2015. Indeed, successive failure to meet the target for GDP growth has made it difficult to attain the objectives of the medium term plan. For example, GDP growth rate would require to be 8.0 per cent in FY2013 to meet SFYP target. To cover the present gap between SFYP target and record of GDP growth performance, it will be required to attain a 9.6 per cent GDP growth in FY2014. This is a highly unlikely scenario. Consequently, the SFYP targets have by now lost their relevance in view of the track record. Setting a high target of 7.2 percent for FY2014 is also not going to align trends with the SFYP targets.

In FY2013, per capita GNI of Bangladesh has been estimated to be about USD 923, which is USD 83 more than that of the preceding year. On the other hand, per capita GDP also increased to USD 838 in FY2013 from USD 816 in FY2012, i.e. USD 72 increase. The faster acceleration of GNI per capita compared to GDP per capita was attributed to robust growth of remittances. However, the slowdown of GDP growth rate with its consequences in terms of domestic multiplier impacts, is a setback when the target of Bangladesh becoming a middle income country by 2021 is considered. Even though the forthcoming revision of national income accounting in the country is likely to raise the GDP (and hence the per capita income)[3], the growth acceleration needed to move towards middle income status will remain a question.

According to BBS statistics, a repeat strong performance by the industry sector (9.0 per cent), particularly its large and medium manufacturing component (10.3 per cent) is a key driver of the estimated economic growth rate for FY2013; resilient export sector performance inspite of adverse global scenario has contributed to this (Table 2.1). Construction sector comfortably surpassed its SFYP growth target for the current fiscal year (6.8 per cent) to attain a robust 8.1 per cent growth,

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[1] Recently released revised GDP growth in FY2012 shows marginal deceleration (by 0.1 percentage points) over its provisional estimate. Indeed, the growth rates of industrial sector and service sector were revised downward (from 9.5 per cent to 8.9 per cent and from 6.1 per cent to 6.0 per cent respectively). In contrast growth rate of agriculture sector was revised upward (from 2.5 per cent to 3.1 per cent) which was solely driven by crop sector. It may be recalled that CPD in its earlier annual review of Bangladesh economy also expected an upward revision of agriculture sector and a downward revision of industry sector (CPD 2012).

[2] CPD (2012), in January, indicated that The Asian Development Bank. ADB (2012) projected a 6.2 per cent growth for Bangladesh in FY2013. The projection of International Monetary Fund (IMF) was even lower at 5.5 per cent (IMF 2012). Bangladesh Bank (2012) also predicted that the GDP growth in FY2013 could be between 6.1 and 6.4 per cent.

[3] It is expected that a revision of national income accounting will increase the GDP of the country by about 15 per cent.

backed up by improved ADP utilisation. On the other hand, GDP from crop production is not expected to attain the target.[4] Stabilisation of prices and escalation of production cost may have acted as a disincentive in the backdrop of previous periods when prices were posting considerable rise. Services sector growth also fell below its traditional 6 per cent growth rate for the first time since FY2005.

TABLE 2.1: GDP GROWTH (%)

Sector	FY12	Target FY13	Provisional FY13
Agriculture	*3.1*	*4.4*	*2.2*
Crop	2.0	5.0	0.1
Industries	*8.9*	*9.9*	*9.0*
Manufacturing	9.4	10.1	9.3
Construction	7.6	6.8	8.1
Services	*6.0*	*7.1*	*5.7*
GDP	**6.2**	**7.2**	**6.0**

Source: Calculated from BBS data and GED (2011).

To ascertain the sources of decline in GDP growth rate, a comparative decomposition exercise of the GDP growth rates of FY2012 and FY2013 was undertaken. Such a scrutiny reveals that the fall in crop sector's (and hence agriculture sector's) contribution to the GDP growth corresponds to the overall fall in total GDP rate (0.2 percentage point) (Table 2.2). One may interpret that the decline in GDP growth has been mainly predicated by the depressed performance in crop sector growth. Service sector's contribution to GDP growth is also expected to decline to 2.7 per cent from 2.9 per cent of preceding year. In contrast, industry sector will improve its GDP growth contribution marginally.

TABLE 2.2: CONTRIBUTION TO GROWTH (%)

Sector	FY12	FY13	Difference (FY12 and FY13)
Agriculture Sector	*0.6*	*0.4*	*-0.2*
Crops	0.2	0.0	-0.2
Industry Sector	*2.6*	*2.7*	*0.1*
Service Sector	*2.9*	*2.7*	*-0.2*
Import Duty	*0.2*	*0.2*	*0.0*
GDP	**6.2**	**6.0**	**-0.2**

Source: Estimated from BBS data.

The provisional estimate of GDP for FY2013 is expected to be revised at a later date based on data for full fiscal year. Indeed, this estimate did not fully capture the adverse impact of the prolonged disruption of economic activities arising from volatile political environment. Hence, a number of adjustments would need to be made in finalising the GDP estimate for FY2013. The provisional estimates of growth rates for industry and service sectors and import duty may require downward adjustments whilst crop sector's (and hence agriculture sector's) growth rate may call for some upward revision. Overall, the final estimate of GDP may be revised downward to below the 6.0 per cent threshold.

The deceleration of GDP growth in FY2013 is expected to be accompanied by drastic fall in private investment (please see Section 2.2). In a welcome development, public investment will compensate for this decline and will likely pull the total investment above the level of preceding fiscal year,

[4] The GDP estimation from crop sector has considered the production figures of Aus and Aman, production only which declined by (-) 0.5 per cent in FY2013.

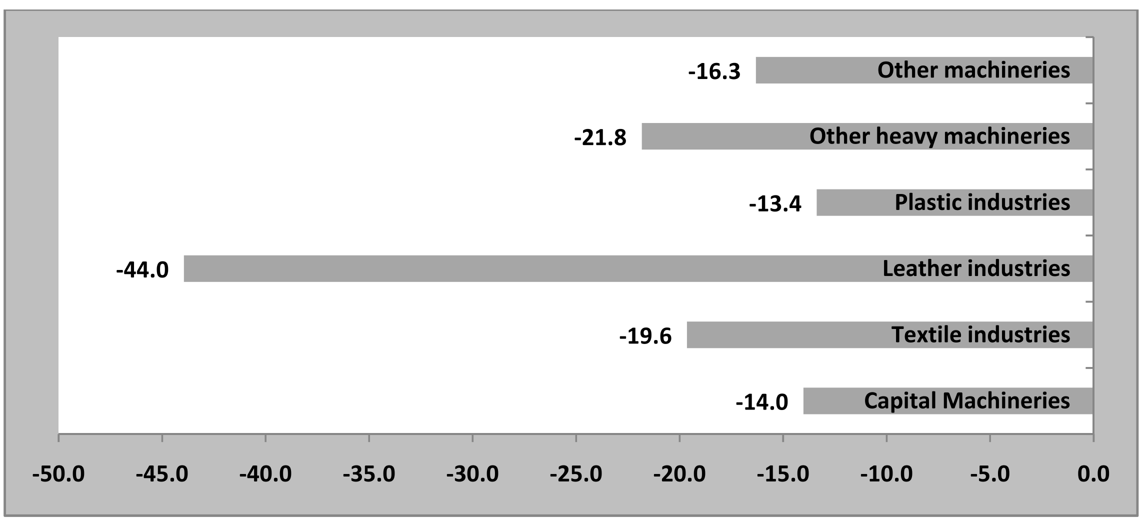
according to the provisional estimate by BBS (please see Section 2.3). As a result, total investment as a share of GDP will improve to 26.8 per cent in FY2013 from 26.5 per cent in FY2012. However, public investment figure is expected to be revised downward following the trend of previous years under the present government. On the other hand, in FY2013, domestic savings as share of GDP remained stagnated at 19.3 per cent while national savings as share of GDP somewhat improved to 29.5 per cent (29.2 per cent in FY2012) perhaps in the backdrop of robust remittance flows.

2.2 Private Investment: Faltering

FY2013 has been one of worst years for private investment. The provisional estimate by BBS for FY2013 anticipates a distinctive fall in the share of the private investment in GDP. It shows that private investment is expected to decline as a share of GDP to 19.0 per cent in FY2013 from 20.0 per cent in FY2012. This is an outlier because such a fall in private sector's share has never been experienced in the history of Bangladesh (since FY1981).[5] This would mean that level of private investment would now move back to the level of FY2007. This would also mean that, private investment in FY2013 will be 3.7 percentage points lower than the SFYP target. This will surely have a dampening consequence from the perspective of the expected acceleration of growth rates.

Indeed, almost all private investment related indicators evince a subdued scenario. Import payments for capital machineries declined by (-) 10.6 per cent during July-March period of FY2013 compared to the corresponding period of FY2012. Detailed information is available for July-February period; which shows that for most manufacturing industries, capital machinery import fell by a significant margin (Figure 2.1).

FIGURE 2.1: GROWTH IMPORT PAYMENTS FOR CAPITAL MACHINERIES (JUL-FEB FY2013) (%)

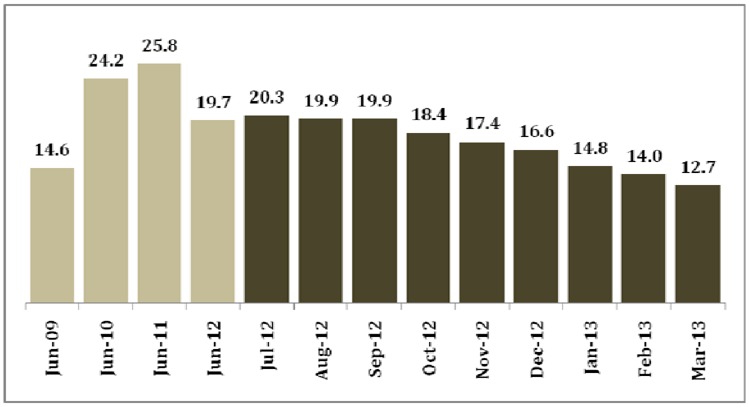


Source: Estimated from Bangladesh Bank data.

Growth of credit to private sector continued to fall since July 2012. As of March 2013, growth of private sector credit declined to 12.7 per cent[6] (Figure 2.2). One may recall that the target for private sector credit growth at the end of FY2013 was 18.5 per cent.

[5] The previous 'worst' year was FY1983 when private investment fell by 0.8 percentage points.
[6] Private credit growth in March 2012 was 19.5 percent.

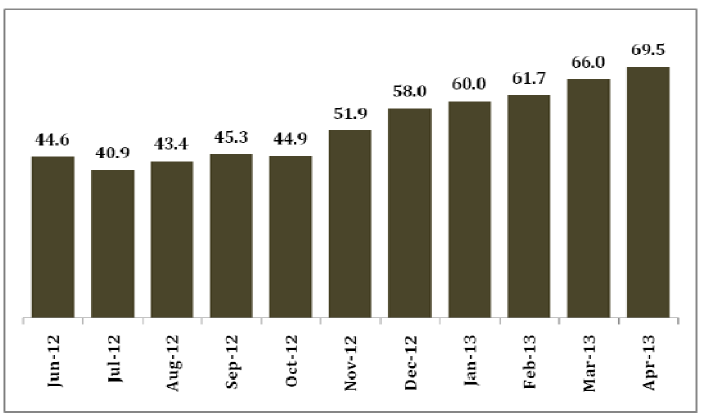
FIGURE 2.2: PRIVATE SECTOR CREDIT GROWTH (%)



Source: Estimated from Bangladesh Bank data.

The lack of demand for private sector credit also resulted in significant excess liquidity in the banking system. At the end of April 2013, excess liquidity in the banking system reached Tk. 65.9 thousand crore (Figure 2.3). Indeed, credit-deposit ratio in the banking system is now (May 2013) hovering around 72 per cent. One may recall that credit-deposit ratio was around 85 per cent in the middle of FY2012 and the central bank had to advise commercial banks to control credit disbursement.

FIGURE 2.3: EXCESS LIQUIDITY POSITION (THOUSAND CRORE TAKA)



Source: Estimated from Bangladesh Bank data.

Share of classified loan to total outstanding had also increased to 11.9 per cent as of March 2013 which was only 7.2 per cent at the end of FY2012 (Figure 2.4). Indeed, the new loan provisioning guidelines issued in October 2012 had an impact; this has been changed recently (please see Section 3 for details). Curiously, at a time when private investment situation is depressed, high growth of industrial term loan disbursement has been observed during the first three quarters (27.9 per cent). A further scrutiny is perhaps required to understand this dynamics and use of industrial term loans for particular purposes.

The worrisome investment climate has been a cause of concern in FY2013. One can list a number of plausible reasons. *First*, a number of measures were put in place by the government to stabilise the economy which eventually held back private investment. *Second*, slow recovery of global climate did not incentivise domestic investment. *Third*, the ongoing political turmoil also took its toll on investment decisions. *Fourth*, a number of scams afflicting the banking sector led to restrained behaviour on the part of the banks. And *fifth*, developments in the RMG sector and frequent labour unrest may have also discouraged investors in making new investments in the industrial sector.

2.3 Public Investment: Enhanced

In contrast to the depressed private investment, public investment has increased steadily since FY2009 and surpassed the SFYP target in FY2013 (6.9 per cent of GDP) by about 1 percentage point. According to provisional estimates of BBS, public investment is expected to be about 7.9 per cent of GDP in FY2013. This implies that public investment (as a share of GDP) will improve by 1.4 percentage points in a single fiscal year – such an improvement had never happened before! Indeed, public investment as a share of GDP will also be the highest in the history.[7] Public investment in FY2013 increased by 36.6 per cent compared to the previous fiscal year. One may reckon that the provisional estimate of public investment has considered a fuller utilisation of original ADP (to the tune of Tk. 55,000 crore). ADP was later downsized (revised ADP (RADP)) and hence, the final expenditure figure should be lower. Nevertheless, it appears that public investment beyond ADP has also experienced a considerable rise.[8] It appears that, the estimate for public investment in FY2013 is somewhat on the high side. However, significant rise in public investment (as a share of GDP) may be expected in FY2013, when the final estimate will be prepared.

A number of positive features with regard to ADP implementation may be observed from the available data. *First*, overall ADP implementation has improved in FY2013. During the first three quarters of FY2013, 49.5 per cent of the ADP allocation was implemented which was 44.8 per cent in FY2012. *Second*, the top 5 ministries[9] (with highest allocations) did better than the average, as they spent about 57.5 per cent of total allocation during the abovementioned period. Particularly, among the top 5 ministries, performance of Local Govt. Division, Power Division and M/o Primary & Mass Education were notable as they spent more than 60 per cent of their allocation during the aforesaid period. Indeed, 12 among 53 implementing ministries/divisions implemented more than 60 per cent of their respective allocations. *Third*, the aforesaid improvement was driven by better project aid utilisation. 42.4 per cent of total project aid allocation was spent during July-March period of FY2013 (only 32.8 per cent in FY2012). This also had a positive impact on financing of budget deficit and on the balance of payments (BoP). However, the top 20 aided projects with highest allocations in FY2013 also spent 43.1 per cent of their aid component (45.2 per cent of their allocated total). Moving on, the big 20 projects which were approved at different times during the tenure of the current government had also utilised 65.5 per cent of project aid allocation during the first three quarters in FY2013. However, one needs to consider the fact that a single project[10] from Power

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[7] Comparable national income accounting is available from FY1981. In FY2000 public investment stood at 7.4 per cent of GDP, the previous highest.

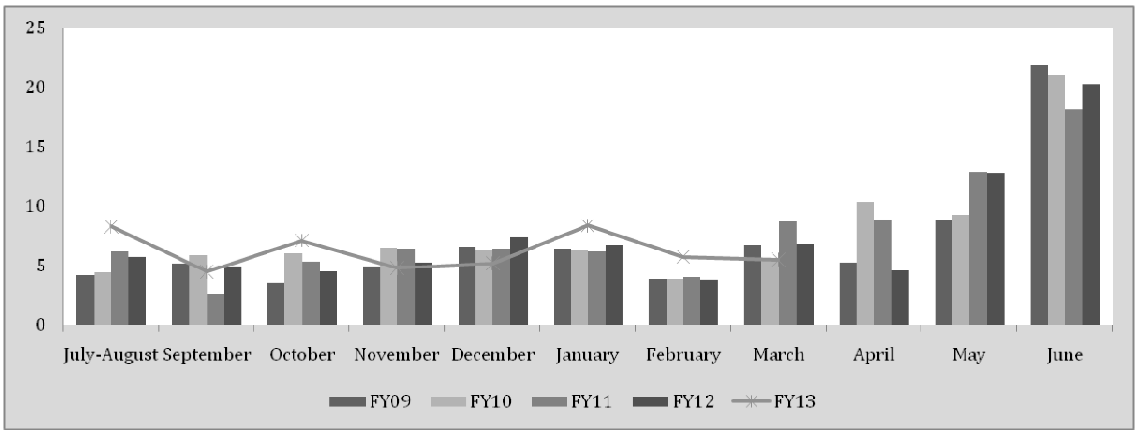
[8] If total ADP expenditure is considered as public investment, the non-ADP public investment portion in public investment increased by 22.4 per cent.

[9] The list includes Local Govt. Division, Power Division, M/o Primary & Mass Education, M/o Health & Family Welfare and M/o Railway and bears 53.5 per cent of total ADP allocation.

[10] 'Construction of Haripur 360 MW Combined Cycle Power Plant and Associated Sub-station' project alone made use of Tk. 1,074 crore project aid out of the total aid expenditure of Tk. 9,110 crore within ADP during

Sector contributed 11.8 per cent of total aid utilisation by the entire ADP during the reporting period. If we keep aside the aforesaid project, the project aid utilisation of other top 19 aided projects with highest allocations in FY2013 drops to 34.5 per cent. This implies that the improvement in project aid utilisation may not be a broad-based phenomenon. Furthermore, it is also observed that the progress during the early months somewhat lost its momentum during the last two months (February and March) (Figure 2.4). Hence, ADP implementation may once again rely on the performance during last quarter.

FIGURE 2.4: MONTHLY ADP EXPENDITURE AS % OF ALLOCATION



Source: Calculation based on IMED Data.

One may recall that the ADP for FY2013 envisages allocation of 46.4 per cent of the total allocation for either concluding projects or carryover projects. Among the major sectors, Power Sector and Transport Sector had more than 50 per cent of their allocations for such projects. As those projects approach their finishing lines, it is plausible that their implementation could have gained momentum. However, CPD analysis shows that even fuller utilisation of FY2013 allocation for these projects will not be enough to complete them. The gaps (between cumulative allocation up to FY2013 and total project cost) were 28.3 per cent and 49.2 per cent of aggregated project costs for Power Sector and Transport Sector respectively. However, on a positive note, in RADP, allocation for Power and Transport sectors were increased by 8.5 per cent and 2.3 per cent from their original allocations. It needs to be mentioned that subsequently total ADP allocation was slashed by 4.8 per cent. All (14) other sectors, except Rural Development and Institutions, experienced substantive cuts in their budget. The decline in allocation for Education and Religious Affairs Sector was the highest (Tk. 774.3 crore).

2.4 NBR Revenue Collection: Fell Short of Target

Revenue mobilisation by the NBR has been one of the areas of success for the present government. For the first time in last four fiscal years, it is now anticipated that NBR revenue will likely fall short of the target. Lack of import, lower commodity prices in the international market, deceleration of financial institutions' profit, unrealised revenues from SoEs are among the major reasons causing low intake of NBR revenue collection. Indeed, in FY2011 and FY2012, NBR managed to surpass the revised targets which were later set at higher levels compared their respective targets in the original

Jul-Mar FY2013. Indeed, during the first three quarters, the project spent 65.2 per cent above its stipulated allocation for FY2013.

budget (Table 2.3). Furthermore, revenue collections from Non-NBR tax and Non-tax sources have not been very impressive.[11]

TABLE 2.3: TRENDS OF NBR REVENUE: GROWTH TARGETS AND ACHIEVEMENTS (%)

FY	Budget Target over Revised Budget	Budget Target over Actual Collection	Revised Target over Actual Collection	Actual Growth Achieved
FY09	18.6	14.9	11.7	10.7
FY10	15.1	16.1	16.1	18.1
FY11	19.0	17.0	21.9	28.0
FY12	21.5	15.7	16.3	19.3
FY13	21.5	18.5	N/A	16.1 (up to April'13)

Source: Compiled from Budget documents and NBR monthly reports.

During July-April period of FY2013, the NBR source was able to collect 74.0 per cent of its annual revenue target. As a result, growth of NBR revenue was 16.1 per cent against a target of 18.5 per cent for FY2013[12] (Table 2.4). Contribution from income tax was particularly impressive during this period and likely to surpass its target (24.9 per cent). Recent drive towards expanding larger tax-payers' base may have contributed. In contrast, tax collection from import duty has been rather dismal. Indeed the shortfall in NBR's revenue mobilisation will be mainly on account of weak import duty collection.

TABLE 2.4: TARGETS AND ACHIEVEMENTS (%) OF NBR COMPONENTS IN FY2013

Sources	Actual Growth FY12	Annual Target FY13 (Crore Taka)	Annual Growth Target FY13	Achieved Growth Jul-Apr FY13	Required Growth May-Jun FY13
Import Duty	14.6	15,419	16.2	0.9	78.6
VAT (Import)	11.4	14,714	6.9	9.9	1.3
SD (Import)	9.3	5,467	25.2	0.6	140.8
External Total	**12.5**	**35,600**	**13.3**	**4.7**	**51.0**
VAT (Local)	23.3	24,628	12.1	18.6	-6.9
SD (Local)	22.9	14,769	23.9	3.7	100.0
Local Total	**23.4**	**40,400**	**16.9**	**13.4**	**30.9**
Income Tax	22.8	35,300	24.9	34.6	4.4
Total Direct Tax	**22.7**	**36,259**	**26.2**	**34.4**	**8.6**
Grand Total	**19.3**	**112,259**	**18.5**	**16.1**	**27.4**
VAT (Combined)	*18.4*	*39,342*	*10.0*	*15.2*	*-7.4*
SD (Combined)	*18.9*	*20,236*	*24.2*	*2.8*	*108.6*

Source: Calculated from NBR data.

A CPD exercise analysing 70-month long NBR revenue data (July FY08-April FY13) reveals that, contribution of direct taxes was most consistent (with high median growth and low IQR) (Figure 2.5). Revenue mobilisation from domestic sources was higher than the average growth targets albeit some volatility, while tax collection from the external sources was found to be more volatile. This

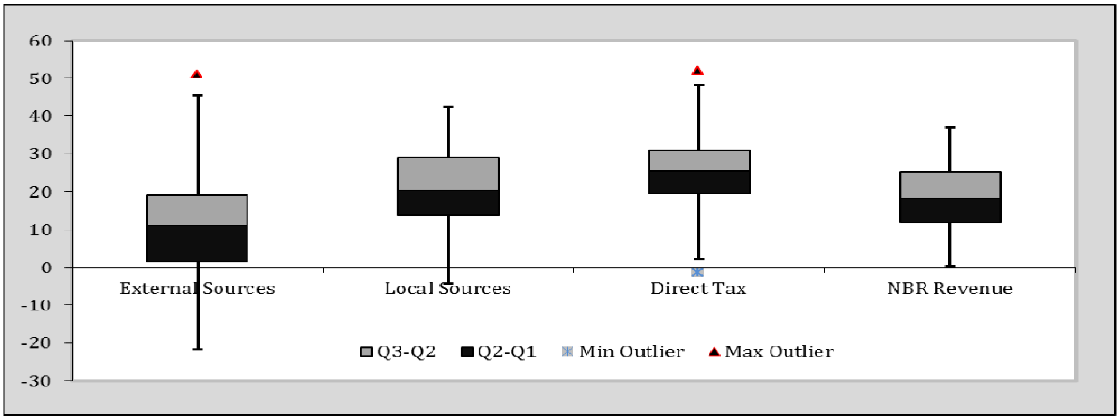
[11]Non-NBR sources attained 14.4 per cent revenue growth in July-December period of FY2013 against the corresponding period of FY2012 while their annual target was 25.7 per cent. Non-tax revenue collection posted 17.8 per cent growth during the first half of FY2013 as against annual growth target of 23.2 per cent.

[12] Backed by surpassed revenue generation (Tk. 2,384 crore) in FY2012, the growth target for NBR reduced from 21.5 per cent.

implies that target setting for NBR's tax collection from external sources will require a more cautious approach.[13]

FIGURE 2.5: MoM GROWTH (%) OF NBR REVENUE SOURCES ON BOX-AND-WHISKERS PLOT

(REPORTING PERIOD JULY FY09-APRIL FY13)



Revenue Sources	Exponential Annual Average FY09-FY12	Median Growth Jul FY09- Apr FY13	IQR Jul FY09-Apr FY13
External Sources	12.2	11.0	17.5
Local Sources	22.4	20.3	15.3
Direct Tax	23.9	25.5	11.5
NBR Revenue	**18.9**	**18.2**	**13.4**

Source: Calculated from NBR data.

Note: IQR stands for inter quartile range between Q1 and Q3.

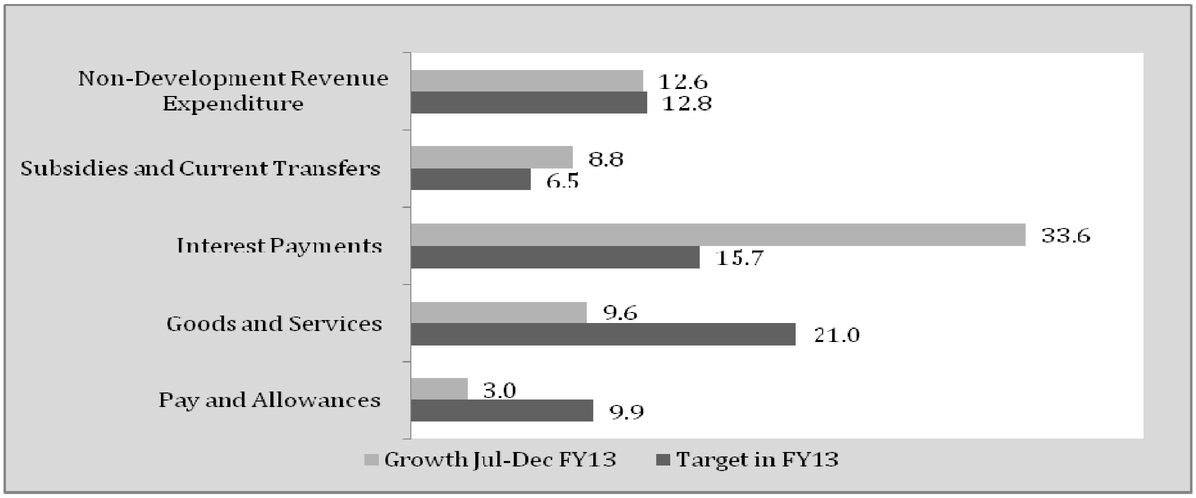
On the basis of above discussion, one may apprehend that any overambitious target for FY2014 could put the overall budget framework under some risk. It also needs to be noted, with some caution, that an evident shortfall (between Tk. 3,000 and Tk. 4,000 crore) in FY2013 will mean that the actual growth target will be higher.

2.5 Financing of Budget Deficit: From Ideal Plan to Harsh Reality

During the first half of FY2013 non-development revenue expenditure was in line with the budget allocation. Overall, net revenue expenditure recorded 12.6 per cent growth during the first six months compared to the matching period of the previous year, while target growth for FY2013 was 12.8 per cent (Figure 2.6). Among the components, the most visible deviation from the non-development revenue expenditure target was recorded for interest payments. Interest payments increased by 33.6 per cent during the first half of FY2013 against its target of 15.7 per cent, a consequence of the high borrowing by the government in FY2012. As the fiscal year moves toward the end, the requirement of government borrowing is likely to rise and hence it will be difficult for the government to bring down the expenditure pressure to the programmed level.

[13]Median growth (MoM) of revenue intake from external duties and taxes was found to be only 11.0 per cent. Whereas revenue growth targets for external sources from FY09 to FY13 were 26.5 per cent, 3.1 per cent, 11.2 per cent, 19.1 per cent and 15.7 per cent respectively.

FIGURE 2.6: GROWTH IN REVENUE EXPENDITURE COMPONENTS (%)



Source: Calculated from MoF data.

Traditionally, during the first half of the fiscal year, budget deficit remains within the safe zone. Fiscal deficit in the first half of FY2013 was limited to only Tk. 3,991 crore (only 7.7 per cent of planned budget) (Table 2.5). As a result, low off-take of foreign grants (5.4 per cent of planned budget) and net foreign borrowing (24.4 per cent of planned budget) did not put any serious pressure on the budget deficit financing till now (up to the first half of FY2013). The large revenue surplus was in fact used to repay government borrowing from non-bank sources (sources outside borrowing from sale of NSD certificates). Borrowing from the banking system was only Tk. 8,377 crore (36.4 per cent of planned budget). However, less than expected net sale of NSD certificates may give rise to some concern as regards management of the deficit financing in the latter half of the fiscal year.

TABLE 2.5: FINANCING OF BUDGET DEFICIT

Description	Budget FY13 (Crore Tk.)	Upto Dec FY13 (Crore Tk.)	Share (%)
Revenue Collection	**139,670**	**59,912**	**42.9**
Total - Expenditure	**191,731**	**63,903**	**33.3**
ADP Expenditure	55,000	12,815	23.3
Non-ADP Expenditure	136,731	51,091	37.4
Overall Deficit (Excluding Foreign Grants)	***-52,061***	***-3,991***	***7.7***
	Financing		
Foreign Grants	**6,044**	**325**	**5.4**
Foreign Borrowing-Net	**12,541**	**1,376**	**11.0**
Foreign Loan	20,398	4,982	24.4
Amortization	-7,858	-3,606	45.9
Domestic Borrowing	**33,484**	**2,289**	**6.8**
Bank Borrowing (Net)	23,000	8,377	36.4
Non-Bank Borrowing (Net)	10,484	-6,088	-58.1
National Savings Schemes (Net)	7,400	177	2.4
Others	3,084	-6,265	-203.1

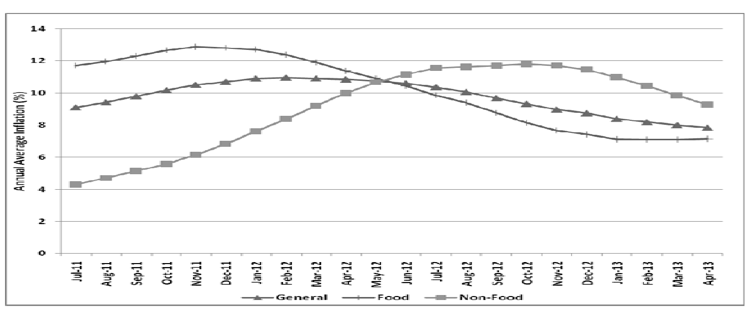
Source: Calculated from MoF data.

One may recall that CPD had earlier termed the framework proposed in the budget FY2013 for financing the deficit as an ideal one (CPD 2012). While approaching the finishing line of FY2013, the plan is expected to face a harsh reality. According to anecdotal information, the target of bank borrowing by the government is expected to increase by Tk. 5,500 crore from the budget target. This may imply that of the total budget deficit more than 60 per cent will be financed by bank borrowing which was planned to be only 44 per cent. On the other hand, borrowing target from the national savings schemes (NSS) is likely to be slashed by about Tk. 5,800 crore. Indeed, revised budget target for borrowing from the NSS (Tk. 1,600 crore) will be a challenging one to attain as only Tk. 693 crore was collected during the first three quarters. Information as regards revised target for NBR's revenue collection is not available in public domain. If the possible shortfall in NBR revenue collection from the budget target was not considered, and if the actual public expenditure remains same as the revised budget target, bank borrowing may remain the only source to underwrite the difference. On the expenditure side, the subsidy requirement is expected to surpass the target set by the budget (according to some media report). One will also need to consider that subsidy requirement arising from liquid fuel had perhaps somewhat come down due to frequent hartals and favourable weather condition. Nevertheless, it appears that once again the financing of budget deficit will heavily rely on bank borrowing following the trend of the last two fiscal years. Of course the spillover adverse impact on the economy could be somewhat moderate in view of the higher excess liquidity with the commercial banks and lower demand from the private sector.

2.6 Inflation: Moderated but High

The steady fall in food inflation helped to ease overall inflationary pressure during the first half of FY2013. Since November 2012, non-food inflation also started to plunge (Figure 2.7). The latest available figure from BBS suggests, in April annual average inflation was 7.8 per cent. One may recall that, CPD in January expected inflation to come down to 7.7 per cent at the end of the year (see CPD (2013)). Food inflation came down to 7.2 per cent (from 10.5 per cent in June 2012), while non-food inflation was 9.3 per cent (from 11.1 per cent in June 2012).[14] The disaggregated figures of inflation of various product groups suggest that only average inflation rate for gross rent, fuel and lighting in April 2013 remained higher than that of June 2012.

FIGURE 2.7: ANNUAL AVERAGE INFLATION (%)



Source: Estimated from BBS data.

[14] As is known, BBS introduced a new measure of inflation with a new base year (2005-06) to replace the present measure of inflation (with the base year of 1995-96). According to the new base year, in April annual average inflation was 6.4 per cent (8.7 per cent in June 2012). Food inflation came down to 4.3 per cent (from 7.7 per cent in June 2012), while non-food inflation was 5.7 per cent (from 10.2 per cent in June 2012). Curiously, according to this measure inflation (and both of its component, food and non-food) showed upward trend.

A decomposition of inflation figures of June 2012 and April 2013, indicates that, of the 10.6 per cent inflation in June 2012, 6.8 per cent came from food inflation, while the rest 3.8 per cent came from non-food inflation (Table 2.6). Of the 7.8 per cent inflation in April 2012, 5.3 per cent was contributed to by food inflation and 2.5 per cent was on account of non-food inflation. This would imply that both food and non-food components of inflation had an equal share in the reduction of overall inflation.

TABLE 2.6: SOURCES OF ANNUAL AVERAGE INFLATION (%)

Commodity Group	Moving Average Inflation		Sources of Inflation	
	June FY12	April FY13	June FY12	April FY13
General	**10.6**	**7.8**	**10.6**	**7.8**
Food	**10.5**	**7.2**	**6.8**	**5.3**
Non-food	**11.1**	**9.3**	**3.8**	**2.5**
I. Clothing & footwear	17.6	12.6	1.0	0.6
II. Gross rent, fuel & lighting	10.3	10.8	1.4	0.8
III. Furniture, furnishing, household	11.8	9.1	0.3	0.2
IV. Medical care & health expenses	5.9	6.4	0.1	0.1
V. Transport & communication	11.3	6.6	0.5	0.3
VI. Recreation, entertainment,	2.3	3.1	0.1	0.1
VII. Misc. goods & services	13.5	8.5	0.4	0.3

Source: Estimated from BBS data.

One can also find a number of explanations for the declining pace of inflation–

(i) stable price of rice;

(ii) declining international commodity prices;

(iii) stronger domestic currency and

(iv) slowdown in domestic demand

Falling rice price is major driver of decline in inflation rate in FY2013 (CPD 2013). Data from DAM suggests that during 12 month moving average price of retail coarse rice price declined by (-) 10.1 per cent in May 2013. However, this had indeed affected the incentive for farmers to go for a higher crop production as demonstrated by stagnating growth of crop production. International commodity prices also declined in the period under purview. According to the IMF data, annual average international commodity price index in April 2013 plunged by (-) 5.1 per cent. The prices of major commodities for which Bangladesh relies primarily on imported sources also shows a similar picture.[15] One also needs to consider that throughout FY2013 BDT gained in value against the currencies of major trading partners of Bangladesh thanks to favourable BOP situation. In April 2013 BDT was appreciated by 4.7 per cent against USD, 1.4 per cent against INR and 3.6 per cent against CNY. Combining these two factors (declining international commodity prices and stronger domestic currency) one may expect an easing environment for the domestic price level. If we compare the domestic retail prices it is found that annual average price of sugar in the domestic market declined by 17.6 per cent during the period under purview, however, the price of soybean oil

[15] For example, according to World Bank data, annual average prices of crude oil, soybean oil and sugar declined by (-) 4.7 per cent, (-) 7.1 per cent and 20.0 per cent in April 2013. In contrast wheat price increased by 10.0 per cent.

increased by 3.3 per cent. This implies that mechanisms informing transmission of decline global prices into domestic prices remained weak. Furthermore, weak domestic demand as manifested by slower economic growth also had an impact on commodity prices. Weak domestic demand is also corroborated by the decline in private sector credit growth and lower import demand for consumer products. One may also argue that the contrationary monetary policy pursued by the central bank has also played a role in bringing down inflationary pressure. Volatile political environment has often disrupted commodity supply chains which had an adverse impact on the prices of daily essentials. Robust remittances inflow on the other hand had a positive impact on domestic consumption demand. Overall, the easing of inflationary pressure was accompanied by low level of economic activities. One should also be mindful to the fact that price level has continued to remain high inspite of some decline in the inflation rate because of past high trends.

2.7 Balance of Payments (BoP): Substantial Surplus

In the backdrop of the volatility observed in FY2012, the first nine months of FY2013 experienced a significant BoP surplus. The overall balance reached USD 3,948 million in July-March period of FY2013 from a negative balance of (-) 419 million USD for comparable period in FY2012. Concurrently, current account balance was USD 2,825 million for the reported period of FY2013 which was (-) 120 million USD for the corresponding months of FY2012. A decomposition analysis suggests that the large surplus recorded by the BoP was originated by the lower trade deficit (43.3 per cent) followed by the impressive inward remittances (36.0 per cent) (Table 2.7). Improved trade balance was a result of impressive export growth (10.1 per cent in July-April period) in conjunction with the falling import payments (by (-) 6.1 per cent in July-March FY2013). Also remittances inflow increased by 15.9 per cent during the first ten months of FY2013. At the same time, higher inflow of net foreign aid (by 29.8 per cent during the first three quarters of FY2013), thanks to better utilisation of project aid contributed towards this high figure.

TABLE 2.7: SOURCES OF BALANCE OF PAYMENTS

Items	Changes between FY12 and FY13 (July-March)	Incremental Share (%)
Trade balance	1890	43.3
Workers' remittances	1574	36.0
Other Current Account Balance	-519	-11.9
Capital account	-3	-0.1
FDI	103	2.4
MLT Loans	432	9.9
Other Financial Account	265	6.1
Errors and omissions	625	14.3
Overall Balance	4367	100.0

Source: Estimated from Bangladesh Bank data.

Large BoP surplus in FY2013 was accompanied by significant rise in foreign exchange reserves. This led to steady appreciation of BDT against USD and other major currencies. Gross foreign exchange reserves stood at USD 14.5 billion as of 28 May FY2013 which was equivalent to more than five months worth of imports bills. Indeed, foreign exchange reserves as of May 2013 was about 52.4 per cent higher than the same period in 2012. These recent developments posed a new set of challenges for the central bank. The new challenge is to be able to maintain stability of the value of BDT. It has also raised hope that in the event demand for more foreign currency will go up, in the near future (e.g. to finance the construction of PMBP mostly by local fund), the reserve may be used to maintain stability in the foreign exchange market. However, the central bank will perhaps be hesitant to see piling up of foreign exchange reserves, driven by lax import performance and which could have inflationary impact in the economy. Indeed faster accumulation of net foreign assets alone held the level of broad money supply above the target level (please see Section 3 for details). Bangladesh Bank in the course of FY2013 made a number of amendments in regulations to manage the foreign exchange market. However, the rising BoP surplus is expected to moderate during the last quarter of the current fiscal year as it is expected that import payments are likely to rise while growth rates for export and remittances slows down for the remaining period of FY2013.

2.8 Macroeconomic Management in FY2014

As is known, the national budget for FY2014 will be the last one to be presented by the incumbent government. Not to mention also that this budget will be implemented under more than one policy regime. It is also important to recognize that this budget will also have to consider the ongoing IMF-ECF programme which advises a consolidated budget, a higher revenue target, a lower subsidy provision and a smaller budget deficit for FY2014. Considering the present macroeconomic scenario and the developments emerged in both global and domestic fronts, CPD has recently argued for a more cautious and pragmatic stance in the designing the budget. Even though the framework and proposals of the budget will be announced on 6 June 2013, based on media reports and statements of the Finance Minister (and other responsible policymakers), one is able to glean some ideas about the forthcoming national budget for FY2014.

(i) The ADP for FY2014 has already been approved by the ECNEC and is proposed to be to the tune of Tk. 65,870 crore which is 19.8 per cent higher than that of FY2013. As can be assumed, incremental allocation is dominated by allocation towards PMBP.

(ii) 25 per cent reduction in the subsidy payments (compared to the allocation for the current year) may also be planned, as reported by the media.

(iii) The target for NBR's tax mobilization could be more than 21 per cent higher than that of FY2013. In fact if one considers the potential revenue collection shortfall in FY2013 the actual target would be much higher.

(iv) The budget deficit is expected to be about 4.8 per cent of the GDP. The government may aim to bring down the bank borrowing from the level of FY2013 to finance only 45 per cent of the stipulated deficit. This implies foreign financing will have to rise significantly.

It is anticipated that the proposed fiscal framework will be formulated by ignoring the economic and political realities. As a result, the new government, which is expected to take charge during the second half of the fiscal year, may face considerable challenges. While implementing the budget FY2014, the government(s) may consider the following recommendations with regard to macroeconomic management in FY2014: (i) consolidate of public expenditure to the extent possible; (ii) prioritise implementation of the long list of carry-over and concluding projects under the ADP along with the projects with aid components; (iii) put greater emphasis on revenue mobilisation; (iv) create a conducive environment for private investment by ensuring both economic and political assurance; (v) ensure adequate incentives to farmers; (vi) restore good governance and confidence in the banking sector; and (vii) formulate a complementary monetary policy including a prudent foreign exchange management. Additionally, the government should delink the macroeconomic framework as proposed by the SFYP. Surely, there is no economic sense in setting up macroeconomic targets at an overambitious level. In view of this, it is necessary to consolidate the macroeconomic targets for FY2014 accordingly and streamline the targets for the subsequent years. Indeed, FY2014 should be a year of reconciliation and a period of preparing the launch pad for the next government towards its medium term development plan. Of course, an early consensus, before FY2014, between the two political coalitions in the country should be the top most priority.

3. PERFORMANCE OF THE BANKING SECTOR

The banking sector in Bangladesh has come under criticism in the recent past due to increased number of financial scams and the rising size of loan default. Undoubtedly, the size of the industry has expanded in terms of total banks and their branches, deposits and credits which in turn have contributed to the economic development of the country. The performance of the banking sector has also improved over the years according to various indications such as capital to risk weighted asset, rate of non-performing loan (NPL) to total loan, expenditure income ratio, return on asset, return on equity, and liquidity. This has been possible due to various reform measures and policy support of the consecutive governments. Unfortunately, the health check fails to conceal the problems suffered by the sector from time to time. The current situation of large financial frauds and high NPL of banks calls for a close scrutiny of the sector and necessitates taking required measures. The first reading of the IRBD of CPD prepared in January 2013 presented a detailed analysis of the trend and the governance of the banking sector in the context of the Hallmark scam (CPD 2013). This section will focus on a selected set of issues relating to some of the emerging concerns.

3.1 Non-performing Loans Piling up in the SCBs

The soundness indicators of the banking sector performance reveal that since 2009 the overall performance of the sector has been unsatisfactory. As Table 3.1 shows, capital to risk weighted assets is on the decline while the percentage share of NPL to total loans is increasing. Similarly, return on asset and return on equity have sharply declined. A disaggregated scenario indicates that NPL in the state owned commercial banks (SCBs) is the highest among all categories of banks in Bangladesh. This is a reflection of the fact that financial malpractices such as Hallmark and Bismillah groups which embezzled large amount of money from SCBs have started to tell upon the health of SCBs. It is apprehended that there could be many more cases of forgeries which may be unearthed in course of time and pose further threats towards the stability of banking sector. Unfortunately, actions against such frauds have been slow (please see Box 3.1). High NPL pushes the interest rate of banks upwards as they try to make up for their losses from bad loans. Apart from weak monitoring and supervision of loans, the reason for high NPL is also linked to the governance issue (CPD 2012). Given the inefficiency of SCBs, there have been propositions to privatise those, except for one which will perform the treasury activities of the government.

TABLE 3.1 SOUNDNESS INDICATORS RELATING TO THE BANKING SECTOR

Indicator	Bank Type	2000	2009	2010	2011	2012
Capital Adequacy	**Capital to Risk Weighted Asset (%)**					
	SCBs	4.4	9.02	8.90	11.68	8.13
	DFIs	3.2	0.36	-7.30	-4.49	-7.78
	PCBs	10.9	12.12	10.10	11.49	11.38
	FCBs	18.4	28.13	15.60	20.97	20.56
	Total	**6.7**	**11.67**	**9.3**	**11.35**	**10.46**
Asset Quality	**NPL to Total Loans (%)**					
	SCBs	38.6	21.38	15.70	11.27	23.87
	DFIs	62.6	25.91	24.20	24.55	26.77
	PCBs	22.0	3.92	3.20	2.95	4.58
	FCBs	3.4	2.27	3.00	2.96	3.53
	Total	**34.9**	**9.21**	**7.27**	**6.12**	**10.03**
Management	**Expenditure-Income Ratio (%)**					
	SCBs	99.4	75.6	80.70	62.7	--
	DFIs	175.3	112.1	87.80	88.6	--
	PCBs	90.8	72.6	67.60	71.7	--
	FCBs	77.7	59.0	64.70	47.3	--
	Total	**99.9**	**72.6**	**70.8**	**68.6**	--
Profitability	**Return on Asset (%)**					
	SCBs	0.1	0.96	1.10	1.34	-0.56
	DFIs	-3.7	-0.37	0.20	0.03	0.06
	PCBs	0.8	1.55	2.10	1.59	0.92
	FCBs	2.7	3.18	2.90	3.24	3.27
	Total	**0.0**	**1.37**	**1.78**	**1.54**	**0.64**
	Return on Equity (%)					
	SCBs	1.7	26.15	18.40	19.66	-11.87
	DFIs	-68.0	-171.68	-3.20	-0.92	-1.06
	PCBs	17.0	20.95	20.90	15.69	10.17
	FCBs	27.3	22.38	17.00	16.58	17.29
	Total	**0.3**	**21.72**	**20.97**	**17.02**	**8.20**
Liquidity	**Liquid Asset (%)**					
	SCBs	26.5	25.1	27.20	34.7	--
	DFIs	16.2	9.6	21.30	12.3	--
	PCBs	24.8	18.2	21.50	23.9	--
	FCBs	34.7	31.8	32.10	30.5	--
	Total	**26.1**	**20.6**	**23.0**	**26.5**	**--**
	Excess Liquidity (%)					
	SCBs	6.5	17.6	8.20	15.7	--
	DFIs	9.9	7.1	2.30	2.5	--
	PCBs	6.8	5.3	4.60	7.0	--
	FCBs	14.8	21.8	13.20	11.8	--
	Total	**7.5**	**9.0**	**6.0**	**9.3**	**--**

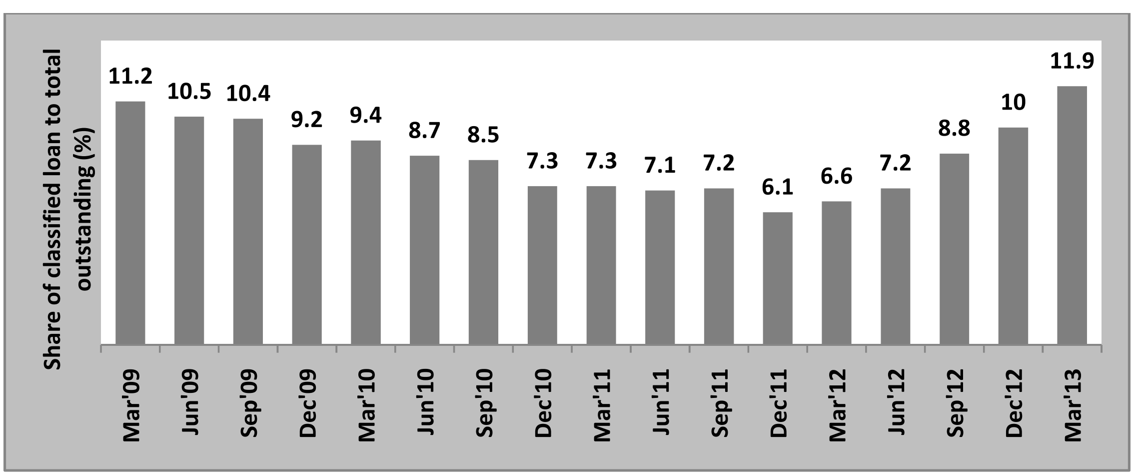
Source: Bangladesh Bank.

3.2 Loan Classification and Provisioning: A False Attempt to Increase Profit

Within a period of five months, Bangladesh Bank has changed the rules of loan classification and provisioning. On 23 September 2012, the Banking Regulation and Policy Department (BRPD) of Bangladesh Bank issued a circular with new provisions for loan and rescheduling stating, "Bangladesh Bank is concerned that rescheduling (also known as "prolongation"or "evergreening") may sometimes result in an overstatement of capital when loans that have a low profitability of repayment are carried at full value on banks' balance sheets" (www.bangladesh-bank.org). The new BRPD Circular no. 05 dated 29 May 2013 relaxed the period of rescheduling to 6 years instead of 4.5 years at present. The time limit for first rescheduling of a classified loan will now be 36 months since the repayment of last installment instead of present 24 months. Additionally, time limits have been reset at 24 months and 12 months for second and third rescheduling, respectively. Loan provisioning requirement has been reduced to various levels in various sectors. According to the new circular, banks have to make provision of just 1 percent instead of 5 percent for a special mention account (SMA). The provisioning requirement will be 2 percent for housing, professional and investment banks. (www.bangladesh-bank.org).

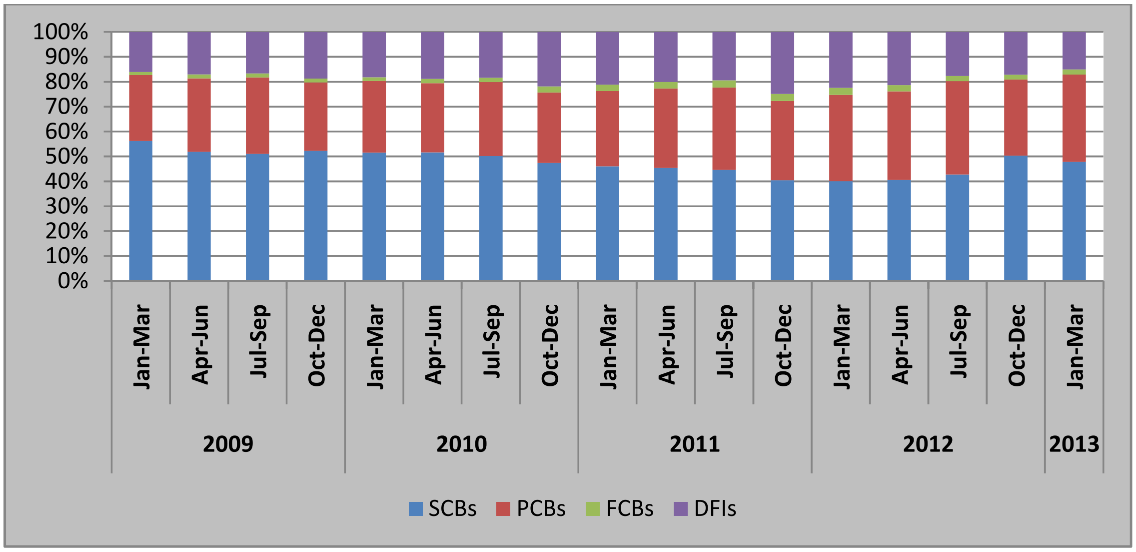
While the circular does not explain the reason for such relaxation, officials and Bangladesh Bank told the media that these measures have been taken in view of the rise in classified loans. They also expect to create an additional Tk 500 crore investable funds for banks through these measures. As Figures 3.1 and 3.2 show, classified loans have doubled during January to March 2013 compared to the same period in 2012. Both in SCBs and PCBs, the amount of classified loans doubled during these two compared periods. Though Bangladesh Bank made this move to save the loss making banks and increase the profitability of banks, this is rather a very simplistic way to assess the problems of the sector. If one looks at the long time trend of the performance of the sector, it is clear that SCBs have consistently been underperformers compared to other players in the sector. Partly, this may be due to various services they have to provide as government owned banks. For example, SCBs have been disbursing higher agricultural credit or providing banking services to the larger section of people with limited income across the country. However, the major reason for high NPL and classified loans lies in its inherent weak mechanism to undertake banking activities by following the existing guidelines of the central bank (for details CPD 2012). Hence, the new announcement is only a window dressing to show an artificial increase of bank profitability.

FIGURE 3.1: SHARE OF CLASSIFIED LOAN TO TOTAL OUTSTANDING (%)



Source: Bangladesh Bank.

FIGURE 3.2: BANK WISE CLASSIFIED LOAN AS % OF TOTAL OUTSTANDING LOANS



Source: Bangladesh Bank.

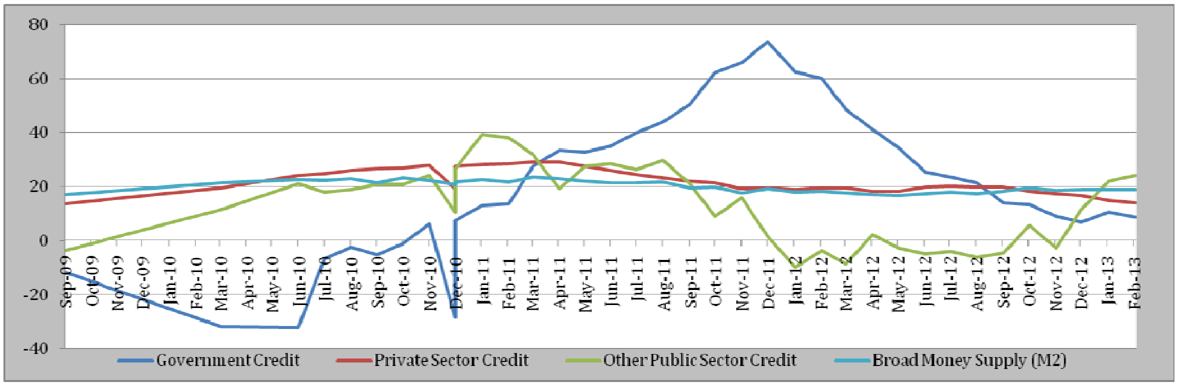
3.3 Credit Disbursement Shows Low Appetite of the Private Sector

In FY2012, Bangladesh Bank followed a monetary tightening policy in order to reduce the inflation rate from double digit to single digit. As a result, inflation rate reduced, but at a cost. This had a negative impact on the credit flow. For example, in July 2011, credit to private and public sectors grew by 24.36 and 39.87 per cent, respectively. In June 2012, credit to both private and public sectors reduced significantly to 19.72 and 25.43 per cent, respectively. Such a decline is apprehended to have an impact on the investment and growth situation of the country. In its monetary policies of FY2013, Bangladesh Bank focused more on GDP growth through more productive investment and containing inflation. As a result, during the first eight months of FY2013 there has been an increase in money supply. This, however, was not accompanied by increased flow of credit.

The Monetary Policy Statement (MPS) of Bangladesh Bank for the period January-June 2013 set targets at 17.7 per cent for the growth of the broad money supply (M2) and 18.5 per cent for the growth of the private credit. The early signals of the monetary indicators are, however, not very promising. At the end of February 2013, M2 grew by 18.9 per cent as opposed to 18.19 per cent in February 2012. In case of credit flows, both public and private sectors suffered sharp decline compared to the last fiscal year. The growth of credit to the public sector was a mere 8.57 per cent in February 2013 compared to 59.92 per cent in February 2012. On the other hand, the flow of credit to the private sector experienced a decline from 19.55 per cent in February 2012 to 13.96 per cent in February 2013.

The decline of credit to the public sector signifies a lower dependence of the government on the banking system and availability of more resources with banks for the private sector. However, the slow growth of credit to the private sector is again a reflection of low appetite of the sector for credit which is mainly related to dampened investment climate of the country due to lack of infrastructure including power and gas supply and political turmoil. Figure 3.3 presents the growth of credit and money supply in the recent period.

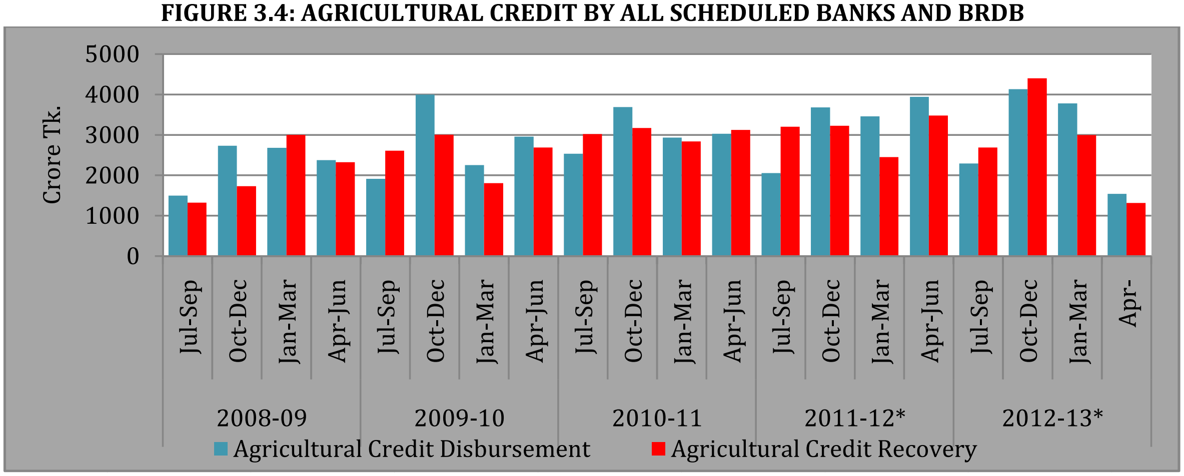
FIGURE 3.3: GROWTH (%) OF CREDIT AND MONEY SUPPLY (YEAR-ON-YEAR)



Source: Bangladesh Bank.

There have been policy directives by Bangladesh Bank favouring agricultural credit. As a result, commercial banks are mandated to disburse agricultural loan to various sectors including crops, livestock and fisheries. However, the growth of agricultural credit during January-March 2013 is only about 9 per cent compared to the same period in 2012 (Figure 3.4). A disaggregated data reveal that since 2009 the share of crop sector is consistently increasing in total agricultural credit, so is the case with live stock and fisheries. However, allocation for poverty alleviation activities has mostly been declining (Table 3.2). Given the ambition of supporting inclusive growth in the country, efforts towards poverty alleviation programmes demand more attention.

FIGURE 3.4: AGRICULTURAL CREDIT BY ALL SCHEDULED BANKS AND BRDB



Source: Bangladesh Bank.

TABLE 3.2: SECTOR-WISE DISTRIBUTION OF AGRICULTURE CREDIT

Sector	FY2009	FY2010	FY2011	FY2012	FY2013
Crop	40.82	40.09	40.04	40.82	45.97
Purchase and installation of irrigation equipments	0.09	0.63	0.58	0.09	2.06
Live-stock	4.51	4.93	4.64	4.51	12.05
Fisheries	4.89	0.75	0.33	4.89	8.93
Grain storage & marketing	1.13	4.82	5.05	1.13	1.63
Poverty alleviation	17.66	16.44	17.69	17.66	11.11
Other agricultural activities	30.91	32.33	31.68	30.91	18.26

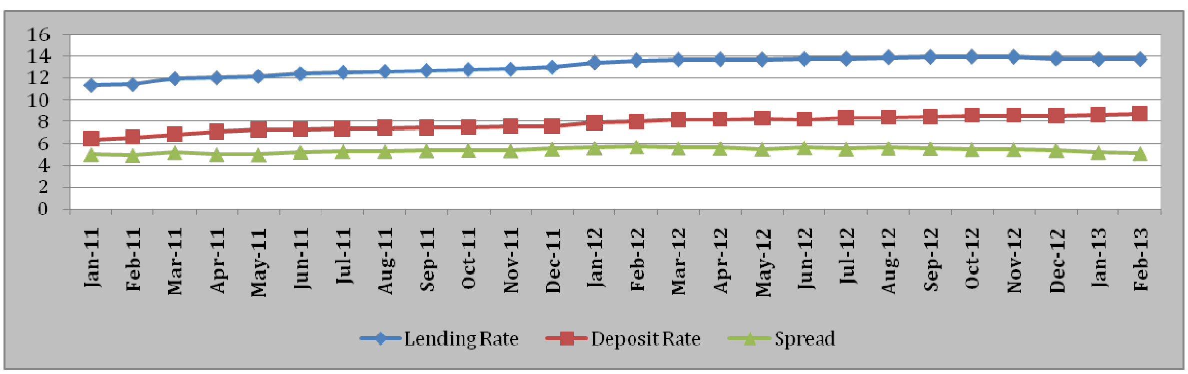
Source: Bangladesh Bank.

3.4 Paradox of High Excess Liquidity and High Interest Rates

Excess liquidity of the scheduled banks has almost doubled during January 2012 to February 2013. The growth of excess liquidity in the banking system has influenced the money market by bringing down the call money rate significantly, from 19.66 per cent in January 2012 to 8.95 per cent in February 2013. The call money rate hovered around 10 per cent during January 2009 to October 2010, but increased sharply to 33.5 per cent in December 2010 because of the adjustment in the CRR and SLR rates by Bangladesh Bank.

Throughout the FY2011, the excess liquidity in the scheduled banks was more or less stagnant, but started to rise again since January 2012. High excess liquidity is not, however, accompanied by low interest rate, as logic would suggest. In addition to low investment and consumer demand, movements in the stock market have also implications for the liquidity situation of the banking sector in Bangladesh. Thus the provision of putting a ceiling on the exposure on stock market for banks has also contributed to excess liquidity in banks in the recent period. Commercial banks are probably trying to make up for their lower profit through high lending rates which reached as high as 13.95 per cent in October 2012 and reduced slightly to 13.73 per cent in February 2013. However, deposit rate, though increasing since June 2010 has been much lower than lending rates. As a result during the whole period between June 2012 and February 2013, the interest rate spread (IRS) was above 5 per cent which is considered to be a tolerable level. It is only recently IRS is coming down due to a slight reduction in lending rate and increase in deposit rate. Thus in February 2013, the IRS reduced to 5.05 per cent from a peak of 5.68 per cent in February 2012.

FIGURE 3.5: INTEREST RATE SPREAD



Source: Bangladesh Bank.

Box 3.1: Follow-up on the Hallmark Embezzlement

A chronology of the measures taken by the concerned authorizes in view of the huge fraudulent of resources from Sonali bank indicates that there has been very little progress in the effort towards the recovery of the money. The owner of the Hallmark was arrested following the commotion created after the incidence was brought to light. However, in March 2013, the Managing Director of the Hallmark group was out in bail and applied to the government to save the 40,000 workers and their families working in various factories of the group which also houses some Tk. 500 crores worth of equipments. Consequently, the Ministry of Finance advised Sonali Bank to prepare a document advising on how to regularize debts of the company and restart this factory. However, the ministry denies that anyone related with the graft will be freed of their charges.

As of May 2013, no action was taken against Sonali Bank for the financial scam of Hallmark which involved an amount of Tk. 3648 crores. There has also been no trace of the money which was appropriated through unauthorized loans and advances by the said company in connivance with bank officials. Bangladesh Bank froze the accounts of the owner and relatives of the Hallmark and retrieved Taka 30 cores. The Finance Minister informed the National Parliament in April 2013 that Tk. 405 crores have been realized from the Hallmark group so far. According to Bangladesh Bank, the Anti Corruption Commission (ACC) is responsible for tracing the money back. The ACC is seeking account information of officials and relatives of the Hallmark group from the central bank. In February 2013, a six member team of the ACC interrogated top officials including a former member of the Board of Directors of Sonali Bank, who allegedly took bribes amounting to Tk. 3 crores from the Hallmark to sanction the loans in favour of the company. Several names of high officials of Sonali Bank and an advisor to the Prime Minister came up from unofficial sources as accomplices to this fraud. The ACC requested to the former Chairman, eight members of the Board of Directors, and two high officials of Sonali Bank, to submit their wealth statements to the commission by April 2013.

3.5 Concluding Remarks

The recent trend in the banking sector is not supportive to a sustained economic development as it is encumbered with inefficiency and malpractices. The accumulation of excess liquidity is not only a reflection of low demand for funds. It also indicates weak supervisory and poor portfolio management of commercial banks. Several malpractices of commercial banks have also contributed to the weak performance of the banking system. In view of this, there should be further reform measures to streamline the activities of the sector towards improving its performance.

4. REVIEW OF THE DEVELOPMENT OF THE POWER SECTOR: ACCESS TO ELECTRICITY, EFFICIENCY IN GENERATION AND DIVERSITY IN SOURCING

The power sector has undergone significant changes over the last four years with a view to raising generation and supply capacities taking cognizance of the emerging urgency. As is known, the country suffered from significant power deficit when the present government came to power in 2009 - total generation of electricity was only 3268 MW at the time with a per capita access to electricity being only 183KWh. In this backdrop, the government undertook short, medium and long term programmes based on the national plan for power sector development. The major target of the plan was to ensure a moderate rise in access to electricity in the shortest possible time. This target has partly been attained over the last four years, but at a significant cost which has been elaborated below.[16] The discussion in this section highlights four key issues which include (i) access to electricity, (ii) efficiency in generation of electricity, (iii) use of renewable energy as diversified source of electricity and (iv) reforms in policies and institutions.

4.1 Access to Electricity

a) Access: Some progress has been made in terms of access to electricity thanks to the rise in generation of electricity over the past four years. According to the BPDB, about 60 per cent of total population has access to modern power supply facility in FY2013 against 43 per cent four years back. Per capita electricity consumption has increased to 292 KWh in April 2013 from 183 KWh in FY2009 (Table 3.1). However, because of poor benchmark condition, such improvement in access to electricity has yet to reduce the gap with Bangladesh's major competing countries (e.g. per capita electricity consumption for selected countries in 2010 was as follows (kWh): India: 626; Indonesia: 641; Vietnam: 1035; and China: 2944 etc.).

b) Power Generation: Developments in the power sector were underwritten by significant amount of public and private investment in generation of electricity. Since 2009 a total of 60 new and mostly small scale power plants were set up with a generation capacity of 3845 MW (Table 4.1). This has happened due to a number of reforms in policies and acts including the introduction of Special Provision Act, 2010 for fast tracking projects without going into tendering process and changes in the policy focus towards small scale power plants which could be set up in the short period of time.[17] Despite the success of implementing a good number of small scale projects under the amended act, a number of concerns have been raised with regard to transparency in project selection process and selection biases which perhaps led to inefficiency in power generation and poor utilization of fund, scope for increased rent seeking and misuse of public resources (discussed later).

Transmission and distribution systems have also made some progress during this period. A total of 19 grid substations with the capacity of 2743 MVA and 644 circuit kilometers of additional distribution lines have been set up. In the ADP of FY201-13, a total of 27 out of 48 investment projects are being implemented at different phases which are mainly related to the improvement of transmission and distribution system of the power sector.

TABLE 4.1: GENERATION OF ELECTRICITY: FY2009 - FY2013

	FY09	FY10	FY11	FY12	FY13
Installed Capacity (MW)	5166	5271	6639	8100	8525
Average Generation (MW)		3926.9	4101.2	4935.6	5407.3 (April)
Maximum Generation (MW)	4162	4606	4968.5	6066	6350 (April)
Per capita electricity coverage (KWH)	183	236	252	275	292
Gap between Installed Capacity and Generation (MW)	1004	1344	2538	3164	3118
Time required to get electricity (days)	137.0	142.0	295.0	404.0	

Source: Power Development Board; World Bank Database

[16] The development of the power sector will, however, need to go a long way to attain the goal of 'Sustainable Energy for All (SE4A) by 2030 according to UN in 2012. The objectives of UN initiatives are three folds: a) ensure universal access to modern energy services; b) double the global rate of improvement in energy efficiency; and c) double the share of renewable energy in the global energy mix.

[17] Large scale power plants usually require long period for installation.

c) Gap in power generation: Concerns have been raised with regard to access to power. Although installed capacity till April 2013 (8525MW) has crossed the forecasted demand till that period (8349 MW), the actual generation was well below that level. The 'effective' generation of electricity in terms of maximum and average generation was 25.5 per cent and 36.7 per cent lower compared to the installed capacity. More importantly, the gap between installed capacity and generation has been widening over the years (from 1004 MW in 2009 to 3118 MW in April, 2013). This has happened mainly because of low level of capacity utilization of quick rental (QRRs) power plants. Such huge unrealized capacity raised questions about the quality of power plants especially of QRRs. Moreover, creation of oil-based generation capacity at a large scale during this period without taking into account fiscal and financial burdens caused by bulk supply of oil is a major reason behind such underutilisation of the capacity. Thus, a large amount of capacity has turned out to be 'standby' capacity. Moreover, getting new electricity connections is not easy, rather more time consuming at present (Table 3.1). However, the improvement in monitoring system has reduced the system loss from 15.7 per cent in 2009 to 12.3 per cent in 2013 while the target is to bring it down to 10 per cent by 2015.

d) Lack of diversity in sources of fuel: Power generation in Bangladesh is overwhelmingly dependent on natural gas mainly because of its easy availability so far and low cost involved in generating electricity. Given the limited gas reserve and lack of diversity in the sources of fuel, the government has planned to reduce dependence on gas by putting more emphasis on the use of alternate sources. The use of gas in total share of energy has reduced over the years while the use of other fuels such as diesel, HFO and furnace oil has partly increased (Table 4.2). However, the use of non-gas fuel including coal is still low. Ensuring long-term supply of primary energy for power generation is increasingly becoming a major concern for enhancing power supply. Hence the long term target for fuel diversification in a manner that includes 25 per cent coal, 50 per cent natural gas and 25 per cent other fuels by 2030 seems to be difficult to attain.

TABLE 4.2: USE OF DIFFERENT TYPES OF FUEL IN POWER GENERATION (%)

Types of fuel	FY09	FY10	FY11	FY12	FY13 (May)
Furnace oil	3.8	2.8	5.0	11.0	5.5
Diesel/HSD/HFO	1.9	1.8	6.0	6.0	11.8
Hydro	1.6	3.4	4.0	3.0	4.5
Coal	3.9	3.8	2.0	2.0	1.6
Gas	88.8	88.3	83.0	78.0	78.3
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: Bangladesh Power Development Board

e) Investment: At present the respective share of the public and private sectors in power generation is almost equal (51 per cent and 49 per cent respectively). Although both local and foreign investments have been made in IPPs and QRRs, the inflow of FDI in the power sector has decelerated in recent times. Unlike the early 2000, FDI inflow has dropped in recent years which led to a decline in the share of FDI stock in the power sector (Table 4.3). Anecdotal information indicates that the power sector has received about US$9 billion worth of investment (including FDI) since 2009.

TABLE 4.3: FDI IN THE POWER SECTOR

Indicators	FY01	FY05	FY09	FY10	FY11	FY12
Inward flow (US$ mil.)	174.6	29.7	23.4	36.8	52.6	64.2
Share in total flow (%)	31.0	3.7	2.4	4.0	6.8	5.4
Inward stock as of June(US$ mil.)	218.4	284.2	256.9	288.2	331.9	294.7
Share in total stock (%)	10.4	8.4	5.0	4.8	5.3	4.7

Source: Bangladesh Bank.

With a view to increase power generation within a short period of time, the government planned to set up costly QRR power plants along with PDB's and IPP power plants. At present, the share of QRRs is about one-third of total generation capacity (Table 4.4). Because of very high purchasing price of electricity from QRRs (Tk. 18-21 vis-à-vis Tk.3.5-4.5 from BPDB) the BPDB has to bear a huge burden of subsidy. Taking into account such financial burden, the government has planned to reduce the share of electricity generation through QRR power plants by exiting those plants once their contract periods are over, mostly by FY2013. But the government could not sustain its plan and therefore, its fiscal burden in the coming years would not be lessened so easily.

TABLE 4.4: SHARE OF BPDB, IPP AND QUICK RENTAL PLANTS IN THE POWER GENERATION (AVERAGE FOR APRIL, 2013)

	PDB	IPP and alike	Quick rental and others	Total
Derated Capacity	51.3	17.7	31.0	100.0
Day Peak	40.8	26.7	32.6	100.0
Eve. Peak	44.1	23.4	32.5	100.0

Source: BPDB

f) Frequent revisions of power generation plan: The power generation plan has been revised a number of times during the last four years (Table 4.5). The initial plan formulated in 2010 was revised in 2011 and then again afterwards. Targets set forth for implementation of public and private sector power projects for different years were also revised. The revisions were carried out because of a number of reasons including lack of adequate supply of gas for newly installed power plants, slow progress in the completion of large scale IPPs and BPDB power plants, and institutional weakness to monitor timely implementation of projects. Problems in supply of primary energy for the existing and upcoming power plants and inadequate investment including FDI are two major constraints that led the government to make frequent revisions of the power generation plan. Overall, frequent revisions of power sector plan undermined effective and timely implementation of the plan.

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TABLE 4.5: CHANGES IN POWER GENERATION PLAN (IN MW)

Year-wise Plan	Public (MW)			Private (MW)			Import (MW)			Total		
	Plan declared in 2010	Plan declared in 2011	Present Plan	Plan declared in 2010	Plan declared in 2011	Present Plan	Plan declared in 2010	Plan declared in 2011	Present Plan	Plan declared in 2010	Plan declared in 2011	Present Plan
2010	360	255		432	520					792	775	
By 2011	920	851			1343					920	2194	
By 2012	505	838	632	1764	1319	1354				2269	2157	1986
By 2013	725	1040	1467	950	1134	1372		500	500	1675	2174	3339
By 2014	1170	1270	1660		1053	1637				1170	2323	3297
By 2015		450	1410	2600	1900	772				2600	2350	2142
By 2016		1500	750		1300	1600					2800	2350
Total		6204	5919		8569	7235					15273	13154

Source: MoF

3.2 Efficiency in Power Generation, Power Use and Resource Utilisation

a) Inefficiency in power generation: Efficiency issues in power generation have suffered from serious neglect. *First,* realising the high fiscal burden of operating QRRs, the government announced an exit policy for such plants during 2013 to 2016. But the government could not stick to its plan, rather extended contracts with seven QRRs and a few more are waiting for getting renewals. Despite the fact that the subsidy burden has partly reduced because of reduced import price of oil and revision of power tariff, a part of subsidy burden will remain due to further time extension of QRR projects along with setting up new diesel based plants. *Second,* the inefficiency for using QRR would increase further, if the government gives extension to most of the QRRs without taking into consideration of their level of efficiency.[18] *Third,* such inefficiency may aggravate further if the QRRs (even though they are efficient) are upgraded as 'IPPs' and get the permission for operating under long term contract by ignoring their limitations for gradual reduction in the generation capacity as well as high cost incurred due to rise in consumption of fuel. *Fourth,* the terms and conditions in case of extension of the contract with QRRs particularly purchasing price of electricity for BPDB should have to be renegotiated taking into account the changing cost structure where no fixed costs is involved for those plants. Failure to reduce the purchase price (well below the existing level and near to that of the IPPs) would again be inefficiency in generation of power. *Fifth,* relatively low generation capacity of QRRs (55-67 per cent) compared to that of IPPs (80-86 per cent) raised concerns about the quality of investment (Table 4.6). This may happen due to the use of low quality and out-dated machineries which has resulted low return from costly investment for QRRs. *Sixth,* a recent investigation by the power division revealed that 11 out of 18 rental power plants use fuel in excess of the stipulated limit for generation of 1 kwh of electricity. As a result, BPDB has to supply an additional 35 millilitre of fuel per month to those power plants which caused extra financial burden. Besides, heating contents of these power plants are higher than that of the stipulated limits which is a breach of contract. *Seventh,* BPDB has to bear additional financial burden. For example Tk.3.36 million per day has to be paid to 50 MW oil fired rental or quick rental power plant as 'capacity

[18] Anecdotal information shows that level of efficiency is widely varied between QRR power plants.

payment' in case required amount of gas is not provided. In one incidence, BPDB has to pay to a QRR about US$30.69 million per month as capacity payment for its default in lack of gas supply.[19] It is alleged that BPDB with its huge financial strains, has taken alternate measures to reduce the burden by suspending the contract for taking electricity from a number of QRRs even by paying 'capacity payment' as this deemed to be a less burdensome option for the BPDB. *Eighth,* there may have active vested interest groups working to slow down the progress of large scale power plants and delay the initiatives to repair the existing power plants, and failure in supplying sufficient gas to the power plants. All these activities may be done to project QRRs as 'inevitable' medium term options for power generation as well as to extract 'rent' through unethical practices. Overall, the power sector is burdened with huge inefficiency which created significant extra financial burden and led to loss of supply of low-cost electricity and higher power tariff on consumers.

TABLE 4.6: CAPACITY UTILISATION: COMPARISON BETWEEN BPDB, IPP AND QUICK RENTAL PLANTS

	PDB	IPP and alike	Quick rental and others
Day Peak	42.0	79.7	55.4
Eve. Peak	55.9	86.0	67.9

Source: BPDB

b) Inefficiency in the revision of power tariff: According to the Bangladesh Energy Regulatory Commission (BERC), average power generation cost has doubled since 2009 - from Tk. 2.59 per KWh to Tk.5.57 in 2013 which caused increased financial burden to the BPDB. As part of reform initiatives, electricity tariff has been revised six times since March 2010 in order to reduce a part of financial burden. Average retail price of electricity has increased to Tk.6 per KWh during the last revision in September 2012, from Tk. 3.76 in March 2010 (Table 4.7). The revision of power tariff has been done taking into account the equity aspect in case of the burden over different categories of consumers – less upward revision for low income households and agricultural activities and more for heavy and medium industries and commercial activities. On average, payment by the consumers has increased by about 60 per cent since March 2010. Such revision of tariff places Bangladesh either at par or even at higher levels compared to her major competing countries (Table 4.8). The question is whether the revision in power tariff could effectively reduce the overall fiscal burden of BPDB. In fact, the huge burden of subsidy on account of continuous dependence on QRRs which is occurred due to inefficient operation of the BPDB and poor implementation of large scale power plants, has been partly shifted to the consumers through such rise in power tariffs.

[19] Report published in the national daily the Financial Express on 24 May, 2013.

TABLE 4.7: REVISION OF POWER TARIFF: 2010-2013

		Mar 2010 (after 5% average increase	Feb 2011	Dec 2011	Feb 2012	Mar 2012	Sep 2012	Changes since March, 2010 (%)
Residential	0-100 unit	2.60	2.60	2.73	2.87	3.03	3.31 (0-75 units)	27.3
	101-400 unit	3.30	3.46	3.81	4.04	4.29	4.73-4.93 (76-400 units)	43.3-49.4
Agriculture		1.93	1.93	2.03	2.13	2.26	2.51	30.1
Small industries		4.35	4.56	5.27	5.67	6.02	6.95	59.8
Heavy industries (32 kV)		3.10	3.25	4.59	5.02	5.33	6.16	98.7
Heavy industries (33kV)		3.92	4.11	4.88	5.28	5.61	6.48	65.3
Medium industries (11 kV)		4.17	4.37	5.14	5.55	5.90	6.81	63.3
Commercial		5.58	5.85	6.80	7.33	7.79	9.0	61.3

Source: BERC

TABLE 4.8: ELECTRICITY TARIFFS IN SELECTED COUNTRIES (US CENTS)

Countries	Power Tariff (US Cents per KWh)	Effective Date
Bangladesh	7.5	September, 2012
China	7.5-10.7	May 17, 2012
India	8.0 – 12.0	February 1, 2013
Indonesia	8.75	February 1, 2013
Thailand	4.46 - 9.79	March 5, 2011
Pakistan	2.00 - 15.07	May 16, 2012
Vietnam	6.20 - 10.01	2011

Source: Wikipedia, accessed on 24 May, 2013

c) Inefficiency in resource utilisation: Subsidy in the power sector has increased by several times since 2009. The figures for different years are: Tk.981 crore in FY2009, Tk.1200 crore in FY2010, Tk.4000 in FY2011 and Tk.6000 crore in FY2012. Till January, FY2013 the subsidy for the BPDB was Tk.3800 crore which will grow up to Tk. 7000 crore at the end of FY2013 due to the use of electricity for boro production according to the BPDB. Mujeri, Shahana and Chowdhury (n.d.) show that subsidy to the rental power plants in FY2012 was about 44 per cent of total subsidy to the power and energy sector.[20] Despite several tariff adjustments since 2009, subsidy burden per unit of generation of electricity did not decrease; rather it has increased significantly till FY2012 - from Tk.18.9 lakh per MW in 2009 to Tk.74.0 lakh in 2012; however, it has declined in FY2013 (Tk.44.5 lakh by January 2013). Given the inefficient operation and slow implementation of some of the large scale low-cost power plants, price adjustment perhaps put little impact in reducing the subsidy burden.

The increase in overall subsidy which reached 4 per cent of GDP has caused serious fiscal burden on the government. As part of conditionality under IMF Extended Credit Facility (ECF), this burden has to reduce to 3.5 per cent of GDP.[21] The latest rise in electricity price by 16 per cent in September

[20] The subsidy to different users of the power sector was about 3 per cent in FY2012. See also, www.iisd.org/gsi/sites/default/files/ffs_dhaka_bids.pdf

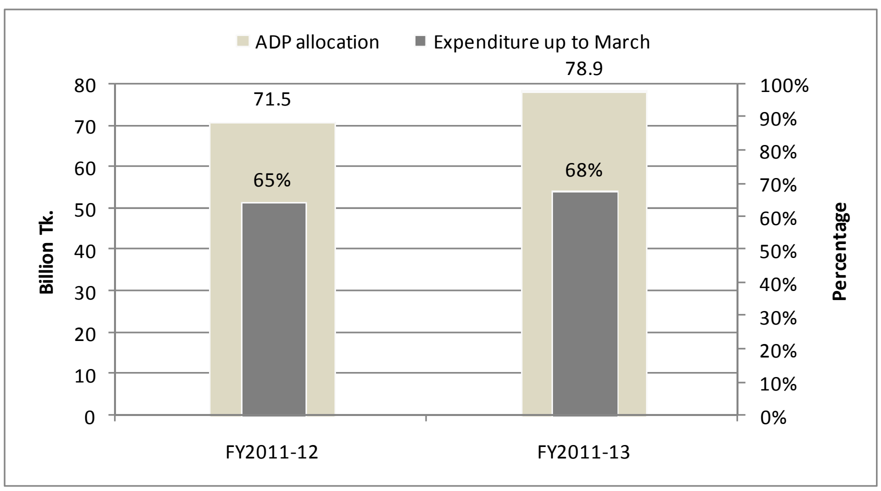
[21] This is factored in government capitalization of all earlier subsidy-related loan losses at the SOCBs (equivalent to 0.5 per cent of GDP), with no new accumulation of these debts.

2012 and fuel prices by 11 per cent in January 2013 were part of those undertakings. The government perhaps took alternate strategy of generating lower levels of electricity by keeping the capacity underutilised. This is particularly true for QRRs. In other words, the government will find it difficult to maintain a balance by increasing electricity in one hand and keep the subsidy-GDP ratio at the agreed level (3.5 per cent of GDP), on the other hand.

d) Lack of progress in implementing large scale power plants: A number of large scale projects were stalled at different phases of implementation. These include Bibiyana phase one (341 MW) gas-fired power plants due to lack of financing on time and delay in handing over of land; Bhola 225 MW gas-fired plants due to delay in selecting the awardee through the tender process; and Siddhirganj 450 MW due to procedural delays. Overall, nine out of 11 public sector low-cost projects (generation capacity of 1700 MW) is likely to be delayed by two years.[22]

The Power Division has implemented 54 projects during FY2013 with an allocation of Tk.7,900 crores. Till March 2013 the division has spent Tk.5,375 crores which was 68 per cent of their total allocation. The status of implementation is relatively better compared to that in the previous year (Figure 4.1). Out of 48 projects being implemented under investment programme, 13 projects are related to power generation, 29 are related to transmission and distribution, and 6 are related to use the of renewable energy. The failure to setting up a number of large scale power plants as per the plan is a major management inefficiency of the power sector.

FIGURE 4.1: ADP ALLOCATION AND EXPENDITURE OF POWER DIVISION DURING FY2012 AND FY2013



Source: Ministry of Finance

Similarly, a number of private sector plants has been deferred by the Power Division of which two plants (300 MW) deferred for one year from their original plan for setting up in 2012; and another four (1000 MW) out of six plants are deferred for two years from their original plan of setting up by 2015. Installation of another three private sector plants is still uncertain. Besides, little progress has taken place in case of supply of gas which may cause further delay to complete gas based power plants. Although 500 MW of electricity is supposed to be imported from India by June 2013 as per the plan, it has become uncertain due to lack of development of infrastructure at the Indian side. While the guaranteed supply of 250 MW (out of 500 MW) from India would be available at

[22]See, http://newagebd.com/detail.php?date=2013-01-27&nid=38106#.Uag2PNJHKiw

Tk.5/kWh, the remaining 250 MW will be traded in terms of market rate prevailed in the respective region, which seems to be expensive as the peak hour rate of the electricity is about Rs.17-18 per kWh. Similarly, 2000 MW Rooppur Nuclear power plant which has been negotiated with Russia is still at early phase. A number of issues and concerns have been raised with regard to financial and safety and security issues of the proposed nuclear plant project including assurance of required level of financing from Russia at the proposed terms and conditions as initially discussed (i.e. US$1500 million to be disbursed after the construction initiated at LIBOR +1 per cent which is equivalent to be about 2 per cent) and safety standards of the proposed nuclear reactor (i.e. VVER1000 vis-à-vis newer model of VVER1200).[23]

Under these circumstances, maintaining the power generation plan is found to be rather difficult. A number of revisions have been made both in plan and actions including reduction of generation target by over 1000 MW, extending contracts with seven rental power plants for another one to two years under Special Provision Act 2010 and extension of period of this Act for two years etc. Thus, the power sector, in the medium term, perhaps will continue to be burdened with unwarranted subsidy which may cause further tariff hike that could otherwise be avoided.

e) Slow progress in enhancing production and supply of alternate fuels: Ensuring long term supply of primary energy for power generation is perhaps the major challenge for the development of the power sector now a day. Rise in generation of gas is at stake due to limited progress in exploring additional gas from new and old gas wells. Moreover, supply from some of the existing wells has declined. For example, offshore Sangu-11 gas well has dried up fast as the supply dropped by 33.6 per cent to 80 million cubic feet per day in recent time.[24] Exploration of gas in the on-shore blocks should be expedited.

Although the government has set the target of generating 8000 MW of electricity by 2016 from coal based power plants, little improvement has taken place in case of building up coal based power plants and more importantly of extraction of coal from the unextracted coal mines. At present, power generated from coal-based power plant is merely 90 MW. Failure to finalise the draft coal policy is a major weakness towards this end. However BPDB, Bangladesh and NTPC, India have recently signed an agreement to set up 1320 MW coal based power plant at Rampal. Considering the proximity of this plant to the Sundabans which is only 14 km away, environmental groups have criticized for setting up the plant close to the Sundarbans.[25] Given the limited progress in domestic coal-based power plants, government should take initiatives to develop imported coal-based power plants although electricity generation cost for the latter would be higher (Tk.7-8 vis-à-vis Tk.4-5 in local coal based one). By and large, exploring alternate sources of primary energy for diversification has remained unattended.

f) Low level of use of energy saving technologies: A number of energy saving measures and demand side management programmes has been introduced as part of saving power and energy. These include- a) inclusion of energy saving issues in the national building code; b) distribution of 1.05 crores of energy saving CFL bulbs in order to encourage people to use energy saving technologies; c) Maintenance and refurbishment of inefficient and old power plants; d) implementation of result-based management to reduce system loss; d) introduction of energy star

[23] See, Rahman (2013). “Is Bangladesh Ready for Nuclear Power?” published in The Daily Star on 21 March 2013

[24] See, http://www.thefinancialexpress-bd.com/index.php?ref=MjBfMDRfMDlfMTNfMV8xXzE2NTg4MQ==

[25] BPDB and NTPC will finance the project equally while BPDB will purchase electricity from the plant for 25 years.

labeling programme to encourage using energy saving technologies; and e) introduction of pre-paid metering, renewal of transmission and distribution lines and modernization programme. Estimates showed that use of CFL bulbs will reduce power consumption by 312 gigawatts and save US$11.5 million a year.[26] While these initiatives are only the start towards increased use of energy saving and energy efficient technologies, more initiatives are required towards that end. In this context, government should formulate an energy conservation law to increase energy efficiency in the country.

4.3 Progress towards Enhancing Use of Renewable Energy

Use of renewable energy at a significant level is being considered as a strategy in the long term plan for sustainable development of the energy sector. A total of 800 MW worth of electricity was initially planned to be generated from renewable sources by 2015 which would be 5 per cent of total energy demand. But little progress has been made so far – about 37.2 MW of renewable energy generation capacity has been installed while another 39.4 MW of capacity to be installed in FY2014 (Table 4.9). Since Bangladesh has implemented renewable energy projects from the scratch, various programmes such as solar home system (SHS) which covered over one million homes, has been regarded as fastest growing programme in the world. These programes have been implemented by the IDCOL, a public-private infrastructure financing entity. For detailed information, please see the box—1 below.

TABLE 4.9: RENEWABLE ENERGY: INSTALLED CAPACITY

Sources	Installed Capacity	
	FY2012-13	FY2013-14 (Projected)
Solar Home System	33 MW	30 Wp
Biogas Plant for Cooking	29900 m^3	44850 m^3
Solar Mini Grid	1.0 MW	1.0 MW
Solar Irrigation Pump	1.6 MW	2.4 MW
Biogas based Power Plant	0.6 MW	2.0 MW
Biomass based Power Plant	1.0 MW	1.0 MW

Source: IDCOL

4.4 Policy and Institutional Issues

The national plan for power sector development has covered a number of reforms in policies and institutions. Two new laws have been enacted including Speedy Supply of Power and Energy (Special Provision) 2010 and Sustainable and Renewable Energy Development Authority (SREDA). A number of other laws/regulations are at different phases of implementation including Revision of Electricity Law 1910, Updating of 'National Energy Policy', Revision of Renewable Energy Policy, Introduction of 'Unified Service Rule', Revision of the Service Rule of BPDB and Setting Up 'Energy Research Council' etc. The enforcement period for the Special Provision 2010 has been extended for another two years after it has expired in September, 2012. Despite its role in speed up the process of providing work orders without going into lengthy tendering process, a number of criticisms have been raised with regard to transparency in the selection process, rate of generation cost and

[26] See, http://www.the-esa.org/news/articles/-/energy-saving-bulbs-to-be-distributed-in-bangladesh

purchasing price for the BPDB and other issues. According to Khan, Riley and Wescott (2012) increasing investment in IPPs (including QRRs) under such provisions would create a number of risks which include risk of government insolvency, high risk premiums lead to high financing cost, risk for bidders increase because of corruption, adverse selection leads to few bidders and even higher risk premiums, and high-cost successes raise the risk of future government default etc.[27]

4.5 Concluding Remarks

The progress in the power sector during the last four years was, to a large extent, in one particular area i.e. higher access to electricity through greater generation capacity. The composition of this growth, however, calls for close examination. There is no scope for considering QRRs as a major medium-term option for meeting the shortages of power. Indeed, extension of QRRs should be considered only under strict scrutiny - a) extension of QRRs should not be allowed without proper assessment of their efficiency and viability for operation; b) no QRRs should be extended for over five years and should not be upgraded as IPPs; c) Purchase price of electricity from QRRs should be renegotiated by taking into cognizance of the changing cost structure. This would imply that the purchase price of electricity from these under new contracts should be significantly low. Government should allocate necessary fund for setting up large scale power plants and should ensure supply of gas for those power plants as well as for others. In this context, government should put highest effort in two areas: a) ensuring long term supply of primary energy and b) enhancing investment particularly FDI, in power generation. In fact, frequent revision of master plans had to be made because of the above-mentioned challenges. Exploration of gas in onshore blocks should be increased further under the BAPEX. Government may consider providing more opportunities to the IOCs in onshore blocks. It is found that the sector is lagging behind in terms of improving efficiency in power generation and resource utilization, enhancing diversity in primary fuel use and raising access to renewable energy. Considering the huge potentiality of renewable energy in Bangladesh (it is possible to bring about 6 million households under renewable energy in the non-grid area) more fiscal and financial support is required for renewable power generation projects. In this way, renewable energy could play an important and supplementary role in the power sector of the country. Government should consider introduction of 'feed-in' tariff for renewable power generation projects so that private sector would be encouraged to invest more in those projects.

5. FINANCING THE PADMA BRIDGE PROJECT – THE LINGERING CONCERNS

Construction of the Padma Multipurpose Bridge Project (PMBP) was first planned in 1999 with the objective of connecting the country's underdeveloped South-West region with the North East. Pre-feasibility study has been carried out by the Government of Bangladesh (GoB) and the 6.15 km-long

[27] See, Khan, Mushtaq, Riley, Thyra and Wescott, Clay G., Public-Private Partnerships in Bangladesh's Power Sector: Risks and Opportunities (May 7, 2012). Available at SSRN: http://ssrn.com/abstract=2186468 or http://dx.doi.org/10.2139/ssrn.2186468

PMBP, the longest in South Asia, is expected to transform the country's southwest zone by connecting it to the capital and other developed regions of the country. It is envisaged that economic growth will be stimulated with the PMBP by facilitating inter-regional transport, transmission of natural gas, telecommunication service expansion and electricity provision. It has been estimated that the multiplier effects on the PMBP investments would enhance the national GDP growth by 1.2 per cent and gross product in the southwest region would rise by 3.5 per cent. Furthermore, the proposed bridge is expected to become an imperative freeway for trade and transportation between Bangladesh and India; it could also facilitate links with Burma. Moreover, generation of employment opportunities and improved access to health care and education for citizens of the impoverished south western part of Bangladesh would be very imperative. With significant positive externalities originating from realization of the PMBP, the project has always been a national priority which was expected to encourage both national and regional socio-economic development.

Regrettably, financing of the project has faced setbacks since the initiation of the construction process. The GoB signed a loan agreement with the World Bank and other partners in mid-2011, the point in time when the optimism for the bridge was at its peak. However, hopes came crashing down when later in the year, the World Bank raised corruption allegations associated with the tendering process. A detailed investigation was requested by the World Bank, in conjunction with a series of proposals and recommendations. Being not convinced with initiatives taken by the GoB, the World Bank put on hold this largest development finance in the organization's history in June, 2012. Moving on, the World Bank decided to revive the USD 1.2 billion loan on September, 2012 after the government agreed to a set of terms and conditions including the provision of asking all public officials allegedly involved in the corruption scheme to leave their jobs till the time the probe was completed. The GoB, wanting to speed up the implementation of the project and striving to delink investigation and procurement processes, decided to call off the agreement with the World Bank in January, 2013.

The government was indeed left with two other costlier options regarding the financing of the project. [28] The financing could either be through commercial loans or the government would have to resort to self-financing. New windows of financing opportunities have emerged in the form of commercial loans from different entities.

The government has received financing proposals from a number of interested parties. In this respect, Malaysia was one of the major contenders in the run to finance the project. The modality proposed by Malaysia was BOOT (build, own, operate and transfer) with a proposed financing credit of USD 2.19 billion. The proposal envisaged formation of a consortium which included Samsung, a pre-qualified firm in the PMBP. With a proposed construction period of 3 years and operation of the bridge for 26 years before handing it over to the GoB (the payable amount standing at USD 5.2 billion), it is estimated that the government will need to repay the loan at an annual interest rate of approximately 6 per cent. A Memorandum of Understanding (MoU) was signed between the Bangladeshi and the Malaysian counterparts in 2012. However, a number of stringent conditionalities informed the proposal. Spelled out by the Malaysian government, these included provisions that procurements be made tax free and imposition of high tolls on traffic movement.

Yet another proposal came from the Chinese side. The Chinese company China Railway Bridge Bureau Group Co. Ltd. proposed to build the Padma Bridge on build-own-transfer (BOT) basis.

[28] Having said this, the revival of the World Bank loan for the PMBP cannot be ignored at any point of this enduring discourse.

Keeping the existing design and investing USD 2.0 billion (70 percent of the total cost of USD 2.9 billion), a consortium comprising three Chinese companies and the Bangladesh Bridge Authority (BBA) was proposed. The loan would have to be repaid in 20 years, without any interest payment. One of the major drawbacks of the Chinese proposal was that the involved consortium lacked the requisite experience to handle mega projects such as the PMBP.

Having reviewed the options of commercial loan financing, the GoB has now decided to go on its own and build the bridge on the basis of self-financing. This will likely have important implications for budgetary management of Bangladesh over the coming several years. Indeed, the PMBP was first brought into the purview of public finance through the Revised ADP of FY2008. The total cost of the project was estimated to be Tk. 10,162 crore at that point in time, with 68 per cent attributable to Project Aid. As the financing of the PMBP was being negotiated with prospective partners, only some allocations and expenditures were undertaken in successive years. It can be observed from Table 1 that allocations varied from as low as 0.16 per cent of the total ADP (considering revised ADP) to 2.89 per cent between FY2008 and FY2011. The comparable allocation was only 1.50 per cent in FY2012 and 1.34 in FY2013. The low percentages can be largely explained by the absence of operationalisation of the loan agreement with development partners. It should be noted that the expenditure pattern has been rather sluggish when compared with the allocations made for the project. Table 5.1 also shows that 91 per cent of allocated finance was utilised in FY2009, while the share had been on a declining drift in recent years – with 59 per cent being spent in FY2010, 30 per cent in FY2011, 67 per cent in FY2012 and 19 per cent in FY2013. Interestingly, Tk. 207 crore worth of foreign aid was utilised under the ADP for FY2012, which possibly underwrote project design and preparatory costs.

TABLE 5.1: ALLOCATION AND EXPENDITURE ON PADMA MULTIPURPOSE BRIDGE PROJECT

FY	ADP	Project Cost* (Taka in crore)			Allocation (Taka in crore)			Expenditure		
		Taka	Aid	Total	Taka	Aid	Total	Taka	Aid	Total
FY08	Revised ADP	3,281	6,881	10,162	36	0	36	0	0	0
FY09	Original ADP	3,281	6,881	10,162	65	0	65	287	0	287
	Revised ADP	3,281	6,881	10,162	317	0	317			
FY10	Original ADP	3,281	6,881	10,162	700	0	700	200	0	200
	Revised ADP	3,281	6,881	10,162	338	0	338			
FY11	Original ADP	3,281	6,881	10,162	300	908	1,208	316	0	316
	Revised ADP	3,281	6,881	10,162	318	720	1,038			
FY12	Original ADP	4,258	16,250	20,507	480	1,707	2,187	202	207	409
	Revised ADP	4,258	16,250	20,507	162	453	615			
FY13**	Original ADP	4,258	16,250	20,507	572	232	804	84	48	132
	Revised ADP	4,258	16,250	20,507	596	105	701			

*The project was initially taken in 1 January 2008 (in RADP FY08) with total project cost of Taka 10.2 thousand crore. In ADP FY12 the project cost was revised upward to Tk. 20.5 thousand crore
** The expenditure figures are up to March, 2013
Source: Compiled from Planning Commission Data.

Having estimated the overall cost of the PMBP at Tk. 10,162 crore in FY2008, the figure was revised upward to Tk. 20,507 crore in FY2012, i.e. the cost more than doubled. Revenue and capital expenditure increased by 19 per cent and 81 per cent respectively. Out of the revised incremental allocation of the PMBP, sectors which received the highest increased allocation include resettlement (10.8 per cent of total increase), infrastructure including river training and earth filling (17.1 per cent), approach road (8.8 per cent) and bridge construction (45.4 per cent). Table 2 presents a selective summary of the major sub-headings which received the highest allocations in the revised PMBP project cost. In the view of the delay in implementation of the project, a new cost-benefit analysis is needed.

With a rather insignificant allocation and expenditure in FY2012 and FY2013, the GoB has now come to a decision to allocate a significant amount of Tk. 6,852 crore in the next ADP, i.e. 33.4 per cent of the total PMBP project cost. It has been reported that the comparable foreign component was Tk. 1600 crore (23.35 per cent of the project cost in the next fiscal). However, it is doubtful whether the full amount of allocated resources can be spent in FY2013-14. It has also been reported that Tk. 7,800 crore, Tk. 5,000 crore and Tk. 300 crore i.e. 38.04 per cent, 24.38 per cent and 1.46 per cent of the project cost respectively would be allocated over the next 3 years (FY2015, FY2016 and FY2017). However, uncertainty remains regarding the acquisition of foreign funds which are to be utilized in future in the PMBP, both in terms of source and availability.

TABLE 5.2: DIFFERENCE IN ORIGINAL PROJECT COST AND ESTIMATED PROJECT COST

(in lakh Taka)

Item description	Difference				Total	Proportion percentage of the total
	GOB (FE)	Cost				
		PA		DPA		
		Through GOB	SP Account			
Resettlement including SAP	-10605	72000	15104	35243	111742	10.80
Total Revenue	**-34934**	**72000**	**22648**	**136298**	**196012**	**18.95**
Other infrastructure (river training works) including service area and earth filling	39586	0	41385	96530	177501	17.16
Approach Road	1688.36	0	26777	62488	90953	8.80
Bridge Construction	-14666	0	145324	339103	469761	45.41
Construction Yard	25000	0	0	0	25000	2.42
Total Capital	**132594**	**0**	**217356**	**488584**	**838534**	**81.05**
Grand Total	**97659**	**72000**	**240004**	**624882**	**1034545**	

Source: Based on Bangladesh Bridge Authority.

With the PMBP expected to absorb approximately 56 per cent of the total incremental allocations in the next fiscal's ADP allocations and non-PMBP incremental allocation to be only Tk. 4822 crore, a legitimate question may be raised regarding allocation for other priority sectors such as health, education and the agricultural sector. Enhanced allocations of domestic resources will have significant implications for the allocative priorities under the next three-four ADPs. As a large portion of the additional ADP resources has to be allocated to PMBP, it is reckoned that not much resource will be available for other priority sectors in the areas of physical and social infrastructure. One will need to assess a fuller macroeconomic implication encompassing exchange rate, inflation and other aspects of the economy if the government decides to convert domestic currency or take up loan from the foreign currency reserve.

With diminished prospect of foreign aid, the government is considering the floatation of Sovereign Bonds for 5-10 years at the rate of 5.5 per cent to raise USD one billion. The proposal appears to be quite challenging looking at the experience of neighboring countries. The third international Sovereign Bond offered by Sri Lanka in 2011 had a yield rate of 6.25 per cent. Sri Lanka's S&P rating is B+, while that by the Moody's is B1 – both measures allude to a positive outlook and both lower than that of Bangladesh's ratings. On the other hand, interest on Indian government bonds was 9 per cent (despite of India having a higher credit rating than Bangladesh); the interest rate on Pakistani government bonds are 12 per cent (Pakistan's credit rating is lower than that for Bangladesh). Thus, it is reasonable to assume that it is not only the credit ratings which are taken into account by the international investors, but also other macroeconomic attributes. Even if Bangladesh undertakes floatation of her sovereign bonds at 5.5 per cent, Bangladesh's reputation will be severely affected in case of under-subscription of the bonds given the uncertainties the country is in.

Moreover, foreign exchange reserves will definitely suffer erosion if there is no extensive external financing associated with the project. Furthermore, there were proposals of borrowing from the capital market. Borrowing from the Bangladesh capital market, which is itself suffering from both confidence and liquidity crises, would likely worsen the current market situation and outlook. Another setback of self-financing the PMBP is that Bangladesh lacks sufficient exposure to such large infrastructure projects and managing it. Nevertheless, own financing would present the government with the authority to modify and exercise policies according to its own accord for the betterment of the economy without any intervention.

Out of the two other commercial borrowing options which are currently on the table (which were discussed beforehand), the Chinese offer appears to be more preferable on the face of it with the limited credible details available for both the recommendations. However, the government may explore other concessional or low cost foreign financing to substitute the earmarked domestic resources and release them for other competing demands. If the government is left with no other alternatives and has to go ahead with self-financing, then the government would have to strengthen domestic resource mobilisation to finance the rest of the under-resourced essential public priorities. Although the amount of current reserves are robust, drawing on the reserves could be a problem if imports pick up and there is deceleration in export earnings over the coming period. All avenues including renegotiations with aid agencies should be kept open to underwrite the construction of the bridge through a mixed bag of financial options.

6. EXTERNAL SECTOR PERFORMANCE: IMPLICATIONS OF DOMESTIC DEVELOPMENTS AND GLOBAL DYNAMICS

6.1 Overview of the World Economic Outlook and Growth Projections

The global economy continues to struggle despite some signs of economic upturn in early 2013. According to UN (2013) report, deepening of the Euro crisis, fiscal cliff in the US economy and a hard landing of the Chinese economy will likely dictate a faltering economic recovery in 2013. Indeed, according to WB (2013), global GDP growth is expected to come down to 2.4 per cent in 2013, following which it is projected to increase to 3.1 per cent in 2014. UN report on World Economic Situation and Prospects (2013) shows that several developed countries, especially in Europe, have already fallen into a double-dip recession. The Euro area, major market for Bangladesh's export, is forecasted to experience negative growth rate (0.1 per cent) in 2013. The corresponding figure for the US economy, another important market for Bangladesh, is indicative of a decline in the GDP growth rate to 1.9 per cent in 2013 from the 2.2 per cent in 2012. The growth rate for Japan is also expected to come down to 0.8 per cent in 2013 from the 1.9 per cent in 2012. On the other hand, growth scenarios for some of the emerging economies remain stable in the near term. The slowdown in these major markets of Bangladesh is reckoned to have important implications for the increasingly globalising economy of Bangladesh.

TABLE 6.1: GDP GROWTH RATE (%)

Countries/Region	2012	2013^{f}	2014^{f}	2015^{f}
Euro Area	-0.4	-0.1	0.9	1.4
USA	2.2	1.9	2.8	3.0
OECD Countries	1.2	1.1	2.0	2.3
China	7.9	8.4	8.0	7.9
Brazil	0.9	3.4	4.1	4.0
India	5.1	6.1	6.8	7.0
Indonesia	6.1	6.3	6.6	6.6
World	**2.3**	**2.4**	**3.1**	**3.3**

Source: Global Economic Prospects, World Bank, January, 2013. (Notes: f=forecast)

In view of the expected declaration in the growth of the global economy in 2013, the growth in world trade is also projected to remain sluggish in 2013 at about 3.3 per cent, the trade forecast being downgraded from the earlier figure of 4.5 per cent (WTO, 2013) due to the slower global growth and the looming crisis in the Euro Zone. This forecasted figure was significantly below the average rate of 5.3 per cent recorded for the last 20 years (1992-2012).

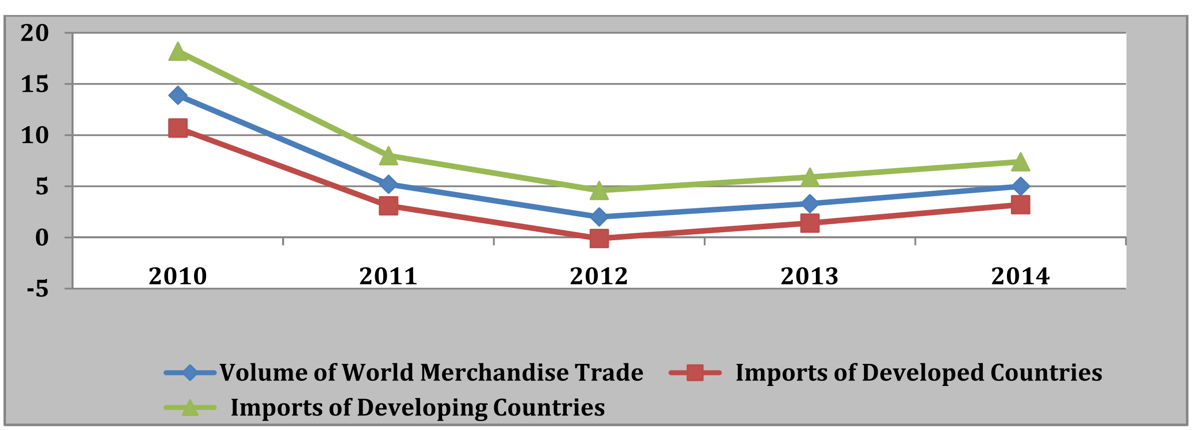
TABLE 6.2: ANNUAL GROWTH RATE (%) OF WORLD MERCHANDISE TRADE, 2010-2014

Merchandise Trade	2010	2011	2012	2013p	2014p
World Merchandise Trade	**13.9**	**5.2**	**2.0**	**3.3**	**5.0**
Exports					
Developed Countries	13.1	5.1	1.0	1.4	2.6
Developing Countries	15.3	5.4	3.3	5.3	7.5
Imports					
Developed Countries	10.7	3.1	-0.1	1.4	3.2
Developing Countries	7.3	5.3	4.6	5.9	7.4

Source: World Trade Organization (WTO), 2013. (Notes: p=projected)

Growth prospects of major markets of Bangladesh in the EU, viz. Germany, UK, France and Italy, also indicate relatively slower growth rates for 2013 and 2014. Indeed, import demand in France and Germany are projected to decline by more than 10 per cent in nominal terms in 2013.

FIGURE 6.1: GROWTH RATE OF WORLD TRADE, 2010-2014



Source: Adopted from World Trade 2012, Prospects for 2013, World Trade Organization (WTO), 2013.

Global FDI flows also reflect a dampened picture in view of the macroeconomic fragility and policy uncertainty facing prospective investors. According to UNCTAD (2013), growth rate of total FDI outflow from EU declined significantly by (-) 25.1 per cent and by (-) 16.1 per cent from USA in 2012. Projected figures showed that FDI could rise moderately to USD 1.8 trillion in 2013 and 1.9 trillion in 2014 although UNCTAD argues that FDI recovery will take longer than the expected timeframe if macroeconomic shocks persist. This is corroborated by the outlook of major investors – perception survey conducted by UNCTAD showed a majority of the TNC respondents were either pessimistic or neutral about global investment climate in 2013.

6.2 Export Sector Performance

Bangladesh's export earnings stood at USD 21.78 billion, registering a moderate growth rate of 10.14 per cent during July-April period of FY2013 compared to the corresponding months of FY2012. Indeed, whilst this growth performance was notable by any measure, exports would need to grow by 37.8 per cent over the remaining two months of the current fiscal to attain the growth target of 15.3 per cent set for FY2013. It would thus be justified to project that targets will remain unattained this year.

While Knit (8.9 per cent), woven (14.0 per cent), leather (19.6 per cent) experienced relatively high growth, raw jute (-11.4 per cent), home textile (-11.8 per cent) and frozen food (-14.4 per cent) posted negative growth rates during the July-April period of FY2013 compared to the corresponding period of FY2012. During the same period of FY2013, non-RMG sector did not exhibit a promising trend for export earnings. As Table 6.3 shows, as a group export performance of RMG was better compared to that of non-RMG, although both the groups are likely to fail in attaining the respective growth targets.

TABLE 6.3: EXPORT GROWTH OF MAJOR PRODUCTS, JULY-APRIL, FY2013

Product	Growth Target FY13	Achieved Growth Jul-Apr FY12	Achieved Growth Jul-Apr FY13	Required Growth May-Jun FY13
RMG	*12.8*	*9.6*	*11.5*	*18.7*
Knit	11.9	3.0	8.9	24.4
Woven	13.8	16.9	14.0	12.9
Non RMG	*24.3*	*4.4*	*5.3*	*109.9*
Raw Jute	13.4	-22.4	-11.4	147.5
Leather	21.2	10.9	19.6	27.4
Home Textiles	26.9	10.3	-11.8	193.0
Frozen Food	17.0	-0.9	-14.4	190.2
Total	**15.3**	**8.4**	**10.1**	**37.8**

Source: Estimated from EPB 2013.

Market decomposition analysis reveals that Bangladesh's RMG export growth to the US market remained stagnant (0.96 per cent) while Vietnam achieved significant growth (9.6 per cent) during July-March period of FY2013 compared to the same months of FY2012. It is important to note that US's total RMG imports declined by (-) 0.25 per cent over the same period.

Bangladesh's woven exports rose only by 0.24 per cent in the US market whereas Vietnam posted 8.9 per cent growth over the same months in FY2013. Amongst Bangladesh's other major competitors in the US, China (-0.20 per cent), Indonesia (-0.13 per cent), Turkey (-1.44 per cent) and Cambodia (-5.59 per cent) experienced a negative growth for RMG exports. Non-RMG exports in the US market for Bangladesh suffered severely: footwear exports declined by (-) 4.7 per cent and shrimp exports declined by (-) 42.2 per cent. Overall, export performance in the US market was rather discouraging in FY2013 in the backdrop of the depressed import demand in the US.

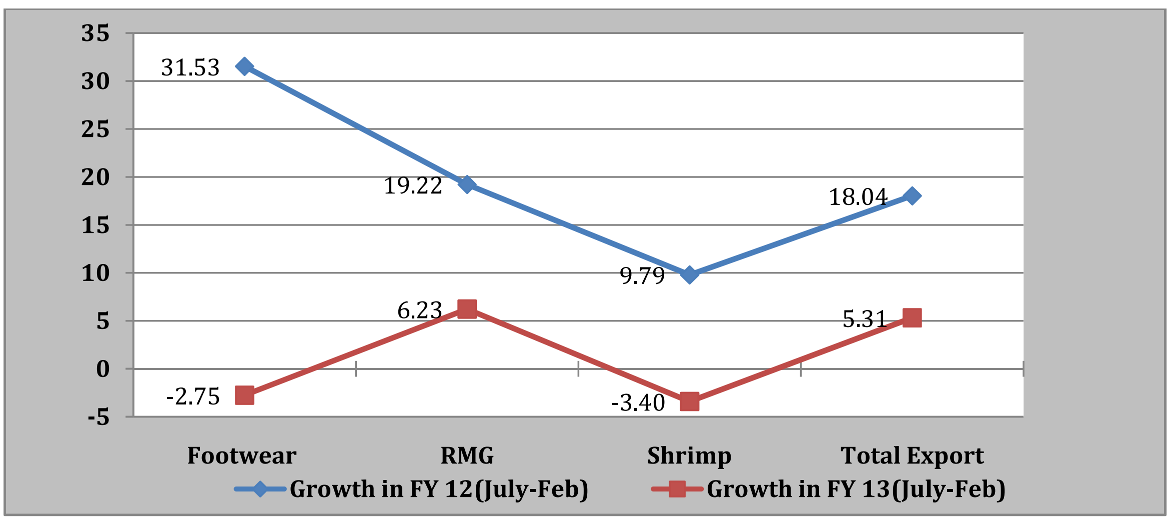
TABLE 6.4: COMPARISON OF RMG GROWTH RATE BETWEEN BANGLADESH AND OTHER COUNTRIES IN THE US AND THE EU MARKET, (JULY-MARCH 2013 OVER JULY-MARCH 2012)

Country	US Market			EU Market		
	Growth in Knit Items	Growth in Woven Items	Growth in RMG	Growth in Knit Items	Growth in Woven Items	Growth in RMG
Bangladesh	3.6	0.24	0.96	-0.18	18.67	6.23
China	-0.9	0.53	-0.2	-9.22	-11.15	-10.25
Cambodia	-5.36	-6.48	-5.59	10.67	72.97	23.27
Indonesia	-1.14	0.96	-0.13	-7.06	-7.33	-7.21
Mexico	-7.42	-6.44	-6.87	-5.96	-4.76	-5.42
Vietnam	10.02	8.95	9.59	-5.72	3.56	1.11
Turkey	-4.35	-0.61	-1.44	5.46	8.33	6.56
Total	**-0.98**	**0.59**	**-0.25**	**-7.41**	**-7.33**	**-7.37**

Source: USITC, 2013 and Eurostat, 2013.

As opposed to the US market, total export to the EU market posted a modest growth rate of 5.3 per cent during July-February of FY2013 with the growth rate of 6.23 per cent from RMG exports. This contrasts notably from the performance in FY2012 when Bangladesh's total export to the EU posted 12.36 per cent growth, and the figure for RMG exports was 13.95 per cent.

FIGURE 6.2: EXPORT GROWTH OF BANGLADESH IN THE EU MARKET



Source: Euro Stat, 2013.

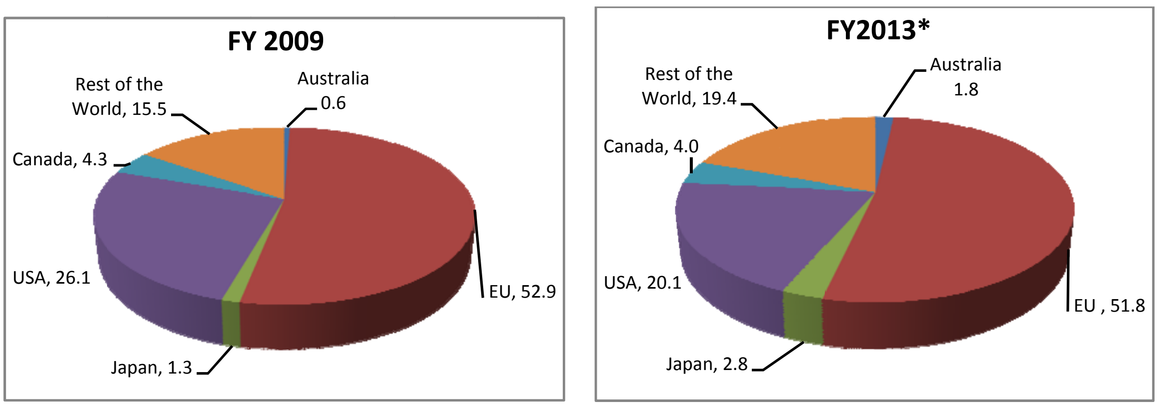
As a matter of fact, growth of non-RMG export to the EU market entered into a negative terrain during the July-February period of FY2013: Footwear and shrimp exports declined by (-) 2.75 per cent and (-) 3.40 per cent respectively. It is of interest to note that, while the total exports of China (-2.77 per cent) and Indonesia (-1.29 per cent) had declined, exports of Cambodia (26.54 per cent) and Vietnam (41.15 per cent) registered significant rise in the EU market during July-February of FY2013 compared to the matched period of FY2012.

It is important for Bangladesh to identify the reasons for the ascendancy of Vietnam in US apparels market, and Vietnam and Cambodia in the EU market. Both price and non-price factors should be closely examined to this effect to find out appropriate measures to address these disquieting trends.

South-South Trade

Evidence suggests growing prominence of South-South merchandise trade as far as trade of developing countries is concerned. However, Bangladesh's track record in contrast has only been modest in this regard. Between FY2009 and FY2013 (July-April) share of Bangladesh's export to rest of the world (barring non-OECD countries) increased from 15.9 per cent to 19.4 per cent.

FIGURE 6.3: SHARE OF TOTAL EXPORT IN DIFFERENT COUNTRIES, FY2009 -FY2013*



Source: Calculated from EPB data (2013). *FY2013 (July-April)

Indeed, average growth of export in this period for India (34.58 per cent), Turkey (25.15 per cent) and China (99.72 per cent) were quite notable. In view of the growth demand in the economies of the South, Bangladesh should pay closer attention to exploring the export prospects through more S-S trade.

TABLE 6.5: SOUTH-SOUTH TRADE FOR BANGLADESH, FY2009-FY2013[29]

Countries	Export in FY 2009 (USD million)	Export in FY 2013 (USD million)	Avg. Growth Rate between FY 2009-FY 2013 (in percentage)	Share of RMG & Non RMG-Export in FY 13
India	275.67	656.93	34.58	13:87
China	97.57	486.77	99.72	30:70
Brazil	72.08	212.90	48.85	94:6
Turkey	329.92	661.84	25.15	62:38

Source: Adopted from EPB, 2013

It is also noteworthy to mention that non-RMG exports constitute a significant share in Bangladesh's S-S trade (for India 87.1 per cent, for China 69.8 per cent and for Turkey 37.6 per cent), alluding to greater opportunities of product diversification for Bangladesh by way of S-S trade.

Price Dynamics in the RMG Sector

Price data indicates that the average price for top five knit and woven items have been on a declining trend over the July-April period of FY2013 compared to the same period of FY2012.

[29] The figure for July-March of FY2013 has been extrapolated for the full fiscal year.

However, CPD Analysis (2013) showed that the average price for the top five knit and woven items had increased in the period between FY2010 and FY2012 (between 26 per cent and 48 per cent).

TABLE 6.6: AVERAGE PRICE (PER UNIT) FOR TOP FIVE KNIT ITEMS

Top five Knit Items	Total Export FY 13 (July-April)	As per cent of total Knit Export	Average Price Per Unit (USD) FY 12 (July-April)	Average Price Per Unit (USD) FY 13 (July-April)	Growth in Price
610910: T-shirts, singlets and other vests, of cotton, knitted	3969.48	47.36	12.89	12.20	-5.34
611090: Pullovers, cardigans & similar articles of textile materials, knitted	1227.28	14.64	16.00	15.67	-2.05
611020: Pullovers, cardigans and similar articles of cotton, knitted	649.65	7.75	17.68	16.51	-6.63
610510: Mens/boys shirts, of cotton, knitted	523.82	6.25	14.24	13.18	-7.45
610462: Womens/girls trousers and shorts, of cotton, knitted	202.95	2.42	13.89	12.57	-9.52

Source: Estimated from EPB and NBR data (2013)

Recent Developments in the RMG Sector

Bangladesh's readymade garment (RMG) industry has come under close scrutiny by international buyers, consumers and western governments following the collapse of the Rana Plaza that resulted in the death of more than 1100 employees working in five RMG units. Bangladesh, *an export power house*, which has in recent years emerged as the second largest global exporter of apparels (after China), has been threatened with boycott by some of the major buyers and consumer groups, and discontinuation of preferential treatment by major importing countries. Bangladesh’s track record in ensuring workers’ rights, work place safety, decent working conditions and minimum acceptable wages has been put on the spot after the Rana Plaza tragedy. These new developments could seriously undermine Bangladesh’s future export prospects in major market. The recent unrest in Ashulia following the Rana Plaza incident could also have adverse implications in terms of production and export of RMG in near term. In a recent move the GoB has amended the Labour Act of 2006 which, inter alia, provides workers with the right to organise themselves in Trade Unions. In the aftermath of the Rana Plaza disaster concerned stakeholders have come up with a number of activities and initiatives which they plan to undertake over the short to medium-term future (Box-1). It will be critically important to follow up on these and do the homework if this mainstay of Bangladesh economy does not suffer serious damage at a time when Bangladesh was passing through a *window of opportunities*.

In a recent move, major retailers from the Europe has agreed to sign the *Bangladesh Safety Plan* which is designed to improve the fire and building safety condition in Bangladesh over the next five years. US retailers have not signed on this although some have indicated their willingness to undertake measures of their own to address the problems of safe working condition in the sector.

BOX 6.1: SUMMARY OF NATIONAL AND GLOBAL RESPONSE FOR RMG INDUSTRY IN BANGLADESH AFTER THE SAVAR TRAGEDY

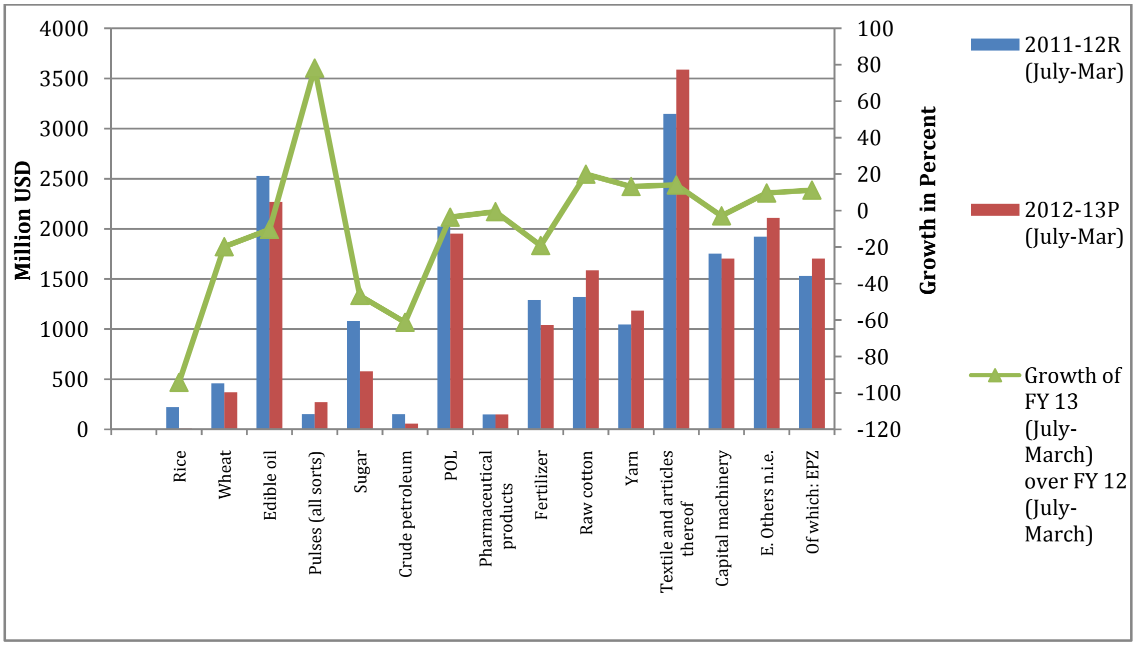
Stakeholders	Initiatives	Description
The Government of Bangladesh	High Level Committee (Representatives from several ministries and from FBCCI, BGMEA and BKMEA)	Examine the building codes and safety measures of the garment factories Submit the recommendations to the existing Cabinet Committee Form a new wage board Decision to allow trade Unions in the RMG industry
The Tripartite Partners (Governments, employers and workers) and the ILO	Tripartite Partners and the ILO Action Plan	Labor Law reform package Building and fire safety of all active export oriented readymade garment factories in Bangladesh.
Major European Retailers	The Bangladesh Safety Plan	Establish a fire and building safety program in Bangladesh for a period of five years Companies will pay a maximum USD 500 thousand per year or 2.5 million dollars over the five years, depending on companies' annual apparel production in Bangladesh. Covers 1000 RMG factories
Wall Mart	Individual Action Plan	Will carry out inspection in all of the 279 factories from where Wall Mart sources its products
Gap	Individual Action Plan	Provide USD 22 million for labor safety
JICA, GIZ, North American Bangladesh Worker Safety Group and others	Several Measures	Survey factories Promote social and environmental Standards

6.3Performance of the Import Sector

Departing from recent robust trends, growth rate of Bangladesh's overall import payments has declined significantly over the first nine months of FY2013. According to the Bangladesh Bank Statistics, total import payments amounted to USD 25.30 billion, registering a negative growth of (-) 6.11 per cent during July-March period of FY2013 compared to the same months of FY2012. Conversely, commodity wise import statistics, recorded by customs, exhibits that total imports declined by (-) 0.85 per cent over the abovementioned months of FY2013 compared to the corresponding months of FY2012. Indeed, growth rate of all major importable items including food grains, consumer goods and capital goods have declined significantly. Import of intermediate goods has, however, experienced a positive growth mainly due to the higher import of raw cotton, yarn, textile and articles thereof and staple fibre. In the backdrop of good performance in the agriculture sector, import of food grains declined by (-) 43.9 per cent, with rice import falling by (-) 94.1 per cent. However, international rice price may not have been behind the reason of falling rice imports as rice price remained almost stagnant (declined by only 0.03 per cent) during July-April period of FY2013 compared to the same months of the previous fiscal.

FIGURE 6.4: IMPORT PAYMENTS FOR SELECTED COMMODITIES,

JULY-MARCH 2013 OVER JULY MARCH 2012



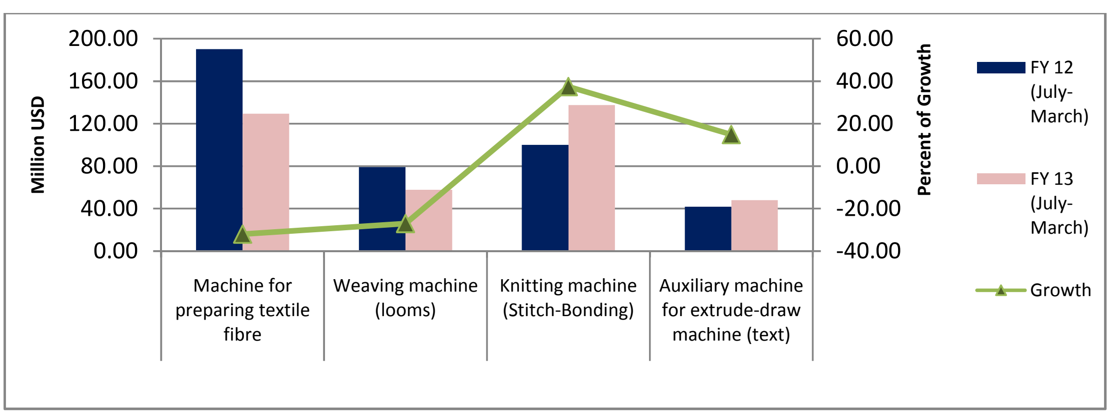
Source: Adopted from Bangladesh Bank Data (2013).

While import of Crude Petroleum declined sharply by (-) 61.14 per cent, POL import also declined by (-) 3.5 per cent. Import of Capital machineries, one of the key variables to measure investment, fell by (-) 10.59 per cent. Declining trend in the import of capital machinery had adverse consequences for domestic investment.

Among other capital machineries, import of textile machineries evince a mixed scenario with positive growth for Knitting (37.4 per cent) and Auxiliary machine (14.9 per cent) and negative growth for Textile fibre (- 31.9 per cent) and Weaving machine (-27.0 per cent).

FIGURE 6.5: DYNAMICS OF IMPORT OF TEXTILE RELATED MACHINERIES,

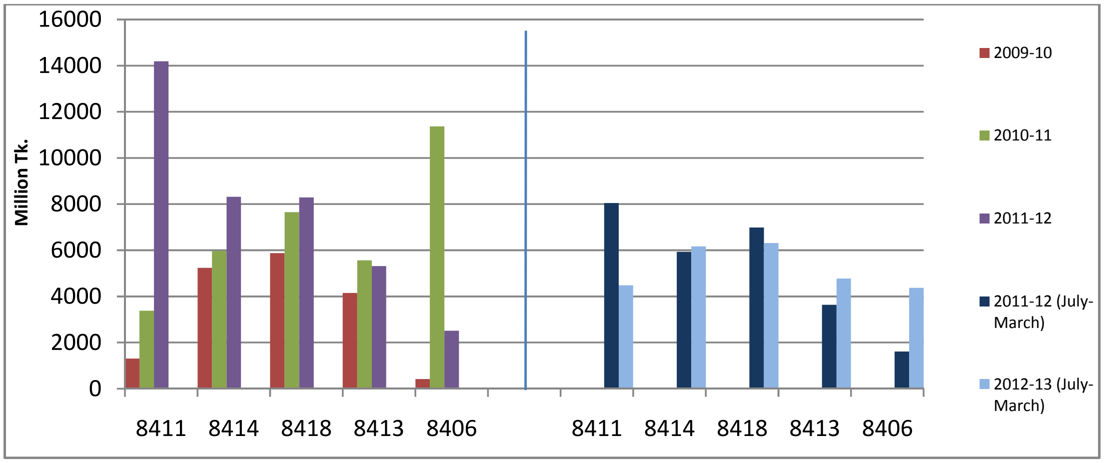
JULY-MARCH 2013 OVER JULY MARCH 2012



Source: Estimated from NBR (2013) data

It is important to note that capital machineries in power sector experienced remarkable growth rate during FY2009-2012. Lower import growth in power sector in FY2013 also contributed to the lower capital machinery import in the first nine months of FY2013.

FIGURE 6.6: IMPORT OF CAPITAL MACHINERIES IN POWER SECTOR



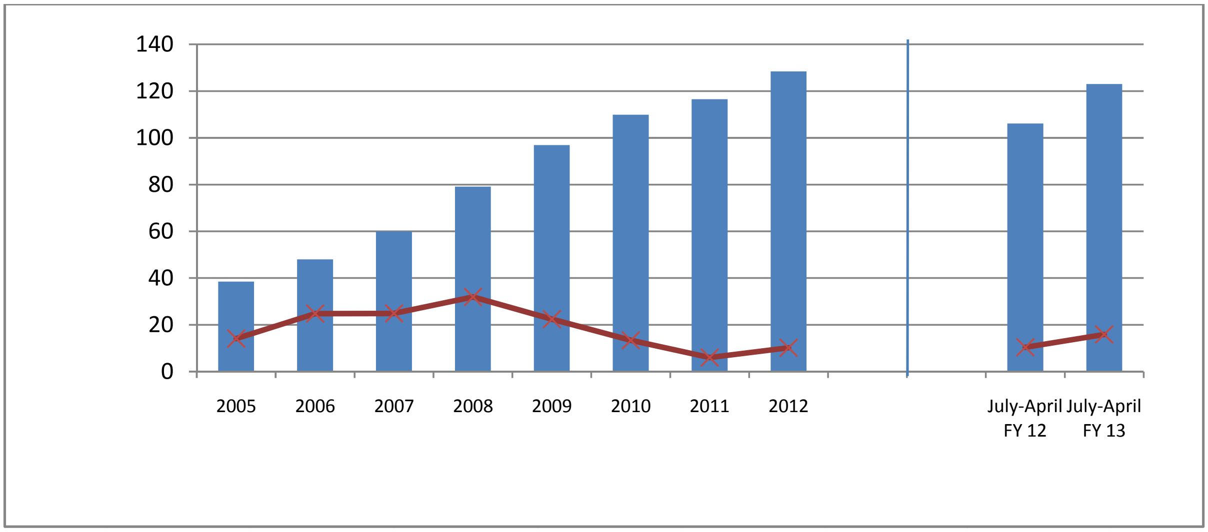
Source: Estimated from NBR data (2013).

L/C opening and L/C settlement declined by 2.2 per cent and 10.4 per cent respectively during July-March of FY2013 compared to the same months of FY2012. It is important to note that L/C opening for capital machineries increased by 27.4 per cent in the same period. Higher growth in energy/power (276.7 per cent), textile (14.5 per cent) and garment (33.3 per cent) industry contributed to this positive growth trends. L/C opening trends indicate that imports could continue to decelerate in the coming months although rise in import of capital machineries could have positive implications for near-term investment.

6.4 Remittances

Remittance inflows in the economy have been robust for the past several years; rising from USD3,848 million in FY 2005 to USD12,843 million in FY2012. Robust remittance earning was a hall-mark of the current fiscal year. For the first time in history, monthly remittance earnings exceeded the one billion dollar mark throughout a particular fiscal year. Remittance earnings during July-April of FY2013 stood at USD 12,303 million, registering 15.9 per cent growth over the comparable months of the previous fiscal year. The positive implications of this rising trend for the economy could not be over-emphasized.

FIGURE 6.7: YEARLY TRENDS OF REMITTANCE INFLOW

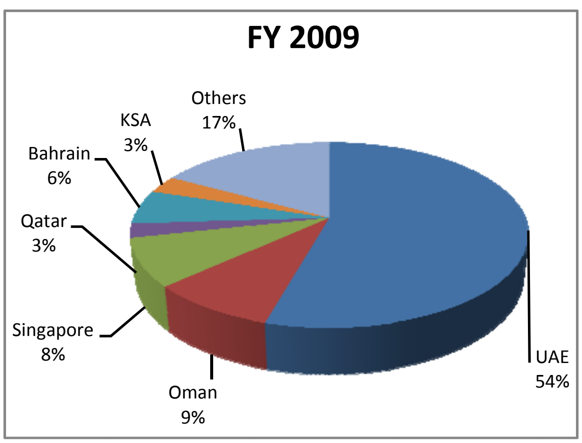


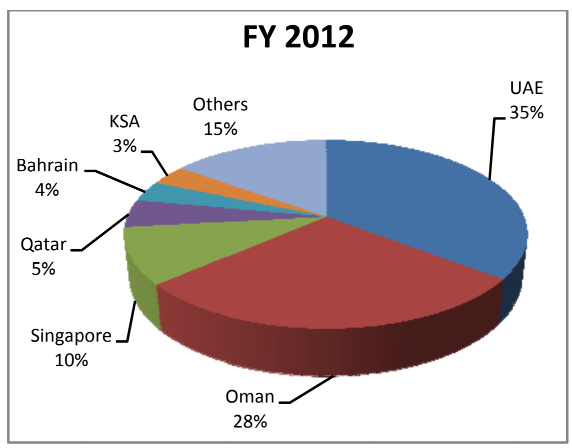
Source: Bangladesh Bank, 2013

Country wise remittance inflow data shows that Saudi Arabia remains the major source of country's remittance earning, marking 11.34 per cent growth during July-March of FY2013 as compared to the same months of FY2012. Of the other major sources, growth rates of remittance from UAE (24.0 per cent), USA (24.3per cent) and Malaysia (18.7 per cent) have been remarkably high.

A total of more than six lac workers from Bangladesh have gone overseas as migrant workers by the end of 2012. However, as it can be seen (Figure 6.8), country-wise composition for overseas employment has changed over the years. Number of workers going to UAE has gone down in a significant way during 2009-2012 while Oman has emerged as an important destination for overseas employment in recent times.

FIGURE 6.8: CHANGE IN MARKET COMPOSITION FOR MANPOWER EXPORT, FY2009-2012





Source: Estimated from BMET (2013) data.

Despite some progress in sending workers to Malaysia and Saudi Arabia, the total number of workers going aboard fell to 303,487 during July-February in FY2013 from 444,744 over the same period of FY2012, registering a negative growth of (-) 31.7 per cent. Overseas employment fall in UAE (-77.7 per cent), Kuwait (- 50.0 per cent) and Oman (-16.5 per cent) have contributed to this negative growth during July-February period of this current fiscal. On the contrary, overseas employment increased in Malaysia (42.8 per cent), KSA (46.5 per cent), Bahrain (35.1 per cent) and Singapore (15.8 per cent) during July-February of FY2013 as compared to the same months of FY2012. In recent times, opportunities have emerged in a number of countries including Bahrain, Singapore, Mauritius and countries have expressed their interest to take workers under G to G system. Many of these countries are offering the opportunities on G to G basis; some are interested to recruit women workers. Bangladesh's capacities will need to be geared up in view of these emerging possibilities.

BOX 6.2: NEW OPPORTUNITIES FOR OVERSEAS EMPLOYMENT IN DIFFERENT COUNTRIES

Country name	Program name	Features
Malaysia	Demands for workers under G to G (Government to Government) arrangement	Plans to recruit 30 thousand workers in Plantation, Industrial and Manufacturing sectors 11,758 have already left for Malaysia under the plantation program
Saudi Arabia	In a major policy change, Iqama transfer opportunity is being offered to Bangladeshi workers in Saudi Arab	Iqama transfer opportunity will allow the Bangladeshi workers to transfer their employer or occupation. Saudi Arabia has also issued a general amnesty until July for the illegal workers so that they can legalize their stay or return home without facing penalty
Bahrain	Demands for workers under G to G	Plans to recruit 15,000-20,000 workers each year. G to G is expected to reduce the cost of migration
Hong Kong & Singapore	Demands for Housekeepers under Government Arrangement	About Tk. 40000 and Tk. 24000 will be paid as monthly salary respectively in Hong Kong and Singapore.
Mauritius, Jordan and Other countries	Demands for Garments workers, Food processors, Receptionists and other posts	Salary range is Tk. 25000-30000
Middle Eastern Countries	Demands for housekeeper under Government Arrangement	Salary is about Tk. 15000
General Trend	Many countries are interested to have nurses and caregivers under Government Arrangement	Salary range is Tk. 50000 to Tk. 85000 for Nurses. Salary is Tk. 15000 for Caregivers

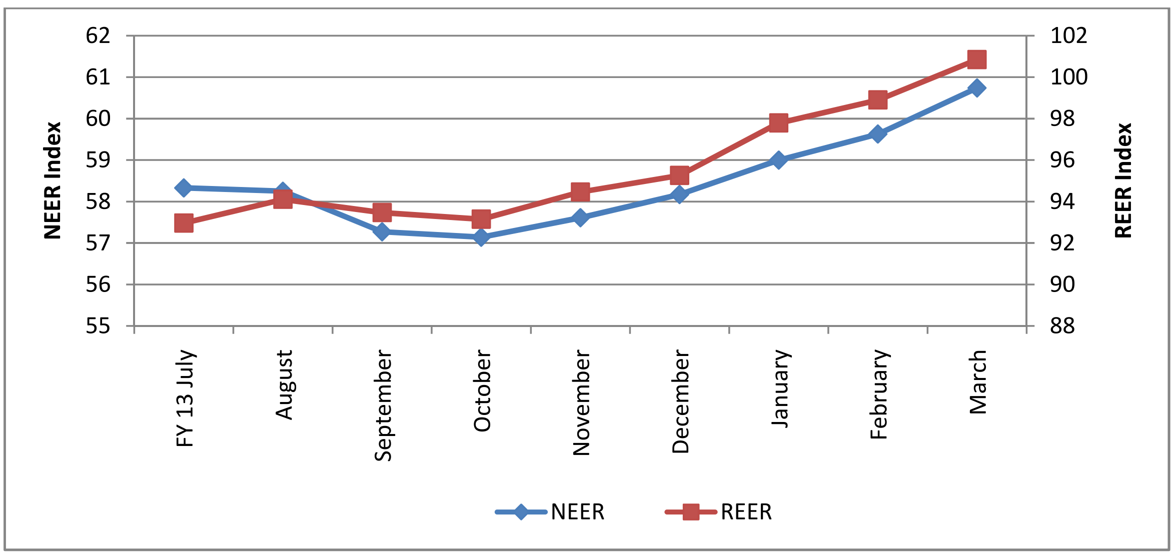
The ministry of Expatriates' Welfare of Overseas Employment, with the technical help of ILO, is reviewing the Overseas Employment Policy, 2006 to comply with the international frameworks, labor Standards of ILO and the strategic directions set by Bangladesh's government for national development. The document should reflect the needs originating from both demand and supply sides and take into account the new opportunities. The policy should also address the problems faced by Bangladeshi workers abroad. This will require institutional strengthening, skill endowment, providing credit and financial support to workers willing to go abroad, safeguarding their rights in the host countries and strengthening of Bangladeshi missions dealing with migrant workers. Coherence as regards the policies pursued by different agencies involved in implementing the Overseas Employment Policy will be crucial in this context.

6.5 Exchange Rate

Following a period of continuing depreciation of the Taka against all major currencies, the BDT has entered into a phase of some appreciation since the beginning of FY2013. The depreciation, whilst benefitting the export-oriented sectors, has also fuelled domestic inflation via inflated import prices at a time when some of the global commodity prices, along with fuel prices, were showing rising trends. As against this, in July-April period of the current fiscal, Bangladeshi Taka has started to gain strength against all major currencies in the backdrop of the robust remittance flow, falling imports and rising forex reserves. Nominal exchange rate data shows that the Taka appreciated by 3.90 per cent against the US dollar, 3.17 per cent against the Chinese Yuan, 7.08 per cent against the British Pound and 2.70 per cent against the Indian Rupee during July-March in FY2013. However, BDT depreciated against Euro by 1.33 per cent over the same months of FY2013.

Real Effective Exchange Rate (REER) and Nominal Effective Exchange Rate (NEER) depreciated by 8.49 and 4.13 per cent respectively during July-March of FY2013. REER also depreciated by 1.68 per cent in FY2012. Sattar (2013) has argued that modest depreciation of REER would work in favour of sustaining competitiveness of exports in Bangladesh.

FIGURE 6.9: NOMINAL EFFECTIVE EXCHNAGE RATE (NEER) AND REAL EFFECTIVE EXCHANGE RATE (REER) IN BANGLADESH, July-March, FY2013



Source: Adopted from Bangladesh Bank, 2013

As regards the dynamics of nominal exchange rates of Bangladesh's major competitors, the experience appears to be diverse across countries. While the nominal exchange rate has appreciated for Bangladesh, India and Cambodia, depreciation is observed for Vietnam and Indonesia during July-March period of FY2013. As was mentioned earlier, the Taka appreciated against the dollar by 3.90 per cent in this period, as was the case with the Indian Rupee and the Cambodian Riel which appreciated by 1.49 and 2.61 per cent respectively against the US dollar over the matched period. On the Contrary, Vietnamese Dong and Indonesian Rupiah depreciated by 0.37 and 2.90 per cent over the abovementioned period. It is important to note that, both Bangladesh and Vietnam experienced depreciation of their respective currencies (in nominal terms) between 2009 and 2012.

It is true that, in general, empirical relationship between exchange rate and trade performance has been found to be weak in the context of Bangladesh. With application of cointegration and error correction techniques, Ahmed (2009) found no robust relationship between exchange rate volatility and export growth in Bangladesh context. Alam (2010) also found that there was no causal relationship between depreciation of Taka and Bangladesh's export earnings. However, it is safe to conclude that relative comparative advantage of both export-oriented and import-substituting industries is influenced by movements in relative exchange rates although Bangladesh's export performance does not appear to have a strong relationship with the dynamics of exchange rate movements.

7. ECONOMIC IMPLICATIONS OF HARTALS IN THE PRESENT CONTEXT

Heightened confrontational politics, marked by frequent hartals, particularly during the run up to the national parliamentary elections is not uncommon in Bangladesh. It may be recalled that prior to all the three national elections that took place since the 1990s, the country experienced spells of general strikes. On previous three occasions since the 1990s, imposition of hartals became more frequent in the fifth year of successive democratic regimes (FY1996, FY2002 and FY2007). No doubt, disruptions caused by hartals had adverse consequences for the economy. It appears that FY2013 will not be an exception in this regard. In connection to this, one may recall that, CPD in January 2013 observed that "the government has settled … with moderated economic growth, investment and employment prospects. Regrettably, even this modest ambition could come under serious challenge in view of the looming uncertainties in the political front" (CPD, 2013).

Of course freedom of expression is a fundamental right in a democratic society. However, when hartals are imposed and enforced frequently and violently, they involve significant economic costs for producers, consumers, investors and the economy as a whole. Assessing the economic implications of hartals is thus important from three perspectives: (a) capturing the transmission channels of impact; (b) getting a sense about the costs and (c) influencing the discourse towards a search for alternatives. Although other categories of political shocks also persist in Bangladesh given the current circumstances, there is value in doing a meticulous analysis of hartals as a standalone phenomenon.

7.1 Cross-country Experience

Political unrest has been a cause of concern for many countries around the world irrespective of their political regime or the state of development. Experience from global literature suggests that political conflicts can have significant detrimental impact on an economy. Indeed, domestic conflicts under certain conditions could push countries towards a fragile state status. Fragile and conflict ridden countries do not have the ability to develop mutually rewarding and constructive relationships within their societies and often suffer from a weak capacity to undertake governance functions (OECD, 2012). These countries are more vulnerable to internal and external shocks, and in turn face instability. Arguably, given the dominance of informal sector in economies like Bangladesh, adverse impact of hartals could be lower when compared with more developed countries.

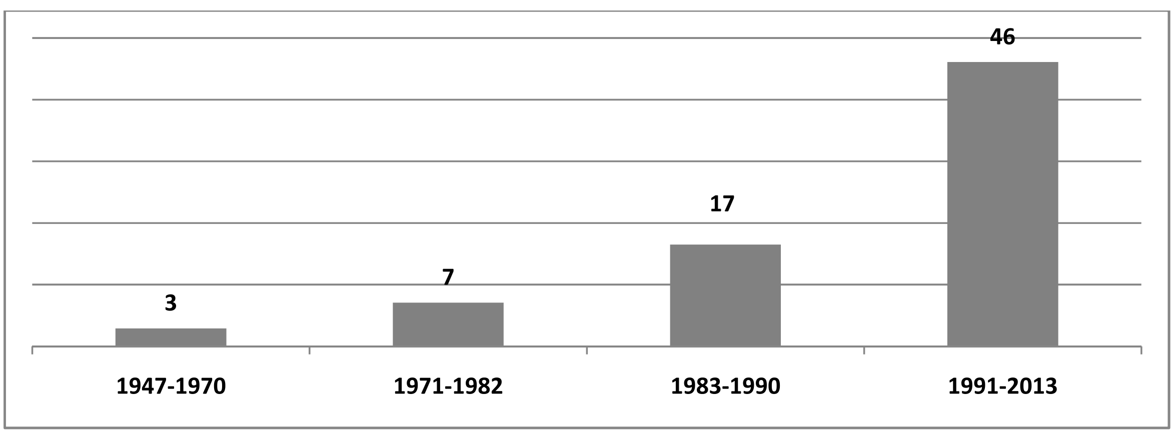
Aisen and Veiga (2011), in a study of 169 countries and using 5-year periods between 1960 and 2004, found that escalated levels of political instability are associated with lower levels of GDP growth rates. According to the authors, the major transmission channels were decline in productivity growth and lower level of physical and human capital accumulation. Alesina and Perotti (1993) also found that socio-political instability adversely affects investment. Aisen and Veiga (2006) concluded that political instability leads to higher inflation in developing countries.

A recent study by Khandelwal and Roitman (2013) analyzed the impact of political instability on a number of macroeconomic indicators covering eleven selected countries of the Middle East and North African (MENA) region in the context of the Arab Spring. The authors concluded that political instability coincided with a large decline in real GDP growth rates in the MENA region. They also estimated that output generally remains below the potential for following four years after the initial drop due to political instability, and it takes about five years for the economy to bounce back. In case of unemployment, it would take between 4 to 5 years to revert back to the pre-crisis level in an economy. It was also observed that the countries in transition (e.g. Egypt, Tunisia and Yemen) experienced significant decline in real GDP in 2011 due to political instability.

7.2 Hartal Experience of Bangladesh

As evidence bears out, hartals in Bangladesh is becoming more frequent in recent decades. Figure 7.1 shows that average hartals per year were significantly higher (46 per year) under the democratic governments (1991-2013) compared to the earlier regimes. It may be observed from the same figure that the occurrence of hartals has been on the rise.

FIGURE 7.1: INCIDENCE OF AVERAGE HARTALS PER YEAR



Source: Based on Sangbadpatre Hartalchitra by Ajoy Dasgupta; Ahmed, Imtiaz (2011); Odhikar; ASK and CPD

From the recent hartal experience one can identify following eight stylized facts:

i. Frequency (incidence) of hartals has increased significantly
ii. Hartals are now being called even during the weekends
iii. Calling hartals to press economic issues is now less common
iv. Hartal-opposing parties are more active during the hartal periods
v. More decentralized hartals have emerged, e.g. at District and Upazilla levels
vi. New actors are entering as hartal protagonists in addition to the traditional political actors
vii. Hartals are becoming increasingly violent, often leading to death and injury including those not involved (eg. the attacks on religious minority groups)

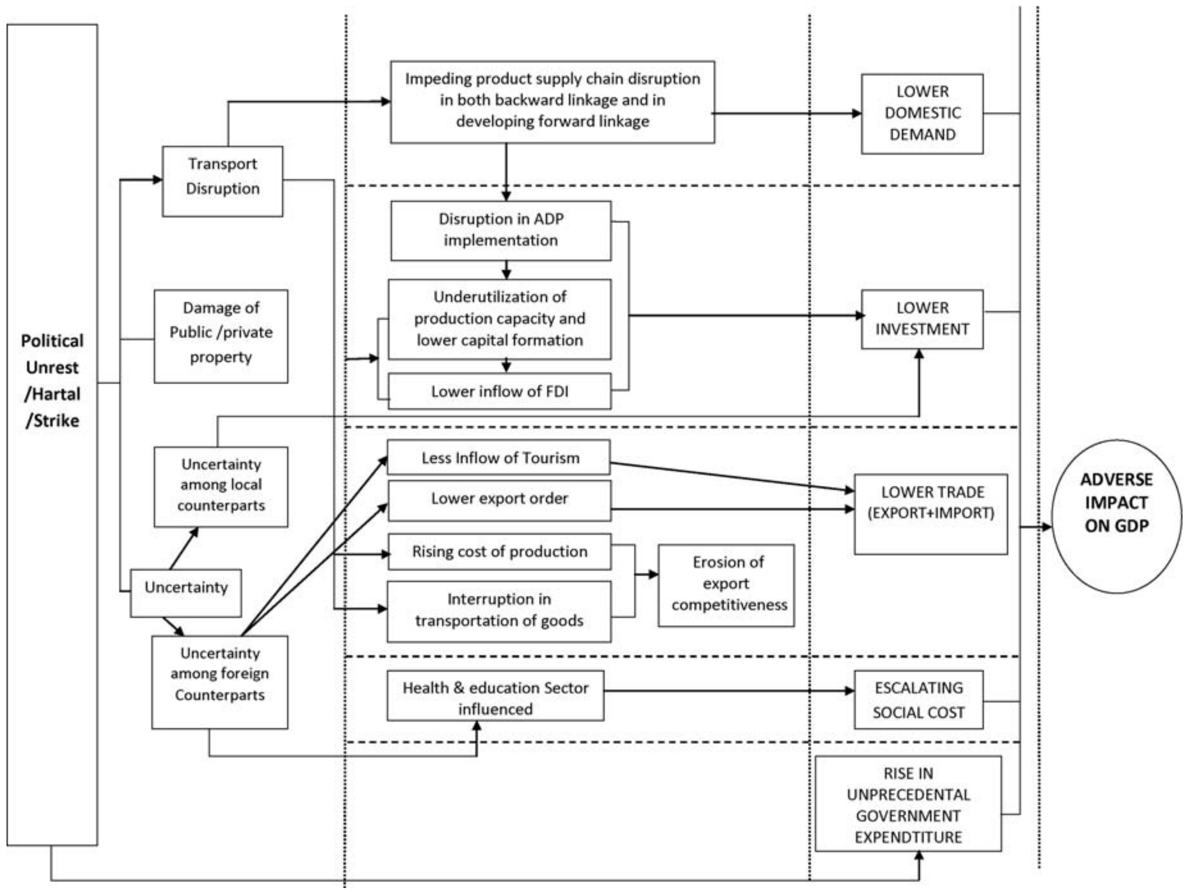
viii. Number of deaths of members of law enforcing agencies in connection with hartals is on the rise.

7.3 Economic Implications of hartals

As was observed, frequent hartals have significant negative consequences for the Bangladesh economy. This is true for past years and, regrettably, FY2013 is also not an exception. Figure 7.2 shows that in case of all three occasions in the past, GDP growth rate had declined as incumbent governments moved towards the finishing line of their regimes. It is apprehended that FY2013 will undergo a similar experience. Manufacturing sector's growth rates during the aforesaid three spells were also affected, while investment (as a share of GDP) stagnated. A number of attempts were made in the past to estimate the loss arising from frequent hartals. An assessment of the methodologies used in these studies would show that these estimates (as per the methodology) were on the high sides. It is also noted that, affected stakeholders are trying to pursue more innovative approaches to reduce losses arising from hartals.

Hartals have significant adverse impact on such sectors as transportation and the retail sector. In contrast, there are certain sectors in the economy (e.g. mining, agriculture and the energy sector) which are perhaps less affected by hartals. Extent of losses arising from hartals varies in accordance with level of enforcement and nature and gravity of the incidences which occur. Figure 7.2 presents the various transmission channels through which hartals impact on the economy. The tracking process is based on micro-evidence of impact of hartals on economic growth observed over the early months of 2013. Three primary channels were identified: transport disruption, property damage and uncertainty.

FIGURE 7.2: THE TRANSMISSION CHANNELS OF POLITICAL SHOCKS IN BANGLADESH



Source: Author's elaboration from micro information

7.4 CGE Analysis

To quantify the losses to the economy resulting from hartals, a Computable General Equilibrium (CGE) exercise was undertaken as part of this study. A major long-term impact arising from hartals has been assumed to be the decline in capital stock. The simulation examined the impact of decline in capital stock by one per cent. The CGE results show that the decline in capital stock would reduce GDP (at market prices) by 0.9 per cent and lead to shortfall of imports and exports by 0.8 per cent and 2.4 respectively (Table 7.1). Also, revenue loss to the government would be in the vicinity of 0.7 per cent, employment of labour would be curbed by 0.9 per cent and household consumption would decrease by 0.8 per cent.

TABLE 7.1: CGE RESULTS OF 1% DECLINE IN SUPPLY OF CAPITAL

Indicators	**Outcome** (% change from base year)
GDP at market price	-0.9
Exports	-2.4
Imports	-0.8
Household Consumption	-0.8
Government Deficit	7.1
Revenue Loss of the Government	-0.7
Employment of Labour	-0.9
Fixed Investment	-0.1

Source: Authors estimation

The tradition of calling hartal is a longstanding one in the Bangladesh context. With rising frequency, the adverse impacts on the country's economy have also been on the rise. The increasing violence and damage of transport and public properties have both short as well as medium to long-term adverse implications for the economy, undermining both current performance as well as growth potentials of the economy.

In the current context, it is critically important to identify modalities for a mutually acceptable political solution. A conducive environment could be created through immediate cessation of all destructive and subversive activities, release of the opposition political leaders from jail to create and enable an environment for dialogue and the announcement of a road-map along with a framework towards holding a free and fair election. The search for consensus should be undertaken in all earnest and with due urgency.

ANNEXTURE: AN INVENTORY OF RENEWABLE ENERGY USE IN BANGLADESH

The renewable energy which includes solar, wind, biomass, hydro, geothermal and tidal waves has yet to get commercial importance in Bangladesh despites its immense potential to meet a significant part of required energy. The national Energy Policy 2008 has envisioned ten-fold objectives with a view to increase the use of renewable energy in the country. One of the core objectives is to achieve the targets for developing renewable energy resources to meet five percent of the total power demand by 2015 and ten percent by 2020. The other major objectives are - (i) to harness the potential of renewable energy resources and dissemination of renewable energy technologies in rural, peri-urban and urban areas; (ii) to enable, encourage and facilitate both public and private sector investment in renewable energy projects; (iii) to scale up contributions of renewable energy to electricity production; (iv) to train, facilitate the use of renewable energy at every level of energy usage; (v) to create enabling environment and legal support to encourage the use of renewable energy and (vi) to promote clean energy for CDM. Taking into account the policy perspective, a number of targets were set up for enhancing generation of electricity from renewable sources to be attained by 2016. Since Bangladesh has started from scratch, the performance in most indicators till March, 2013 is not up to the mark.

BPDB and Bangladesh Bank both public sector entities, IDCOL, a public-private entity and a number of private sector organisation including Grameen Shakti, BRAC, Rahim Afrooz and CCDR are playing key roles in investment, promotion, dissemination, train and facilitate the renewable energy initiatives. IDCOL is the main implementing organization for renewable energy in the country. Installation of solar housing system (SHS) is one of its major programmes (Table A1). Out of the target of 4 million SHS to be installed by 2016 about 50 per cent target has so far been attained mainly in Dhaka and Chittagong regions (i.e. 56 per cent of total SHS installed in the country). The achievement in case of improved cook stoke programme is worth mentionable- it has already exceed the target. However progress in other programmes is rather slow including biogas programme (28.5 per cent of the programme to be implemented by 2016), solar irrigation programme (1.4 per cent), solar mini-grid programme (3.33 per cent) and solar based telecom BTS programme (10 per cent).

TABLE A1: IDCOL PROGRAMMES ON RENEWABLE ENERGY

Program Name	Program Target by 2016	Achievement	
		Program Achievement	Power Generation /Fuel Saving
IDCOL Financed Programs (2003 to March 2013)			
SHS (Solar Home System) Program	4 mill. SHS	2.08 mill. SHS	100 MW
Improved Cook Stove Program	1 mill. people	5 mill. people	Save 400 ton firewood/year
Biogas Program	100 thou. plants	28.5 thou. plants	68400 ton firewood/year
Solar Irrigation Program	1500 plants	21 plants	63000 liter diesel/year
Solar Mini-grid	30 plants	1 plant	100 kW
Solar based Telecom BTS	1000 plant	100 plants	200 kW
BPDB financed Programs (2011 to 2013)			
Solar PV System Projects			144.4 kWp
Wind Power Projects			900 kW

Source: IDCOL and BPDB

Private sector organizations such as Grameen Shakti BRAC and Rahim Afrooz have implemented their renewable energy projects (Table A2). A part of their activities is financed by IDCOL. Grameen Shakti has so far the largest coverage in different renewable energy projects particularly in SHS and improved cooking stoves. According to the IDCOL officials lack of investible resources has become the major constraints for timely implementation of different projects. Another important reason is lack of proper monitoring and surveillance system which led inefficiency in implementation procedure. Proper monitoring is constrained by lack of proper testing institution; thus initiatives are required to establish private testing institution along with strengthening BSTI for conducting testing of energy saving equipments.

Table A2: Private Sector Initiatives on Renewable Energy - Grameen Shakti and BRAC

	2009	2010	2011	2012
Grameen Shakti				
SHS installation (cum)	317,599	518,218	755,672	1,020,014
Improved cooking stoves (cum)	45,967	193,120	423,725	595,516
Bio gas plant (cum)	9,226	14,906	20,942	2,426
BRAC				
SHS installation (cum)				72,470

Source: Based on websites of Grameen Shakti and BRAC

Public sector initiatives have been carried out by BPDB and by Bangladesh Bank. During 2011-2013, BPDB's solar PV system projects generated 144.4 kWp worth of electricity. Under BPDB's wind power progamme about 900 kWp worth of electricity was generated between 2010 and 2013. The total production of wind energy has registered a very slow rise due to low level of production capacity of the wind mill- from 1 MW at the end of 2005 to 2 MW at the end of 2012. In this context, proper wind mapping is required for proper estimation of potential of wind energy.

Under the ADP for FY2013, a total of six projects related to renewable power are being implemented which include a) 165BOP solar energy project (Project cost: Tk.29.23 crore; possible completion at the end of FY2013: 59 per cent); b) solar street lighting programme in City Corporation (Tk.316 crore; possible completion: 0.63 per cent); c) efficient lightening initiative (279.28 crore; 37 per cent); d) solar power driven irrigation pump and home system (26.79 crore; 29.8 per cent); and e) solar power system in the Parliament building (Tk.8.8 crore; 33.2 per cent). Timely implementation of these projects is highly important.

Besides, Bangladesh Bank under its Tk.200 crore worth of Green Banking Refinance Scheme has provided subsidised credit facility to the renewable energy projects. The scheme includes fund for solar and biogas projects and waste treatment plants etc. However, the progress in disbursement of fund is rather mixed – since 2010 total disbursement was about Tk.124.8 crore with the highest disbursement in 2012. According to the Bangladesh Bank total disbursement for different kinds of projects are: Tk.23.9 million for solar irrigation, Tk.102.8 million for installation of solar home system, Tk.262.7 million for biogas generation, Tk.90.4 million for setting up ETP, Tk.124.8 million for HHK and Tk.248.8 million for solar PV module. Necessary business support should also be provided to foreign investors. Overall promotion of renewable energy will largely depend on effective participation of the private sector where government should provide policy support to facilitate the process.