

# Fuzzy Policy Façade

**A Pre-budget Analysis of the State  
of the Economy 2010-11**



**Bangladesh Economic Update**  
Volume 2, No. 3, April-May 2011

**Acknowledgement:**

The Bangladesh Economic Update is an output of the Economic Policy Unit of the Unnayan Onneshan, a multidisciplinary research centre based in Dhaka, Bangladesh. The report is prepared by a team, under the guidance of **Rashed Al Mahmud Titumir** and comprising **Faiz Ahmed Chowdhury, Jayanta Kumar Basak, K. M. Mustafizur Rahman, Mamun Chowdhury, Afsana Hossain, A. Z. M. Saleh, Fawzia Rafique Laboni and Abdul Momin Molla** and edited by **A. Z. M. Saleh**.

The report is an output of the programme titled **Enhancing the responsiveness of the government to address exclusion and inequality**. The programme has been supported from a grant of Christian Aid.



© **Copyright:** Unnayan Onneshan-The Innovators

The content of this publication may be reproduced for non-commercial purposes with proper citation (please send output to the address mentioned below). Any other form of reproduction, storage in a retrieval system or transmission by any means for commercial purposes, requires permission from the Unnayan Onneshan-The Innovators.

**For orders and request please contact:**

**Unnayan Onneshan - The Innovators**

16/2, Indira Road, Farmgate

Dhaka-1215, Bangladesh.

Tell: + (880-2) 8158274, 9110636

Fax: + (880-2) 8159135

E-mail: [info@unnayan.org](mailto:info@unnayan.org)

Web: [www.unnayan.org](http://www.unnayan.org)

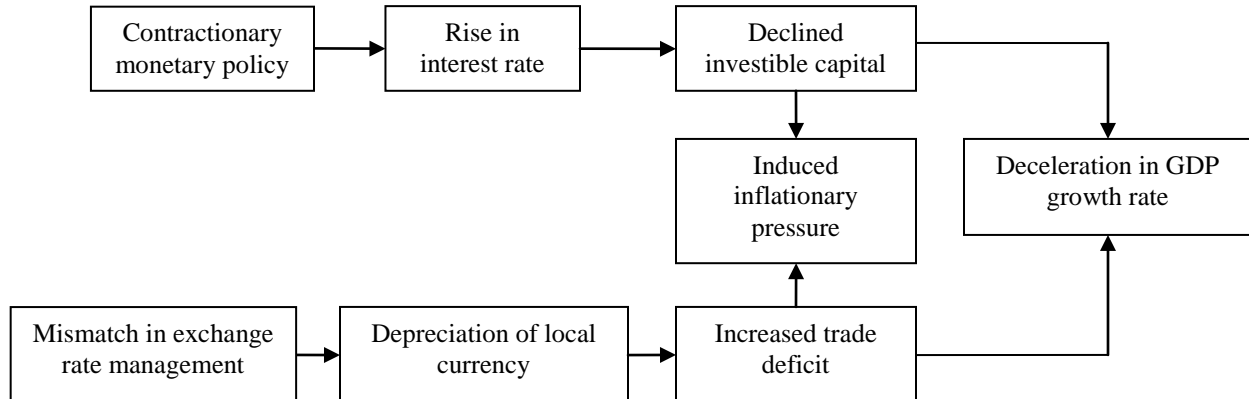
## 1. INTRODUCTION

Policy induced externalities are creating multidimensional effects on various macroeconomic variables. The adverse effect of policy-induced externality is omnipresent in the economy.

The economy of Bangladesh in the current fiscal year of 2010-2011 shows signs of mounting inflationary pressure, volatility in capital market and widening balance of payment. In the domestic front, there is hardly positive turnover in investment as it is hovering around 25 percent as a share of GDP over the last few years. The import bills have dwarfed the relative encouraging performance of export sector.

Recently, for example, Bangladesh Bank has removed lending interest rate cap in order to check inflationary pressures. The central bank has also amplified the rate of repo and reverse repo and increased the rate of cash reserve ratio (CRR) and statutory liquidity ratio (SLR) to stabilise the inflation and as well as capital market. But it has created negative externality pressures as private investment is crowding out indicating the wrong diagnosis of the problem.

**Figure1. Policy induced externalities on various macroeconomic variables**



Regional disparity and income inequality have also continued to deteriorate and seems to pose threat to the future prospect of poverty alleviation. Income generation through gainful employment for rural and urban poor is emerging as a serious weakness of the economy as the employment elasticity is very high in Bangladesh.

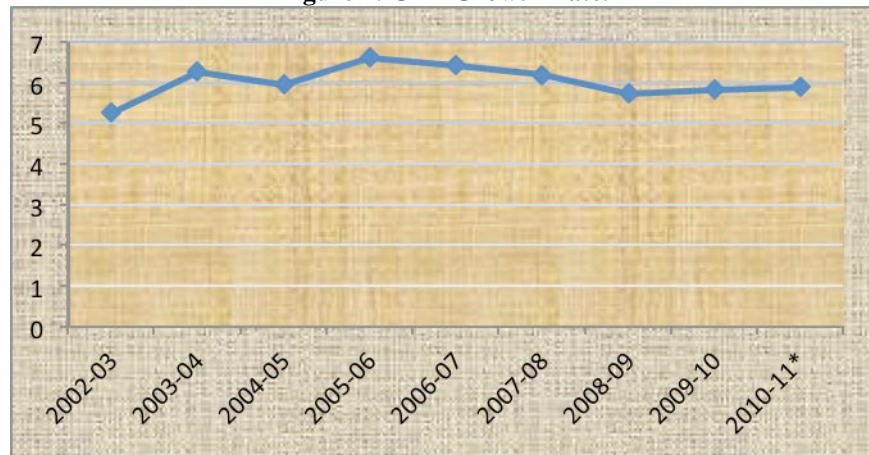
The price rise of essential commodities is disparaging the achievements of the government on various sectors in the current fiscal year. Low ADP implementation, poor disbursement of foreign aid, though the country has received highest level of commitment in the current fiscal vis-à-vis previous years, and higher levels of government borrowings indicate near fragility of the economy. Acute shortages of power supply, crisis of fertilizer and diesel for irrigation in the need of the hour have also effected agricultural production, despite good weather condition.

## 2. MACROECONOMIC DEVELOPMENTS

### 2.1 GDP Growth

The present government has targeted to attain a 6.7 percent growth rate in FY2010-11. The macroeconomic indicators of Bangladesh do not lend of comfort to the government’s projection of achieving 6.7 percent growth in the current fiscal year. The recent statistics suggest that the average rate of change in the growth rate of Bangladesh is 0.07 percent during the last 10 years (FY2001-02 to FY2009-10). If the change in GDP growth rate continues to increase at the business as usual rate of 0.07 percent each year, the GDP growth rate could not be more than 5.9 percent in FY 2010-11, which means that it is unlikely for the government to attain the targeted growth rate of 6.7 percent in the current fiscal year. Moreover, there are extra pressures on the economy that could hamper the business as usual rate of growth.

**Figure 2: GDP Growth Rate.**



Source: Bangladesh Bank.

\* = UO forecasted GDP growth rate

The GDP growth rate of Bangladesh has reached its peak at 6.63 percent during the FY2005-06, which was the highest in the last forty years. Bulky contributions from industry and service sector played a major role in achieving the above rate of growth. During the FY2008-09, the GDP growth rate of Bangladesh has witnessed a declining trend mainly for the negative impacts of global financial crisis and the loss in business confidence due to certain activities of the then “caretaker” government which had affected various industrial and manufacturing sectors of the country. GDP growth rate started to decline and slipped to 5.83 percent in FY2009-10.

### 2.2 Sector Wise Contribution in GDP Growth

The contribution of industrial sector in the overall GDP registered a declining trend mainly, as has been articulated by the business, due to the shortages of power supply, inadequate inflow of FDI, and most importantly failure to endow the economy with appropriate industrial policy.

Agriculture sector and service sector constitutes 19.5 percent and 53.4 percent respectively of the total GDP in FY2009-10. On the other hand, the contribution of industry and manufacturing sector in GDP growth were 29.3 percent and 17.3 percent respectively during the fiscal year. Meanwhile, the targeted contribution of industry and manufacturing sector in the overall GDP

was projected 35 percent and 26 percent respectively by FY2014-15. In order to achieve the targeted figure, industry and manufacturing sectors are required to grow at 1.22 percent and 1.74 percent annually over the mentioned period.

**Table 1: Sectoral Contribution to GDP (%)**

Sector	Contribution to GDP (%)						
	FY06	FY07	FY08	FY09	FY10	FY15 Target	FY2021 Target
<b>Agriculture</b>	16.7	15.6	11.3	14.0	19.5	16.0	15.0
<b>Crops</b>	9.1	7.8	4.8	8.8	-	-	-
<b>Industry</b>	39.4	35.9	30.6	31.6	29.3	35.0	40.0
<b>Manufacturing</b>	25.8	25.0	19.4	19.3	17.3	26.0	30.0
<b>Service Sector</b>	45.5	51.6	50.0	52.6	53.4	49.0	45.0

Source: Compiled from MoF, BBS and Planning Commission

## 2.3 Savings and Investment

The budget for FY2010-11 was prepared in a setting when investment savings situation of the country faced with two-pronged challenges. First, the government has the task of revamping the level of investment from slump due to decelerated confidence by the businesses, resulting from actions taken by the previous ‘caretaker’ regime. Second, the government is tasked to create processes that would lead to higher level of investment than what has been observed in the peak of national output growth in the mid-2000 to ensure achievement of targeted higher level of growth. The medium term macro-economic framework (MTMF) targeted GDP to reach 8 percent in FY 2013-14.

In order to achieve 6.7 percent of GDP growth rate in FY2010-11 and 8 percent of GDP growth rate in 2013-14, Bangladesh would, accordingly, require 26.4 percent and 35 to 40 percent investment share in GDP in FY2010-11 and FY2013-14 respectively.

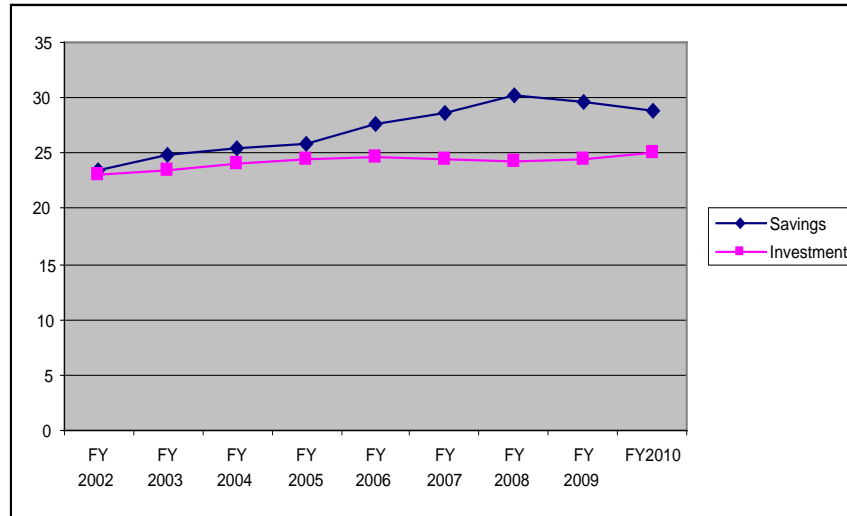
Achieving this targeted rate of investment is going to be a huge challenge for the government as investment hovers around 25 percent. Investment has traditionally been low in Bangladesh and is still far below than the required level. Poor condition of infrastructure such as unavailability of required supply of power and energy, high inflation and the rising trend in rate of interest are likely causes of stagnant rate of investment.

National savings as a share of GDP mainly declined from 29.57 percent in FY 2008-09 to 28.75 percent in FY2009-10 due to higher consumption expenses as a result of rising food inflation and higher revenue expenditure over revenue earnings. Despite the total investment GDP ratio rose from 24.37 percent in FY 2008-09 to 24.96 percent in FY 2009-10, but the rate of change of investment GDP ratio over the past few years is unlikely to help attain the targeted 26.4 percent investment GDP ratio in FY2010-11.

The public sector contribution in the overall investment level is also declining compared to that of the private sector although it is expected that public sector investment to go up to stimulate economy, when it is affected by decelerated aggregate demand. The contribution of public investment in the GDP is 4.77 percent in FY2009-10 compared to 6.0 percent in FY2005-06. The

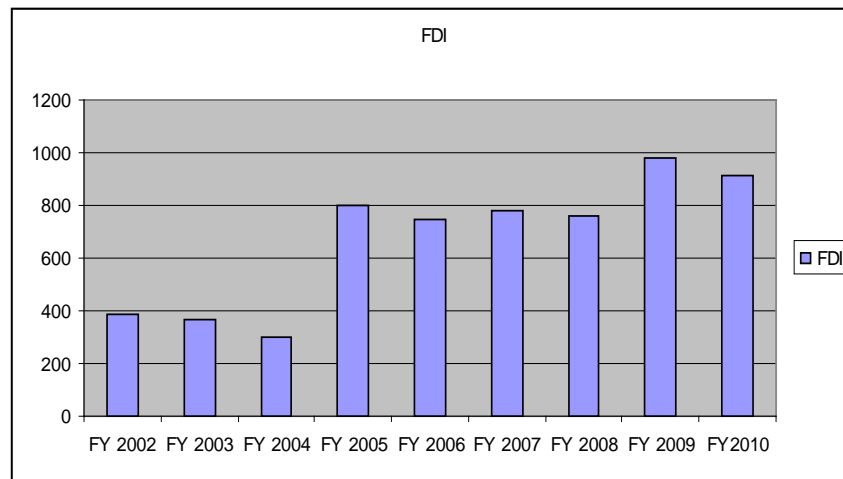
country has to ascertain necessary investment supportive measures to consolidate and upscale the GDP growth.

**Figure 3: Savings and Investment trend as a percentage of GDP**



Source: BBS

**Figure 4: Trend Foreign direct invest in Bangladesh (in million USD)**



Source: FDI survey Report, Bangladesh Bank

Moreover, total inflow of FDI decreased by 5 percent, which amounts to USD 913.02 million in FY2009-10 compared to that of FY2008-09.

Thus, poor infrastructure condition, shortages in supply of power and energy, low FDI inflow, skyrocketing inflation, and high interest rate will create interlude for the government to attain the targeted level of investment and GDP growth rate.

## 2.4 ADP Implementation

A hundred percent implementation of ADP has been taken as a mantra in the election manifesto of the present Awami League government. After eight months of the present fiscal year, there are

enough reasons to doubt about the full implementation whereas only 40 percent of the total ADP has been implemented within the mentioned period.

In the budget of 2010-11, an amount of Tk. 38500 crore has been allocated for ADP which is 4.9 percent of the GDP. Over the years, highly ambitious targets have been set for ADP but utilization has been far behind from the targeted allocation. The implementation status of ADP in the first six months (July – December) of the current fiscal is not very satisfactory. Only 27 percent of ADP has been implemented from July – December of the current fiscal year compared to that of 29 percent in the last fiscal year at the same period.

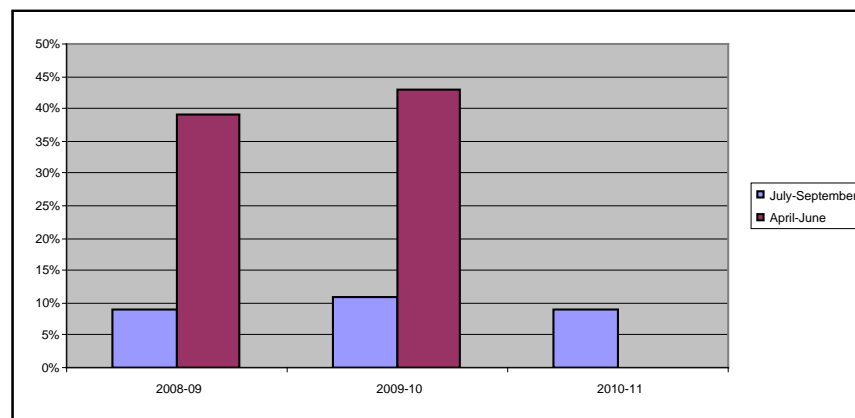
The sluggish pace of the implementation has led the government to revise the size of ADP at the end of each fiscal year which tends to continue this year as well. The revised ADP has been reduced to Tk. 35170 crore. It is likely that revised budget will see a further cut, effecting the aggregate demand and overall output of the economy.

**Table 2: Cumulative ADP expenditure (July’10-January11)**

Allocation		Expenditure Amount											
Fiscal year	ADP/RADP	Jul. Amt. (%)	Aug. Amt. (%)	Sept. Amt. (%)	Oct. Amt. (%)	Nov. Amt. (%)	Dec. Amt. (%)	Jan. Amt. (%)	Feb. Amt. (%)	Mar. Amt. (%)	Apr. Amt. (%)	May Amt. (%)	Jun. Amt. (%)
2008-09	256	6.21	8.52	22.42	29.49	47.11	62.06	78.85	89.59	105.01	117.44	145.83	196.75
	230	2.4%	3.3%	9%	12%	18.5%	24.2%	31%	35%	41%	46%	63%	86%
2009-10	305	4.66	15.08	32.93	50.33	69.61	87.13	106.99	115.80	130.44	153.79	178.71	256.12
	285	2%	54%	11%	17%	23%	29%	35%	38%	43%	54%	63%	90%
2010-11	385	8.36	23	33.99	54.24	78.90	102.81	126.41					
		2%	6%	9%	14%	20%	27%	33%					

Source: Ministry of Finance

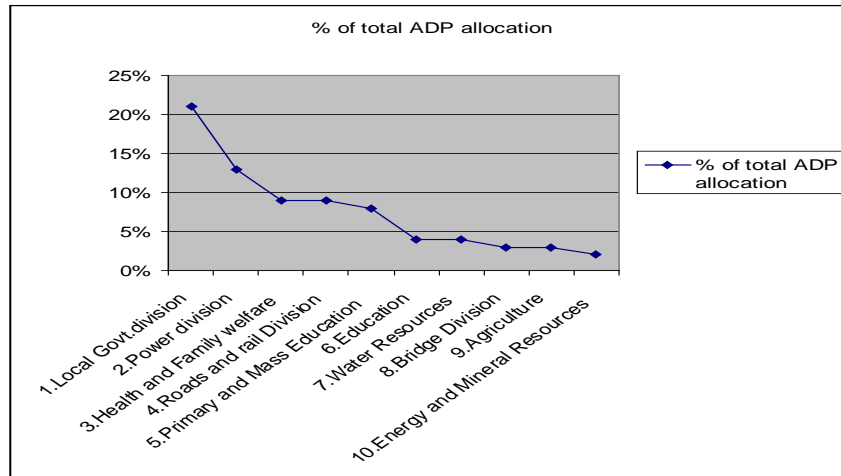
**Figure 5: Comparison of ADP implementation rate between first quarter and last quarter of (FY2008-09) to FY (2010-11)**



Source: Authors' calculation

The bottlenecks can easily be understood by comparing the rate of ADP implementation between the first and last quarter of the corresponding fiscal year. Almost half of the total implementation completed in the last one or two months which clearly dampen the quality of implementation and also amplify the possibility of massive leakage.

**Figure 6: Ministry wise ADP implementation as a percentage of Total Allocation**



Source: Ministry of Finance

## 2.5 Public Private Partnership (PPP)

The present government has envisaged in their election manifesto that the GDP growth rate will accelerate to 8 percent in 2013. In achieving that it pointed out for further investment in the sectors like infrastructure, power and energy, port, transport and communication, health, and drinking water supply. The idea of public-private partnership (PPP) has emerged in order to augment the level of investment by mobilizing private sector resources, expertise, and experiences.

In the budget of 2010-11, an allocation of Tk. 3000 crore has been proposed for the PPP. In ADP for FY 2010-11, 23 PPP Projects were included that covered 2 infrastructure development projects, 5 power plant projects and 8 health service related projects. The PPP implementation status in Bangladesh was very poor last year. Despite the allocation of Tk. 2500 crore for PPP during FY 2009-10, the allocation largely remained unutilized.

Three government organizations are involved in the project implementation with the private sector under PPP initiative:

- IDCOL (Infrastructure Development Company limited) through this government sponsored company PPP project finance and financial intermediation are conducted.
- IPFF (Investment promotion and Financing Facility) this project financed 5 power sector projects under the PPP initiative.
- IIFC (Infrastructure (Investment Facilitation Center) this is also a Government sponsored company which mainly liable to provide expert assistance to the relevant Ministries and Divisions.

The government has initiated some large scale projects under PPP this year such as Gulshan-Jatrabari flyover. Dhaka-Chittagong access control highway for which total cost is estimated USD 3.2 billion. The tenderization process of Dhaka city elevated expressway has been floated from November and the total cost has been estimated USD 1.23 billion for this project. The other projects prioritised by the government are Dhaka city subway, Four Coal, Diesel or Gas fired power plants, Deep Sea port in Chittagong etc.



## 2.6 Public Finance Balance

In the budget of 2010-11, the government has targeted to collect a total revenue of Tk. 92854 crore which is 11.9 percent of the total GDP. The National Board of Revenue (NBR) has to collect Tk. 72590 crore in the FY 2010-11 which is 78 percent of the total revenue.

By February 2011, approximately 63 percent of the total targeted revenue has been collected which is Tk. 72590 crore. In order to achieve the targeted revenue of Tk. 72590 crore, the NBR has to collect the remaining 37 percent of the total revenue within four months which indicates that NBR has to collect 9 percent of the total revenue in each month to meet the target of total revenue collection in FY 2010-11.

To achieve a 9 percent growth of revenue earning in each month can be a challenge for the government. Moreover, the country is facing a negative growth in remittance, foreign aid and foreign trade. Furthermore, the increase in subsidies, particularly arising out of quick rental power generation plant together with the increase in interest payment for the government borrowing, and increased public wage bill will have an misbalancing impact on public finance.

## 2.7 Budget Deficit

During the FY 2010-11, the total revenue collection of the Government of Bangladesh was estimated at Tk. 92854 crore which is 11.9 percent of the total GDP. On the other hand, the total revenue collection in FY 2009-10 was Tk. 79415.55 crore which was 11.5 percent of the GDP. The rate of revenue assortment in FY 2010-11 is 0.4 percent higher than that of FY 2009-10.

**Table 3: Overall Budget Deficit and Financing**

Description	FY 2010-11 (Estimate)		FY2009-10 (Revised)	
	Creore Tk.	% of GDP	Creore Tk.	% of GDP
<b>Revenue collection</b>	92854	11.9	79415.5	11.5
<b>Tax</b>		9.7		9.3
<b>Non Tax</b>		2.2		2.2
<b>Total Expenditure</b>	132170	16.9	110523	16.0
<b>ADP</b>		4.9		4.1
<b>Non ADP</b>		12.0		11.9
<b>Overall Deficit</b>	39316	5.0	31107.5	4.5
<b>Financing</b>				
<b>Foreign financing</b>	15605.8	2.0	138114.4	2.0
<b>Domestic Borrowing</b>	23408	3.0	1726425	2.5
<b>Borrowing from banking sector</b>		2.0		1.3
<b>Non b=Bank Borrowing</b>		1.0		1.3

Source: Authors calculation

The revenue expenditure in FY 2010-11 was estimated at Tk. 132170 crore which is 16.9 percent of GDP. In FY 2010-11, the total expenditure for development sector was estimated Tk. 38500 crore which is 4.9 percent of total GDP. On the other hand, the total expenditure for non-development sector was estimated Tk. 93670 which is 12 percent of GDP. The expenditure on non-development sector is 7.1 percent higher than that of the development sector.

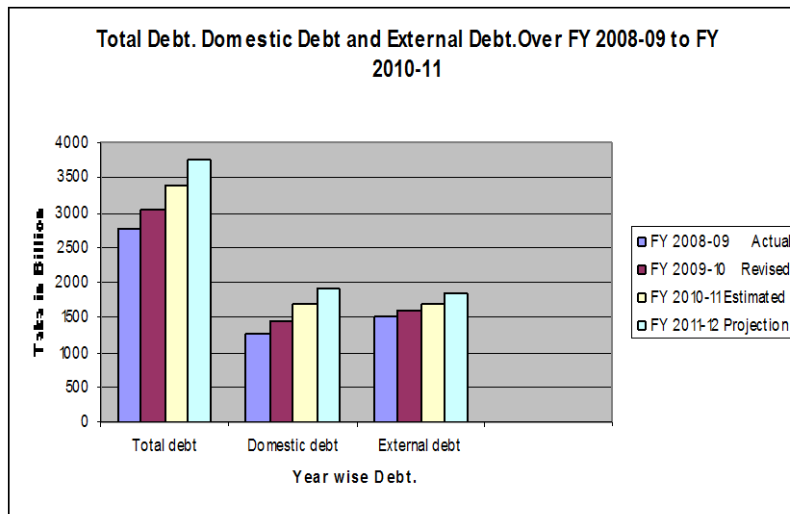
Thus in FY 2010-11, the overall budget deficit was estimated Tk. 39316 crore which is 5.03 percent of GDP. The budget deficit in FY 2010-11 is 0.5 percent higher than the previous year.

The share of domestic borrowing is 23408.7 crore which is 3 percent of GDP and 59.54 percent of the overall budget deficit in the same fiscal year. In the overall domestic borrowing, the share of bank borrowing and non-bank borrowing are 2 percent and 1 percent respectively as a percentage of GDP in the budget of 2010-11.

## 2.8 Public Debt

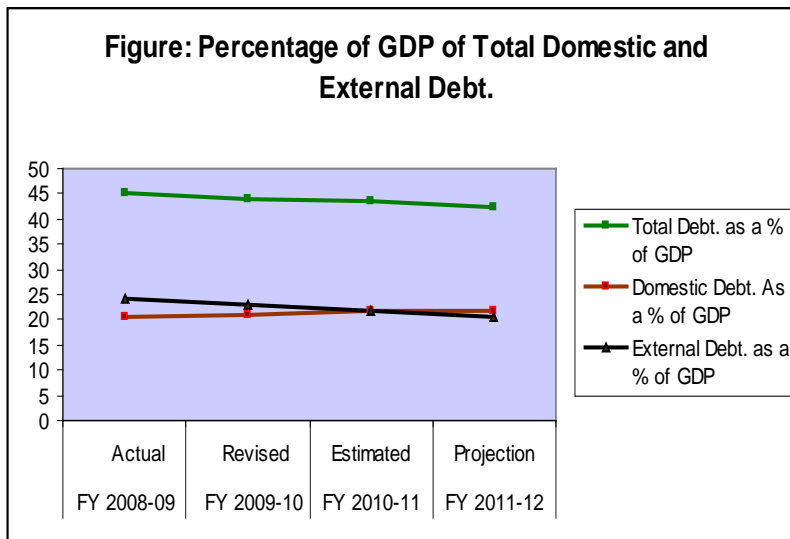
In FY 2010-11, the overall outstanding public debt has been estimated at Tk. 3388 billion which is 43.4 percent of GDP. The share of domestic debt and external debt has been estimated at Tk. 1684 billion and Tk. 1703 billion respectively, which are 21.6 percent and 21.8 percent of GDP.

**Figure 7: Total Debt, Domestic Debt. & External Debt. over FY 2008-09 to FY 2010-11**



Source: Finance Division, ERD and Bangladesh Bank

**Figure 8: Percentage of GDP of Total Domestic and External Debt.**



Source: Finance Division, ERD and Bangladesh Bank

## 2.9 Deficit financing and Debt Management

A prime task of the fiscal policy of the government is to continue to endeavour to narrow the gap between expenditure and income in order to offset the budget deficit or to maintain it at a tolerable level. Over the past few years, the overall budget deficit registered an increasing trend that put a serious pressure on the total debt of the country.

**Table 4: Budget deficit and Government borrowing as a percentage of GDP**

Time period	Budget deficit	Internal Debt	External Debt
<b>FY 2008-09</b>	3.9	3.1	0.8
<b>FY 2009-10</b>	4.5	2.5	2.0
<b>FY2010-11</b>	5.0	3.0	2.0

Source: Finance Division and Bangladesh Bank

During FY 2010 to FY 2011, the level of financing to cover the budget deficit increased from 4.5 percent to 5 percent as a share of GDP. The statistics suggest that the domestic borrowing has increased from 2.5 percent to 32.5 percent as a share of GDP during the FY20098-10 to FY 2010-11.

The emerging new political and economic changes combined with an increase in the budget deficit prompting the greater reliance on higher cost bearing domestic and external borrowing. During FY 2010-11, the total interest charge payments are estimated at Tk. 147.1 billion, which is 11.12 percent in the overall budget and 1.9 percent of the GDP. Despite the reduction of debt GDP ratio over the past few years, the interest payment on both domestic and external borrowing has increased.

**Table 5: Cost of borrowing**

	<b>FY 2008-09 Actual</b>	<b>FY 2009-10 Revised</b>	<b>FY 2010-11 Estimate</b>
<b>Total interest payment (billion in Taka)</b>	151.8	146.5	147.1
Interest payment on domestic borrowing(billion Taka)	138.4	132.6	132.7
Interest payment on external borrowing( billion taka)	13.4	13.9	14.4
Interest payment as a percentage of GDP	2.5	2.1	1.9
Interest payment as a percentage of Total Budget	15.18	12.87	11.12

Source: Finance Division, ERD and Bangladesh Bank

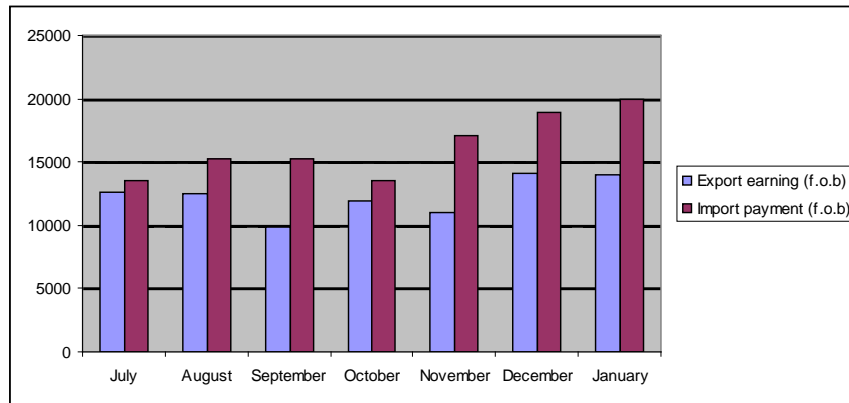
The higher cost of borrowing has turned out to be a concern. The cost of borrowing that the government has to incur every year captured a significant portion of the total budget expenditure. The government has to finance against the total debt that is dwindling the expenditure from total allocation on health, education and development sector.

## 2.10 Trade balance

The export earning is showing an upward trend particularly for increased export in RMG sector. At the same time, the import payment has increased by Tk. 6443.32 crore from July, 2010 to

January, 2011. Thus, the gain from export earning has been outweighed as the import payment mounted at an escalating rate than that of export earnings.

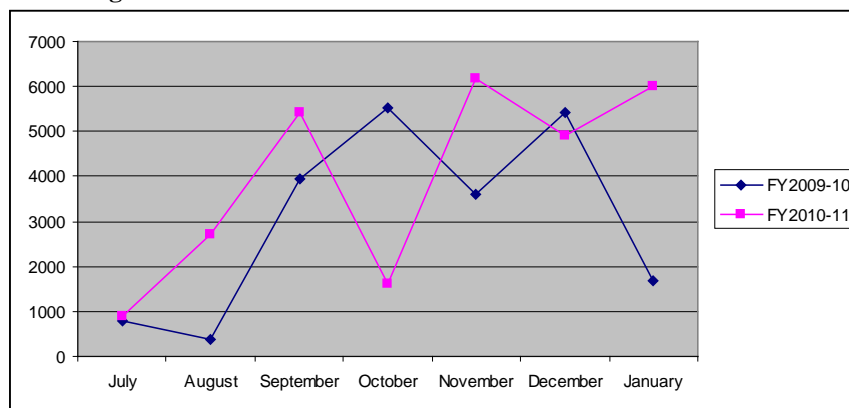
**Figure 9: Monthly Comparison of Export and Import during July-January in FY 2010-11**



Source: Bangladesh Bank

The statistics suggests that the export registered an 11 percent growth during the first seven month of the current fiscal year whereas the import payment soared up by 47 percent during the same period. The overall trade deficit increased a record 37 percent during the first seven month of the FY 2010-11. The rising trend of international food and fuel prices are generally considered primary causes for rise in cost of import. Besides, the government requires formulating an effective trade development strategy that could play its part in balancing trade.

**Figure 10: Trade Balance between FY2009-10 and FY2010-11**



Source: Bangladesh Bank

The trade deficit increased by 521 percent during the first quarter in FY 2010-11 compared to that of 394 percent in FY2009-10. This rising trend of trade deficit continued in the second quarter of the current fiscal year with an increase of 205 percent. The incessant phenomenon of trade imbalance indicates that the government’s target of reducing trade balance was over ambitious.

The much-hyped trade liberalization policies suggested by IMF as a condition to access to its one billion dollar loan, thus, should be carefully scrutinized in order to secure a sustained long term healthy growth in trade.

**Table 6: Current account balance and overall balance (in million USD)**

Description	FY210-11 July-January	FY2009-10 July-January	Percentage change
<b>Current account balance</b>	428	2084	-79.46
<b>Trade balance</b>	-4272	-2975	43.6
<b>Overall balance</b>	-711	2138	

Source: Bangladesh Bank

Despite enjoying a current account surplus over the last few years, Bangladesh started to incur a declining trend in current account balance from the beginning of the current fiscal year. The overall current account balance was USD 428 million during the period July to January in FY 2010-11 compared to that of USD 2084 million in FY2009-10. The overall current account balance declined by 79.4 percent from the first seven month of FY 2009-10 to the first month of FY2010-11. Due to the deficit of USD 1174 million in financial account, the overall balance showed a deficit of USD 711 million during July- January, 2010 against the surplus of USD 2138 million during July-January 2009.

The constant trade deficit, a slowdown in the remittance flow and the soaring import payment has largely contributed to the constricting of current account surplus. Moreover, low flow of FDI and a decrease in foreign aid are creating additional pressure over the balance of payment situation.

## 2.11 Inflation

In the budget of FY2010-11, the government targeted to keep inflation rate stable at 6.5 percent and also stressed to keep it lower in the upcoming years. Bangladesh Bank fell short to identify the real phenomenon of Bangladesh's inflationary situation. Bangladesh Bank pursued a tight monetary policy assuming that the country is facing inflation, which is demand pull in nature. In reality, inflation takes place in Bangladesh due to supply shock and push in cost. For example, the food price hike has accelerated the general inflation rate in the country. If the food price level rises at an existing rate of 1.31 percent per month and if adequate anti-inflationary measures are not taken, the general inflation might exceed the government's targeted level of inflation and likely to touch a 'double digit figure'. The current rate of rise in inflationary pressure suggests that the rate of general inflation might reach to 10.71 percent by the end of this fiscal year and the food inflation may reach to 12.84 percent in June 2011.

Food inflation reduces the purchasing power of common people and has a negative impact on food availability and food accessibility. The skyrocketing food prices have created difficulty to the poor, low and middle income group as well as exacerbating the scenario of inequality.

Point to point inflation trend suggests that food inflation is higher than non-food inflation. During August 2009 to June 2010, the food inflation has soared by 5.7 percent and GDP growth rate has declined by 0.1 percent, indicating that the purchasing power of the people shrunk drastically. In December 2010, high prices of food, accompanied by an upward trend in non-food prices, pushed the overall inflation by 0.76 percent to 8.28 percent. Food inflation continued to edge up since the beginning of the current fiscal year 2010-2011. The overall point-to-point inflation has moved up to 10.49 per cent and food inflation increased to 13.87 per cent in March

2011, according to the latest Consumer Price Index (CPI) report prepared by the Bangladesh Bureau of Statistics (BBS).

### 3. REAL SECTOR DEVELOPMENTS

#### 3.1 Agriculture

The current government in its manifesto gave a top priority on agriculture, food security and nutrition. In the last year's budget, the Finance Minister Abul Maal Abdul Muhith said, "I stated that we want to achieve self-sufficiency in food in Bangladesh by the year 2012."

To achieve food sufficiency in 2012, it is necessary to increase food grain production at a certain rate. The Unnayan Onneshan estimates suggest that the total population might be 171.5 million in 2012 and for that targeted population; more than 43.2 million tonnes of food grain (39.4 million tonnes of rice and 3.8 million tonnes of wheat) might be required. In FY 2009-10, the total food grain production was 36.94 million tonnes (34.56 million tonnes of rice and 1.37 million tonnes of wheat). Therefore, additional 6.26 million tonnes of food grain is needed to achieve food sufficiency.

The sectoral share of gross domestic product (GDP as percentage) of the board agriculture is declining day by day. In FY 2010-11 Bangladesh Government announced about Tk. 3192 crore of the total ADP. But this allocation is not sufficient to reduce the declining growth rate of this sector, because of the miss-match between the required level of amount and allocation and rate of implementation.

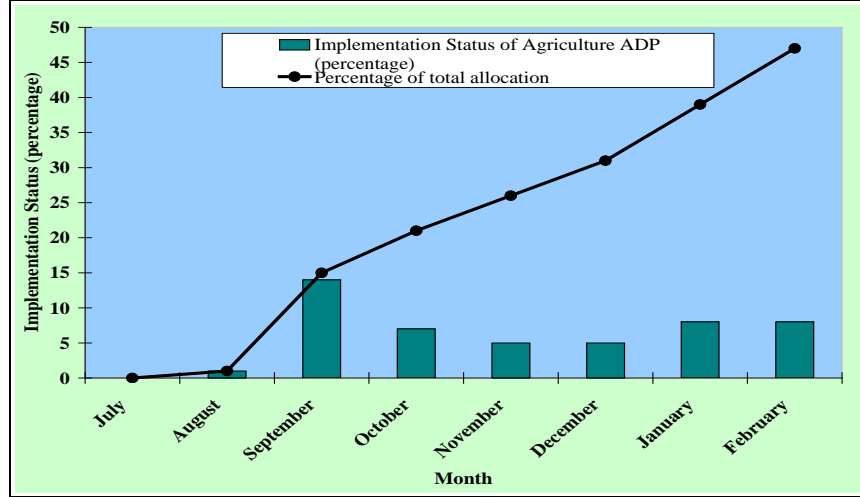
The revised and future implementation of ADP allocation has been predicted by taking the weighted average of the past trends. From the analysis of the last 10 years data, it is found that percentage of implementation to proposed budget is 38.4 and the implementation to revised budget is 55.17. Similar trend is also found for the current fiscal year 2010-2011. Only 47 percent of total agriculture ADP has been implemented for the last 8 months from July to February in 2011 for 45 projects.

Monthly implementation of ADP during the current fiscal year for each month (July-February) has been analyzed and it shows that implementation rate is comparatively higher in the last two months (January and February) than other five months (except September). It indicates that ADP implementation increases during the months closer to the end of a fiscal year which is totally unsatisfactory for development of agriculture. In July and August 2010, the implementation rates as percentage were 0 and 1, respectively.

In FY 2010-2011, credit disbursement target in agriculture sector is Tk. 12617.40 crore whereas in the last 7 months (July-January), total credit disbursement was only Tk. 6402.26 crore which is 50.74 percent of the target. Therefore, more than Tk. 6200 crore (Tk. 6215.14 crore) needed to be disbursed within the last 5 months to achieve this target. To attain this goal, it is necessary to disburse Tk. 1243 crore in each month for 5 months. This suggests that the target might not be achieved, affecting production in agriculture.

From the Bangladesh Bank statistics, it is also found that recovery of agriculture credit during July to January, 2010-11 is Tk. 6070.45 crore which is Tk. 4042.30 crore less than the FY 2009-10. Therefore, even to achieve the last year's recovery level, it is necessary to increase the recovery rate.

**Figure 11: Monthly implementation of Agriculture ADP in the Fiscal year 2011**



Source: Implementation Monitoring and Evaluation Division (IMED), 2011

**Table 7: Annual movement of Agricultural credit, disbursement and recovery (in crore taka)**

Year	Target	Disbursement	Recovery
2006-07	6351.30	5292.51	4676.00
2007-08	8308.55	8580.66	6003.70
2008-09	9379.23	9284.46	8377.62
2009-10	11512.30	11116.88	10112.75

Source: Bangladesh Bank, 2011

**Table 8: Month wise movement of Agricultural credit, disbursement and recovery in fiscal year 2010-11 (in crore taka)**

Programmed level for disbursement of agricultural credit during FY 2010-11 is Tk. 12617.40 crore	Month	2010-11 <sup>P</sup>		2010-11 <sup>R</sup>	
		Disbursement	Recovery	Disbursement	Recovery
	July	876.61	1419.93	648.82	1474.57
	August	666.38	659.83	622.63	468.67
	September	990.38	942.20	640.92	664.15
	October	1075.02	816.52	1062.25	641.51
	November	1112.47	1012.71	1275.07	800.19
	December	1503.94	1339.86	1348.21	1336.13
	January	887.85	610.73	804.36	685.23
	<b>July-January</b>	<b>7112.65</b>	<b>6801.78</b>	<b>6402.26</b>	<b>6070.45</b>

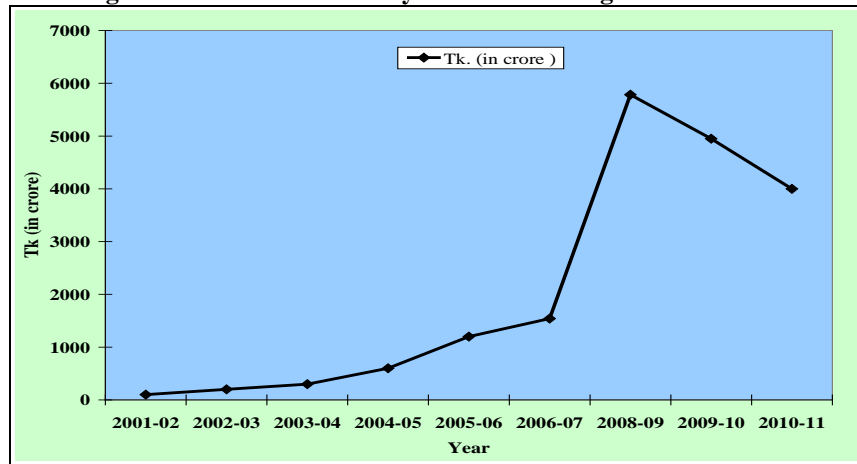
Source: Bangladesh Bank, 2011 (P = Provisional; R = Revised)

Subsidy in agricultural sector during FY 2010-11 has declined by 20 % compared to the FY 2009-2010. In FY 2009-10, the total allocation for agricultural subsidy was Tk. 4950 crore while Tk. 4000 crore has been proposed in the budget for FY 2010-11. Figure shows that subsidy in agricultural sector during Awami-League government in the last two years has declined significantly compared to the FY 2008-09. However, Election Manifesto of Bangladesh Awami



League-2008 noted that subsidy for agricultural inputs will be enhanced and availability of inputs will be made easier.

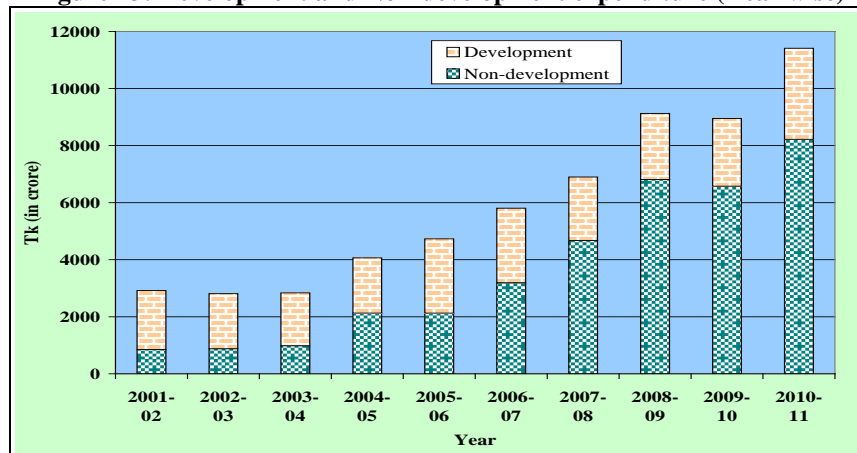
**Figure 12: Year wise Subsidy allocation for Agricultural sector**



Source: calculation based on Bangladesh Economic Review, 2010 and budget speech, 2010-11

In FY 2010-11, more than 84 percentage of its total allocation has been proposed for the non-development sector of the Ministry of Agriculture and 56 percentage for Ministry of Fishery and Animal Resources. Maximum allocation has gone to the non-development sectors and small amount has been allocated to the development sector which is one of the major constraints for development in the sector. In raising productivity and profitability, reducing instability, and increasing resource-use efficiency, it is essential to increase the strength of agriculture research.

**Figure 13: Development and Non-development expenditure (Year wise)**



Source: Ministry of Finance, 2010 and budget speech, 2010-11

“In order to increase agricultural production, special emphasis will be placed on modernization of agriculture, innovation of technology and expansion of facilities for research in agriculture,” reads Election Manifesto of Bangladesh Awami League. Accordingly, In FY 2010-11, the government has allocated TK 412 crore for agricultural research, which was more than Tk. 226 crore than the FY 2009-10. Though it is assumed as a good indication, but it is not sufficient to boost the sector. Moreover, in the past, fund for research purposes did not reach to the research organizations for various administrative complexities.



Finance Minister in his budget speech 2010-11 declared: “we have taken an initiative to introduce an Agriculture Insurance scheme to provide the small and medium farmers with crop price support in the event of crop failure due to natural disasters”. But there was no guideline about the landless farmers who are the most sufferers. Besides, there was no fund allocated for the Insurance Scheme in FY 2010-11.

In FY 2010-11, government has suggested to distribute organic, green and bio-fertilisers to 97 lakh families in country to popularize the use of natural fertilisers and to increase agricultural production. In National Agriculture Policy 2010, the use of organic manure, compost, and bio-fertiliser are emphasised. However, for the distribution of organic fertilisers, no fund has been allocated in the budget. Therefore, question automatically arises as to how the total process will succeed.

Besides, Tk. 300 crore was allocated to expand irrigation facilities, which were less than Tk. 127 crore in FY2009-10. This fund is not sufficient, particularly if the enormity of the scale or requirement is taken into consideration. For example, how such a small fund could mitigate waterlogging in the southwest region, draining out water in Haros areas etc. Moreover, most of the areas in Northern region (the major rice growing region in Bangladesh) are drought prone where irrigation management is creating a huge challenge for both dry and winter seasons. Therefore, new irrigation management project will also be required for the northern part. ‘Farmers Marketing Group’ and ‘Farmers Club’ throughout the country have not also been realized in many locations due to lack of sufficient fund and proper guidelines.

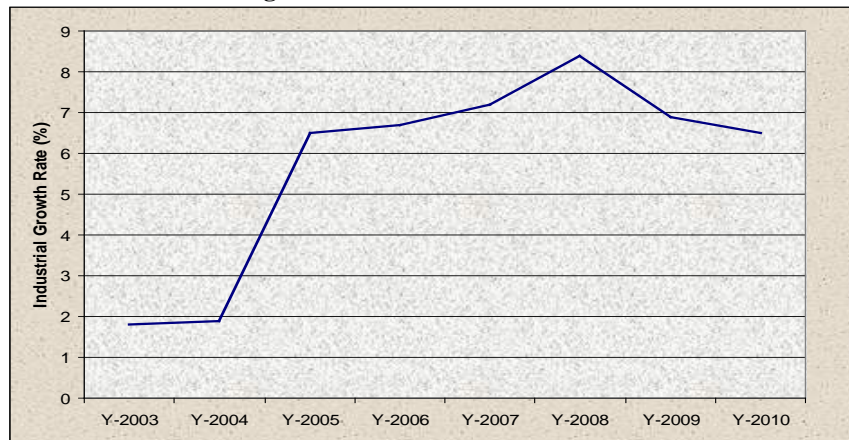
Irrigation applications depend on the groundwater source. The extraction of groundwater increased many folds to augment production, at the same time causing increase in salinity of soil and consequently resulting in declining soil fertility. Furthermore, soil fertility is decreasing due to the use of huge amount of chemical fertilisers, which is not at par with sustainable conception of agriculture. Therefore, proper attention should have been given for sustainable agriculture practices and sufficient fund should have been allocated to enhance sustainable agricultural practices.

### **3.2 Industry**

In its Vision 2021, the government aspires, by 2021, the country will witness the creation of a strong industrial sector and its share in GDP will grow from the present 28 percent to 40 percent, and where the proportion of the labour force will rise from the present 16 percent to 25 percent. This industrial growth and labour force absorption depends on settling up of new industries, rise in efficiency in production of the industries, augmentation of value addition of the intermediate products and enhancement in quality.

The industrial growth has started to decline from 2008, when it reached to 8.4 percent. In 2009, the industrial growth rate was 6.9 percent while it further decreased to 6.5 percent in 2010.

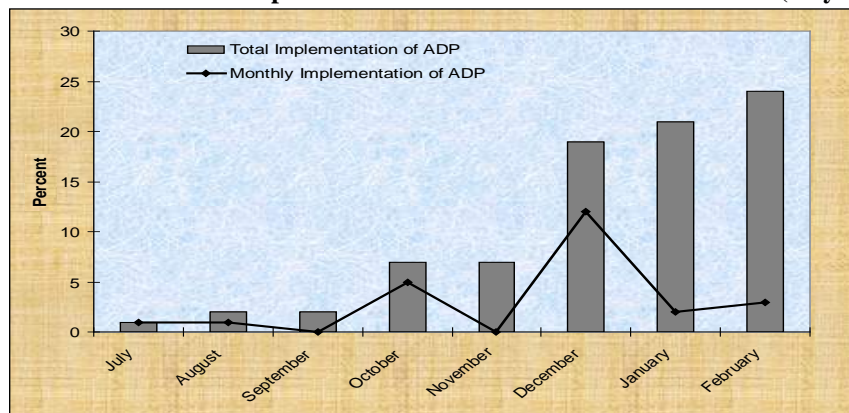
**Figure 14: Industrial Growth Rate**



Source: Bangladesh Bank

The public expenditure is poor with fluctuations in allocation for different years. Moreover, over the last few years, there was a significant gap between the allocation and implementation of ADP in the industrial sector. Similar scenario is also found in the present fiscal year (FY 2010-11), where only Tk. 11,000 lakh (24 percent) had been implemented during the last eight months (from July to February) out of the total allocation of ADP (Tk. 46446 lakh). If such rate of implementation continues, another 12 percent might be implemented by the last four months of the current fiscal year, which indicates that only 64 percent (i.e. Tk. 29725 lakh) of the allocated ADP may remain unspent.

**Figure 15: Month-wise ADP Implementation in Industrial Sector 2010-2011 (July-February)**



Source: IMED

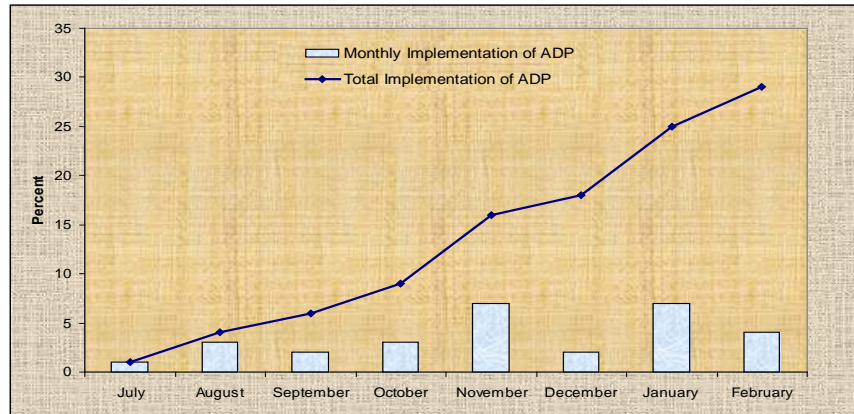
### 3.3 Power

The ongoing power crisis has aggravated people's suffering, slowed down industrial production and hampered trade. At present, 47 percent of the entire population has access to power supply. The per capita power consumption is only 220 kwh in the country which is much lower than that of other developing countries of the world. Under the yearly power generation plan, the government has taken initiatives to produce 792 MW by 2010, 1675 MW by 2013 and 2600 MW by 2015; in total 9426 MW of electricity. In addition to these, as large scale production plants requires 3-4 years of installation time, the government has taken initiatives to set up 1000-1200

MW Quick Rental Power Stations which can produce electricity in the shortest possible time and help to reduce the power crisis by 2010 and 2011 to a tolerable level.

In the last few years, there was a significant gap between the allocation and implementation of ADP in the power sector. Similar scenario was also found in the present fiscal year (2010-2011), where only Tk. 1414.1 crore (29 percent) had been implemented during the last eight months out of the total allocated ADP (Tk. 4916.22 crore). If the business as usual continues, another 14.5 percent might be implemented by the next four months of the fiscal year 2010-2011 which means 56.5 percent (i.e. Tk. 2777.7 crore) of the allocated ADP might remain unspent.

**Figure 16: Month-wise ADP Implementation in Power Sector 2010-2011 (July-February)**



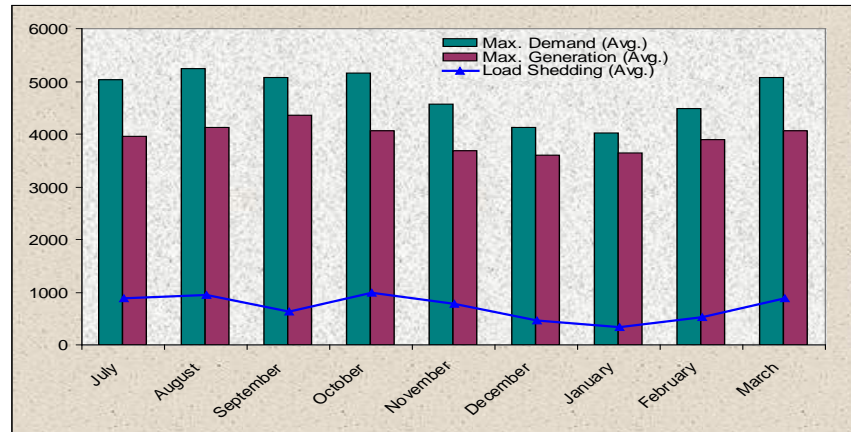
Source: IMED

Bangladesh is facing severe power crisis in recent times. Demand for electricity is increasing with the increased consumption by the upper quintiles in the income ladder and automations in life-styles, bubbles created by real estates, increased mechanization of agriculture, and desire for expansion in manufacturing. But, actual demand could not be met for the last few years due to shortage of generation capacity. The present total installed capacity is 6760 MW, of which 6208 MW (March, 2011) is the actual generation capability. On average 3981.5 MW of electricity (based on generation query of BPDB) has been generated in the last year against the demand of 5000 MW to 5500 MW due to the net generation system loss, shortage in supply of inputs such as gas, and inadequacy in maintenance, rehabilitation, and overhauling of the aged power plants. There has been a significant gap between power supply and power demand overtime (Figure 2) creating load shedding.

There exists a serious gas crisis now-a -days, which has automatically resulted in causing the power crisis. This has resulted from the government’s lack of initiative in exploration of gas fields.

Due to the shortage of supply of gas, the alternative fuel for generation of power is coal. However, the government has yet to come up with a decision about the method of mining coal, making the problem of sourcing of input for power generation complex. Furthermore, the time that would be required to exploit and use Bangladesh's plentiful coal deposits will create a time-gap in solving the power crisis within the desirable timeframe.

**Figure 17: Month-wise Power Demand, Generation and Load Shedding (in MW) 2010-2011 (July-February)**



Source: Power Division

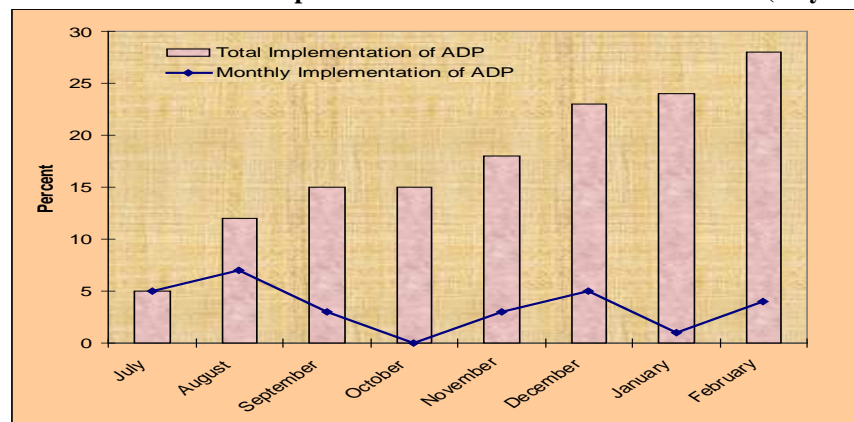
Solving the power crisis in the shortest possible time should be the top priority of the government. Otherwise, industrial development and the overall development of the country would be seriously hampered. The targeted GDP growth will not be possible to achieve unless the power crisis is solved.

## 4. SOCIAL SECTOR DEVELOPMENTS

### 4.1 Health

In the budget of FY 2010-2011, the allocation for the health sector was Tk. 8129 crore (including development and non-development budget), which is 6.15% of the total budget. In the current fiscal year, Tk. 1296 crore more have been allocated than the revised allocation of the last budget. Still it is far away from the proposed allocation (from 7% to 12%) of the total budget mentioned in the draft National Health Policy. The decreasing allocation occurred at a time when the government has committed to ensure better health facilities for its citizens.

**Figure 18: Month-wise ADP Implementation in Health Sector 2010-2011 (July-February)**



Source: IMED

There would have been some improvement, if the government could have been able to implement the proposed amount appropriately. Over the last few years, the allocation in ADP has

increased, but the record of implementation has remained poor. In the FY 2010-2011, of the total allocated ADP (Tk. 3444.7 crore) only 28% was implemented during the last eight months and remaining 72% (i.e. Tk. 2484.56 crore) have to be implemented within the next four months. If the past experiences are yardstick, another 14% might be implemented in the remaining time of fiscal year. This indicates more than half the allocated money (Tk. 2002.30 crore) may remain unspent.

This low allocation of total ADP (9 percent) and lower implementation (28 percent) of allocated ADP in health sector put the achievement of Millennium Development Goals and Vision-2021 targets in doubt.

Major Indicators	MDGs Targets by 2015			Vision-2021 Targets		
	Targets	Projection (to achieve target)	Gap	Targets	Projection (to achieve target)	Gap
<b>Under-Five Mortality</b>	48 deaths per thousand live births	53 deaths per thousand live births	7 deaths per thousand live births			
<b>Infant Mortality Rate</b>	31 deaths per thousand live births	43 deaths per thousand live births	12 deaths per thousand live births	15 deaths per thousand live births	13 deaths per thousand live births	--
<b>Maternal Mortality Rate</b>	143 deaths per 100,000 live births	280 deaths per 100,000 live births	137 deaths per 100,000 live births	1.5%	1.79%	0.29%
<b>Birth Attended by Skilled Health Personnel</b>	50%	23%	27%			
<b>Contraceptive Use Rate</b>				80%	71.5%	8.5%

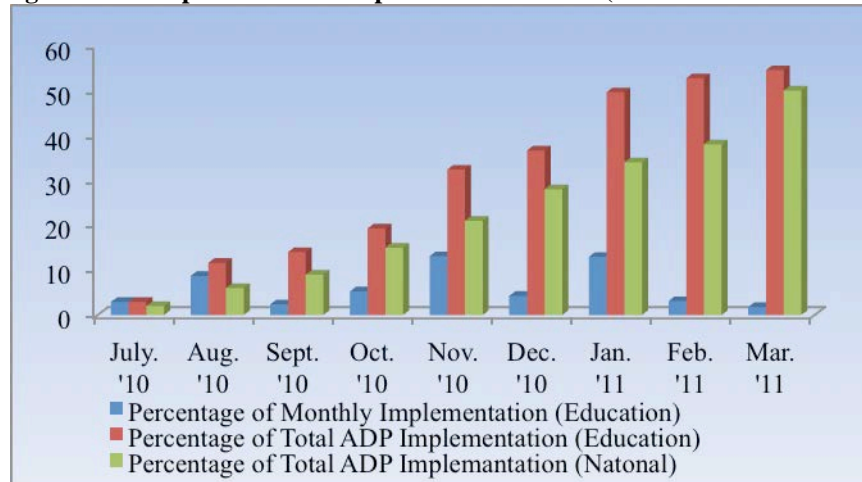
## 4.2 Education

The successive governments have highlighting education as one of the most prioritized sectors. The government has allocated BDT 17,959 crore for both development and non-development in the budget for the FY 2010-11 which is 13.5 percent higher than the revised budget of FY 2009-10. The Ministry of Primary and Mass Education (MoPME) has received an allocation of Tk. 8,134.64 crore and the Ministry of Education has been allocated with 9,824.36 crore which is respectively 6.15 and 7.43 percent of the national budget for FY 2010-11.

Budget allocation in education sector is seemed to be on a rising trend and the implementation of Annual Development Programme (ADP) is more than ninety percent of in recent years. However, the implementation status of ADP in education is unsatisfactory for the current fiscal year. The total ADP implementation of education sector during July 2010-March 2011 is only 54.53 percent, Tk. 2603.67 crore, while national ADP implementation status is 50 percent only. The MoPME has managed to implement 57 percent, Tk. 1747.77 crore, and MoE has implemented 50 percent which is BDT 855.90 crore of the Revised Annual Development Programme (RADP) allocation. Continuation of the current trend shows that the education sector may only implement 73.69 percent of the RADP which means BDT 1256.05 crore will remain unspent by the end of FY 2010-11.



**Figure 19: Comparative ADP implementation status (education and national)**



Source: Implementation Monitoring and Evaluation Division (IMED), Ministry of Finance, 2011

The initiatives that the GoB has taken are praiseworthy but to achieve the targets of EFA, MDG, NPA II, NEP and the election manifesto of the Awami League, increased allocation and more importantly higher rate of implementation are required in education sector in the upcoming budgets to achieve cent per cent net enrollment rate, minimize drop-out rate, lessen teacher-student ratio and ensure equality education for building a nation with capable human resources.

**Table 9: Education targets and initiatives of GoB**

	Targets	Steps taken	Comments
<b>MDG</b>	<ul style="list-style-type: none"> <li>• 100% net enrollment by 2015</li> </ul>	<ul style="list-style-type: none"> <li>▪ 23.2 crore books distributed</li> <li>▪ Recruited 40,755 primary school teachers</li> <li>▪ BDT 750crore allocated for stipend</li> <li>▪ Tk. 108.64 crore allocated for school feeding</li> <li>▪ Only Tk. 0.25 crore allocated for building 1500 schools</li> </ul>	<ul style="list-style-type: none"> <li>➤ More initiatives need to be taken</li> <li>➤ More allocation required (specially to achieve 100% net enrollment)</li> </ul>
<b>EFA</b>	<ul style="list-style-type: none"> <li>• 100% net enrollment by 2015</li> </ul>		
<b>NPA II</b>	<ul style="list-style-type: none"> <li>• 95% net enrollment by 2015</li> <li>• 5% drop-out by 2015</li> <li>• 90% adult literacy by 2015</li> </ul>		
<b>EM 2008</b>	<ul style="list-style-type: none"> <li>• 100% net enrollment by 2010 (2011)</li> <li>• 100% adult literacy by 2014 (2017)</li> </ul>		
<b>NEP 2010</b>	<ul style="list-style-type: none"> <li>• 100% net enrollment by 2010-11</li> <li>• Pre-primary education</li> <li>• Compulsory &amp; free primary education to class VIII</li> <li>• Secondary education from class IX up to XII</li> <li>• Teacher-student ratio – 1:30 by 2018</li> <li>• 100% adult literacy by 2014</li> </ul>		
<b>NB 2010-11</b>	<ul style="list-style-type: none"> <li>• Recruit 45,000 primary school teachers</li> <li>• Stipend for primary education</li> <li>• Build 1500 primary schools</li> <li>• School Feeding Programme</li> <li>• Pre-primary education</li> </ul>		

### 4.3 Gender

Gender budgeting does not mean a separate budget for women, rather it includes a set of methods and tools to measure whether the allocations made in the national budget for different sectors are likely to reduce existing gender inequalities and promote women’s empowerment.

In Bangladesh, the concept of gender budgeting made its way from the fiscal year 2005-2006, initially covering four ministries, such as Ministry of Women and Children Affairs (MoWCA), Education, Social Welfare and Agriculture under the medium term budgetary framework. As a part of this process, in FY2010-2011, the government intends to cover ten ministries by disaggregating the budgetary data on the basis of gender.

Women in Bangladesh face discrimination, deprivation, vulnerability, and backwardness in all spheres of life. The successive governments commit to ensure women’s empowerment. The current government’s commitments and actions include three different strategies: (i) inclusion of women’s concerns in the development plan, policies, projects and programs and improvement of gender governance; (ii) inclusion of women in the national level to local and grassroots levels in the politics and economic decision-making processes; and (iii) development of a gender management system to effectively deal with the women’s issues and concerns within the government and also in cooperation with NGOs and the civil society.

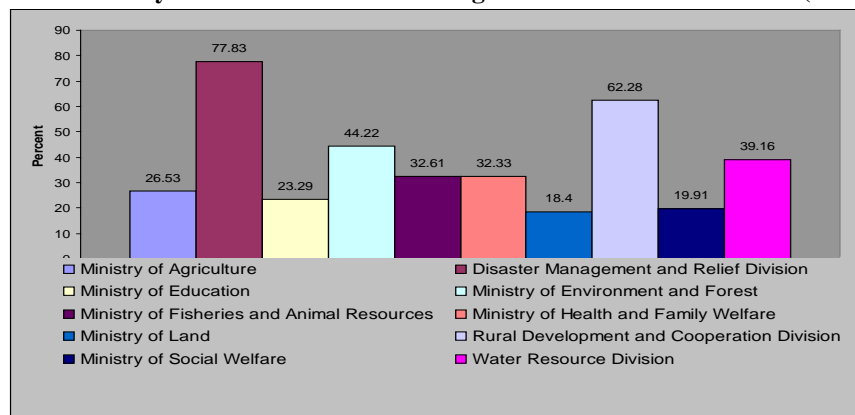
It has been observed that despite a lot of promises, national budgets in Bangladesh scarcely concern about women’s rights. There are some allocations for women in every national budget. But it is too little to fulfill women’s needs. The following table depicts that scenario:

**Table 10: Gender related Expenditure**

Fiscal Year	Proposed Budget ( Taka in Crore)	Gender as % of total budget	Gender as % of GDP	Revised Budget ( Taka in Crore)
2007-08	18,707	16.44	2.72	22,049
2008-09	26,272	23.08	3.83	27,914
2009-10	33,850	29.74	4.93	27,248
2010-11	34,313	25.96	4.4	34,221

Source: Ministry of Finance

**Figure 20: Ministry Wise Gender Related Budget Allocation in Fiscal Year (2010-2011)**



Source: Ministry of Finance

In present fiscal year (2010-2011) the total budget allocation for MoWCA is Tk. 1242 crore. Besides, the following ten ministries have dealt with women's advancements and rights issues in the budgetary framework.

In spite of all these efforts and allocations the budget cannot be considered as a gender sensitive one. The picture is not very pleasant in the utilization and management of allocations to above sectors. For example, in the current fiscal year (2010-2011) the allocation of ADP for MoWCA is Tk. 20,728 lakh. From July, 2010 to February, 2011 the total ADP implementation was 56 percent which is Tk. 11,603.02 lakh.

Women in Bangladesh face unfairness in all spheres of their lives. For that reason gender inequality still persists in every sphere of life, like - access to and control over resources, economic opportunities, legal framework, power and politics since the above allocations are not properly implemented. Religious misinterpretation, discriminatory social system, lack of women's movement and lack of political commitments play important role to avoid implementation of these plans and allocations. In Bangladesh, violence against women is increasing day by day. Women are being harassed, abused, and discriminated in the family, society and the state. The Government established One-Stop Crisis Centers (OCCs) in six divisional Medical College Hospitals offering short term stay for medical treatment including surgery as required, police assistance, psychological counseling, legal assistance, shelter service, medico legal examination with DNA test etc. for victim women. Lack of allocation for OCCs in the budget, limited human resources, lack of trained counselors, legal constraints of the police hinder the implementation of the goal of the OCCs. The targets and objectives of government related to women are consistent with Poverty Reduction Strategy Paper (PRSP), Millennium Development Goals (MDGs), National Women Development Policy.

Women themselves have to be more active to improve their secondary position and to improve their contribution in national economy as well as development. The allocations for gender budget have to be increased and implemented in every sector properly.

## 5. Employment

The present government, in its election manifesto, has targeted to reduce unemployment from estimated 2.8 million in 2008 to 2.4 million by 2013 and 1.5 million by 2021. Under the current budget (FY 2010-11), the government has estimated to create a total of 621.6 lakh man months of employment which would be 98.4 lakh man months higher than the previous year. These additional man months will provide employment opportunities for 39.5 percent of the unemployed population of the country. In FY 2009-10, 1,176 crore was allocated for the programme entitled "employment generation for the hardcore poor" that created employment opportunity for 0.6 million people in 16 districts. Now for the current fiscal year, the government has proposed to allocate Tk. 1,000 crore to create employment opportunity for about 1.7 million people in 64 districts. In FY 2010-11, an ADP allocation of Tk. 2295 lakh was allocated for the Ministry of Labor and Employment from which 53 percent has been implemented during the last eight months (July-February) which indicates that another 47 percent is required to be implemented during the last eight months. This is not a possibility.



**Table 11: Key findings of MES 2009 and Labor force Survey 2005-06**

Labor Force Characteristics	MES-2009	LFS- 2005-06
<b>Economically active population (Million)</b>	53.7	49.5
<b>Employed Population (Million)</b>	51.0	47.4
<b>Unemployed Population (Million)</b>	2.7	2.1
<b>Not In Labor Force (Million)</b>	36.9	35.1
<b>Unemployment Rate</b>	5.1	4.3
<b>Underemployment Rate</b>	28.7	24.5
<b>Labor force Participation rate</b>	59.3	58.5
<b>Employment rate by Agriculture sector</b>	43.6	48.1
<b>Employment rate by Non-agri. Sector</b>	56.4	51.9
<b>Status in employment</b>	51.0	47.4

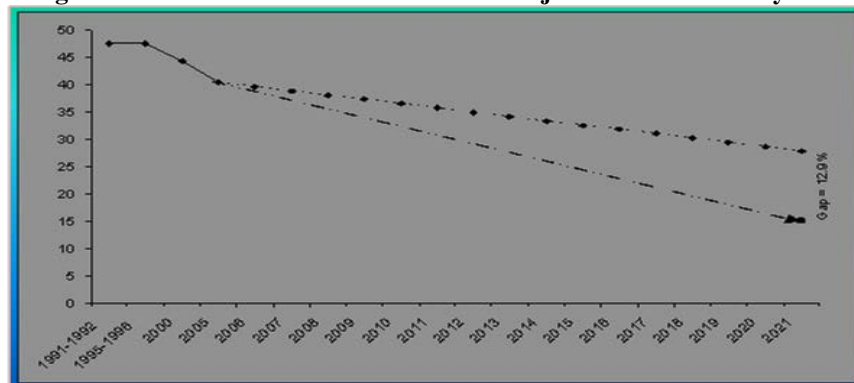
Source: BBS, MES 2009

According to the latest statistics, the country has a labour force of about 5 crore aged 15 years and above. The monitoring and employment survey 2009, conducted by BBS, indicates that the labour force has increased by 8.48 percent in comparison with the labour force survey of 2005-2006. The rate of unemployment has increased to 5.1 percent, which is the highest during the last several years, implying that the employment generation is lagging behind the actual rate of inclusion of active labour force, placing the government to a huge challenge. Although unemployment picture of Bangladesh depicts only 5 percent of the total population is unemployed but in reality it is reflected in the high underemployment rate (28.7 percent). The number of total unemployed people in Bangladesh is now estimated to be 30 million while every year around 2 million young people are entering the job market and only 0.7 million of them are getting job. The number of the ‘disguised unemployment’ (i.e. employed less than their potential), estimated to be about 32 percent of total labour force.

## 6. Poverty

It is a constitutional obligation of the government to provide a decent living standard for the citizens by alleviating poverty. In its election manifesto, the present government has therefore laid special emphasis on poverty alleviation and pledged to reduce poverty. The government has made a commitment to reduce the rate of poverty from 40.4 percent in 2005 to 15 percent in 2021.

**Figure 21: Current Situation and Future Projection of the Poverty Rate**



Source: Unnayan Onneshan, 2010

Despite considerable thrust on poverty alleviation in all plan documents since the independence of Bangladesh, a significant number of population still lives below the poverty line. According to the latest available national statistics on poverty, based upon Head Count Ratio using Direct Calorie Intake (DCI) method, the incidence of absolute poverty were 40.4 percent in 2005 at the national level and the yearly average rate of absolute poverty is declining by 0.78 percent from 2000. The Unnayan Onneshan projection based upon the past with the assumption of business as usual reveals that the rate of poverty may come down to 27.9 percent in 2021, which is higher by 12.9 percent than the targeted rate of 15 percent.

## **7. Recommendations for Action: Translating Electoral Pledges**

The different macroeconomic indicators in the current fiscal year and in the middle of the tenure of the current government put the government on the dock against the pledges Awami League made to be elected. The government is challenged with high inflationary pressure, spikes in prices, sluggishness in investment, lack of progress in increasing manufacturing output, absence of real progress in energy sector, lessening of flow in remittance, declining disbursement of aid, increase in budget deficit, etc.

These challenges have been manifesting in non-achievement of targeted rate of GDP growth, MDGs, and more importantly failing to create decent employment, adversely impacting the rate of reduction in poverty and increasing and widening the income inequality.

These have been further exacerbated by the government decision to seek loans from the IMF, which have put certain conditions to access its loan. These have triggered a series of multiple negative externalities. For example, the contractionary monetary policy has proved to be counterproductive as it has failed to tame in inflationary pressure rather increased the rate of interest that has ultimately increased the cost of capital, and thereby have held back investment, causing the national output to further contract. Similarly, the exchange rate is showing a depreciating trend, putting a serious pressure on the country's trade balance. These negative externalities in the overall macro economy are the results of undertaking textbook policies that have not led to growth in Bangladesh in the past.

Therefore, there is a need to re-think of the policies that government in the next fiscal year would like to pursue. Should the government opt for the failed policies that have created the macroeconomic disturbances, it would be difficult for the government to live up to pledge that it made to the people to be in power.

### **7.1 Productive capacity**

The negative externality created by recently undertaken contractionary monetary policy on public and private investments are seriously hampering production capacity of the manufacturing sector. The growth in agriculture is not keeping the desired pace as well.

To avert the current trend, the government needs to move away from its current stance of the role of facilitation to an active player by becoming fiscal activist through overhauling the tax and the subsidy system. In doing so, the government needs to study the border and inland carefully. The government could, to begin with, identify the crops from the import bill and embark upon a

grandiose plan of import substituting agricultural schemes. From the import bill, the government is also able to identify the list of daily necessities and could provide innovative financial mechanisms to incentivize the production of such products. There is a need for innovation, as in the past, the government did for the RMG export by introducing bac-back to letter of credit system, which provides joint liabilities, and does not allow the entrepreneurs to be submerged into the blind alleys of debt-default.

The need of the hour is an activist industrialization policy that provides incentives through tax breaks and differentials in taxes and subsidies in terms of locations, needs and products to the capitalists to set up ventures. Simultaneously, the policies should allow the government and the banks to discipline the capitalists through compulsions to remain engaged in the productive sectors.

The assumption of the squeezing the economic role of the public sector has been misleading in gearing the economy. The reliance on public-private partnership in infrastructure may also deter unleashing the productive capacity of the economy. The public sector has to take an active and lead role in investment in infrastructure.

The major lacuna of successive governments is not to have been able to institute the technological catching up strategies in the country. Despite the competitive advantage that the country has in its labour power, that is endowed with the capacity to adopt to technology. The glaring example is the workers of the garment industries who have hardly been to school, let alone, to be vocationally trained, are adapting to machines.

Fundamentally and most importantly, Bangladesh case demonstrates that the labour has become creative capital. Any planning and allocation has to centre on the labour power, instead of the current orthodoxy of population control to a regime of population dividend since most of the population are of economically active range as opposed to the developed world, marred by ageing population.

## **7.2 Distributive Policy**

The government has to take up at least three-pronged strategy in bringing equalizing effect in the society as inequality has been increasing over the years. First and fundamentally, the government has to shift from the mindset that there would be left-out in the process of development and these segments should be catered to through safety net programmes. The policy regime has to take into cognizance the principles of full employment as its cardinal source in formulating a dynamic vibrant social security framework. These should include, amongst others, adherence to guaranteed employment schemes for the people with capacities, and provision of benefits for those who cannot be otherwise engaged in economic activities. The argument of not having adequate financial resources in a “poor” country to institute social security system has been amply discarded by many empirical studies, detailing out cost implications.

Second, if the government is interested in achieving its avowed goal, it must have to redesign its capability enhancement programme. It has to shift from the game of one thing in the policy of that particular area and the other in the budgetary allocation. The fiscal allocation must underwrite, amongst others, full access to quality public services, including education and health.

The principle governing the system should be that the state is primarily and entirely responsible for provision of services, any looking out for complementary roles by the private sector or NGOs would be misleading.

Thirdly, the successive governments have talked about instituting progressive tax regime, but hardly any government has ever embarked upon fundamental reform of the country's tax regime. This should primarily focus on the reform of the direct tax structure. The taxes should be deducted at source.

### **7.3 Harmonisation Policy**

The recent policy induced generation of negative externalities is resultant of the lack of harmonization, adherence to diktats, or lack of innovation in thinking. The government's excessive reliance on the monetary policy has caused a huge bearing on the economy. The government has to harmonise the fiscal and monetary policies. There is also a need in the current context to shift towards the favour of fiscal policies, in contrast to taking refuge to existing textbook approach of monetary policies. The government is not only tasked, in the current macroeconomic context, with creating stimulants to augment the aggregate demand, rather it has the added role of increasing the productive capacity, particularly to address the high level of disguised unemployment that has a negative bearing on the poverty as it continue to reproduce working poor.

### **7.4 Regulatory Policy**

The recent experiences suggest that the government has been in lax in coming up with appropriate regulatory mechanisms. The volatility in the capital market and its consequents alleged behaviours by certain vested coteries are glaring examples. In Bangladesh, despite a lot of urgency and rhetoric of regulatory reforms, and millions have been spent on such reforms, the regulatory regimes have failed to take into account two fundamental issues.

First, the country is prone to primitive accumulation and thus capital accumulation has been taking place through abuse of power, coercion and extra-legal means. The regulatory reforms, thus, should be geared towards limiting the discretion of individuals and agencies, and enact certain types of principles, policies and laws so that there are compulsions in elimination of appropriation by means of abuse of power.

The second, the government has to come up with allocative efficiency so that sound policy principles can help cut unnecessary costs on the community and promote innovation and competition. This is particularly important to cut political expediency.

### **7.5 Constituent Policy**

The current government takes a moral high ground as a torch bearer of the principles for which the war of liberation were fought. These could only be materilised by bringing rights in constitutional mechanisms so that these rights could be legally enforceable. The government, like many countries in the world, should enact laws such as right to food, right to employment, right to education, right to health, right to habitation, etc.

**Unnayan Onneshan - The Innovators**

16/2, Indira Road, Farmgate

Dhaka-1215, Bangladesh.

Tell: + (880-2) 8158274, 9110636

Fax: + (880-2) 8159135

E-mail: [info@unnayan.org](mailto:info@unnayan.org)

Web: [www.unnayan.org](http://www.unnayan.org)