

Bangladesh Economists' Forum

Infrastructure Constraints to Growth & Development

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21-22 June,
2014



The First BEF Conference | Radisson Blu Water Garden Hotel Dhaka

Contents

	Page
I. INTRODUCTION	1
II. SOME EVIDENCE OF BANGLADESH'S PROGRESS	1
III. STRUCTURAL CHANGE IN GDP: 1972-73 TO 2012-13	2
IV. INFRASTRUCTURE AND THE DOUBLE DIGIT GROWTH PROSPECT	3
4.1 INFRASTRUCTURE TYPES	3
4.2 POWER AND ENERGY	4
4.3 GAS VERSUS COAL BASED ENERGY	4
4.4 SOCIAL INFRASTRUCTURE: EDUCATION, HUMAN RESOURCES AND MANAGEMENT	5
V. GOVERNANCE IS A KEY FACTOR PROMOTING OR HINDERING GROWTH	6
 TABLES	
1 Sectoral Contribution to GDP in 1995-96 Base Year Price (percentage)	2
2 Unit Cost (Taka/Kwh) of Electricity Generation from Various Sources	4

INFRACTURE CONSTRAINTS TO GROWTH & DEVELOPMENT

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I. INTRODUCTION

1. Notwithstanding the adverse global conditions and senseless political strife within the country, the economy of Bangladesh has defied the prophets of doom in making significant headway. A six plus percent annual GDP growth rate in Bangladesh in the last few years compares very well with the global average of less than three percent and Asian average of five point four percent. More impressive has been the movements of the social indicators in the right direction : life expectancy at birth at 69 years compared to 43 in 1972, infant mortality down to the 30s per thousand, total fertility rate (TFR) reducing to less than 2, maternal mortality declining to 94 per thousand, annual population growth rate of just above 01 percent, women economic participation rate hovering around 40 percent compared to 03 percent in early 70s, literacy rate at 60 percent plus (the quality issue is of course, a major concern), primary enrolment leaping to nearly 100 percent with perceptible reduction in dropout rates, gender parity in primary and secondary enrolment and a jump in tertiary enrolment to 2.6 million. The country is poised to realizing the Millennium Development Goals set for 2015 as it has already reduced poverty to half (26 percent) ahead of schedule.

II. SOME EVIDENCE OF BANGLADESH'S PROGRESS

2. Some evidence of Bangladesh's progress is presented below:

World Bank: Doing Business Report, 2013 Bangladesh advanced 21 steps to 74th position.

World Economic Forum: Global Competitive Report 2013: Bangladesh advanced 8 steps to 110th position.

UNDP:

	1980	2012
HDI Value		0.515
Life Expectancy at birth	55 years	69 years
Mean Years of Schooling		+2.8 years
Expected years of schooling		+3.7 years
GNI		+175%

Legatum Institute London

Legatum Prosperity Index (Lower the Index Better is the situation)	2009	2013
Bangladesh	107	103
India	101	106
Pakistan	Σ	132

Standard & Poor: Consistent credit ranking at BB Σ for several years.

Moody's: Most stable Macroeconomic situation in South Asia for a decade.

The State Magazine,
Department of State USA:
February 2014

Through a chequered growth path, Bangladesh has emerged out of political turmoil to a moderate, non-communal community that is free of extremism.

World Sheet Journal

Bangladesh is South Asia's Standard Bearer.

Article by Sadanand Dhume 2013:
Oxford University 2013

A star performer

International Monetary Fund 2014

Bangladesh can go higher than 6 percent growth path

III. STRUCTURAL CHANGE IN GDP: 1972-73 TO 2012-13

3. Contributions to GDP by the Primary, Secondary and Tertiary sectors changed significantly in the last four decades. (Ref. Table Below)

Table 1: Sectoral Contribution to GDP in 1995-96 Base Year Price (percentage)

Sector	1980-1981	1985-1989	1990-1991	1995-1996	2000-2001	2005-2006	2009-2010	2010-2011	2011-2012	2012-2013
Primary	33.07	31.5	29.23	25.68	25.03	21.84	20.29	20.01	19.42	18.70
Secondary	17.31	19.13	21.04	24.87	26.20	29.03	29.93	30.38	31.13	31.99
Tertiary	49.62	45.73	49.73	49.45	48.77	49.14	49.78	49.60	49.45	49.30
Total	100	100	100	100	100	100	100	100	100	100

Source: Bangladesh Bureau of Statistics

4. Recalling that in 1972-73, the contribution of the primary sector to GDP was 53%, it is clear that in the admirable GDP growth of the last four decades, primary sector, agriculture in particular, has yielded ground to the tertiary sector and the manufacturing sector. The pace of growth in the manufacturing sector was impressive in 2005-06 and showed a steady increase ever since. Consistent as it is with the decline in the poverty rate from above 40% to 26% in the same period, it shows that an employment intensive growth strategy not only promotes growth but also has the inherent mechanism of reducing poverty. The pace of industrialization, however, has not been strong enough to cause absorption of the entire annual addition of the 2.0 million job seekers to the workforce. The profit intensive tertiary sector is not friendly to job

creation. The agriculture sector is still saddled with significant underemployment. Of the 2.00m new job seekers, 0.8 million join new jobs home another 0.7 million or so go abroad in a good year leaving 0.5 million joining the rank of unemployed or underemployed. In other words, the job creating as well as poverty reducing manufacturing sector need to expand faster to fully absorb within the growth mechanism, the additional hands joining the labour force. Inadequate infrastructure has been cited as a major obstacle to the faster growth of the economy, manufacturing in particular.

IV. INFRASTRUCTURE AND THE DOUBLE DIGIT GROWTH PROSPECT

5. The Investment: GDP ratio in Bangladesh seems to have been stuck at 24-26 percentage band and ICOR at around 4. Hence Bangladesh is in a medium magnitude growth trap 6-6.7%. The private sector investment in Bangladesh accounts for four-fifths of the total investment in the country leaving the twenty percent or so critically important investment by the public sector mostly in infrastructure.

4.1 INFRASTRUCTURE TYPES

6. Within the division between physical infrastructures e.g. roads, ports, railways, power, energy, telecommunications and the social infrastructure e.g. human resources, management, judicial system and law and order, two areas need to be specifically cited. One is an extreme scarcity of land. The shortage is reportedly driving away many investors of home and foreign origin. The other is the much talked about governance or lack of it which many think is eating into the vitals of the growth phenomenon.

7. Amongst the reasons why a concentration of attention in purchasing land has escalated over the years is that other forms of deployment of assets are not so popular e.g. uncertain capital market returns have been subjected to fiscal measures. Dividends on savings certificates (even the dividends from the Pensioners Savings certificates) are subjected to income taxation. By contrast, investment in purchasing land is not taken note of, enjoys low taxation as the registration value is a fourth or fifth of the actual land price in the market, and the land rent is still rather negligible. Similarly, urban investment in real estates is also very 'fiscal convenient' for the owners of homes / apartments. Taxation is neither commensurate with the potential value appreciation of the property nor is the formula of locality wise or size wise taxation rate implemented. May be half of the urban apartments are under 'cooperatives' of a sort without any registration. Hence the strong attraction of the investors to the land and real estates to the recent neglect of private sector investment in productive purpose. High profit services sector has always been attracting a lot of resources. Reports of capital flights through over or under invoicing also surface at regular intervals without any effective measures to stop.

8. Development in the physical infrastructure, roads, railways, ports, power and energy, telecommunications, waterways, bridge and so on have not been adequate to optimally facilitate the growth momentum. Roads and telecommunications sub sector have influenced their way towards significant expansion. National highways expanded to a length of 3570 kilometer in 2012 compared to 3086 in 2001; the total road network in Bangladesh expanded to 21462 kilometers in 2012 from 20799 in 2001. It is unfortunate that the cheaper, safer and environment friendly railways continued to deteriorate and the length of its network remained static at 28707 kilometers. In the riverine Bangladesh, the waterways suffered the most telling neglect to turn into an outdated, unsafe and an unreliable mode of transportation. One hundred thousand vessels are running without fitness certification, 12000 deaths occurred since independence and 20,000 cases are pending without punishment (Amader Somoy, May 18, 2014). Road

communications costs more money and lives but has managed to always get away lightly from the legal penalty; the non-bailable offence of rush driving resulting in death which was punishable with imprisonment for life, if proven guilty, is now a bailable offence and the punishment reduced to three years. The influence of the roads lobby on the governance system of Bangladesh is unusual and dangerous. Neither has there been any serious and sustained effort in turning the railways into a commercially profitable service as in the South Asian countries.

4.2 POWER AND ENERGY

9. The most critical bottleneck towards investment and economic growth in Bangladesh is a scarcity of electricity and gas. Estimates indicate 60% people have access to electricity and per capita availability of electricity at 292 kwh is amongst the lowest in developing countries (Bangladesh Economic Survey 2013 page 157). In 2013, the electricity generation capacity doubled to 10000 mw and the actual generation reached a level 7500 mw compared to 3800 mw in 2008. But a lot more need to be done without the kind of questions that are raised about the high cost of generation under the quick and peak rental schemes, admittedly unavoidable in the context of 2008-09. The debate about the fuel to be used for electricity generation need to be rationally resolved expeditiously.

4.3 GAS VERSUS COAL BASED ENERGY

10. Twenty-one percent of the global electricity is generated from gas whereas in Bangladesh it is as high as 85%. Precious gas, which has better alternative use including industrialization, is misused in many instances as reflected in a low 37% efficiency. Users of concessional priced gas for electricity generation should be notified to use modern equipment including rotator or forfeit the right to gas entitlement.

11. Bangladesh also cannot have the luxury of piping gas into domestic use (8% or so). Cylinder should be used for gas for domestic purpose.

12. Recent moves in strengthening BAPEX and escalation of investment for gas exploration, extraction, piping and development should continue.

13. In Bangladesh, coal should be the main fuel for electricity generation electricity. South Africa 94%, China 81%, Australia 76%, India 64% and USA 49% rely mainly on coal for electricity generation. We generate only 15% electricity from coal despite the fact that the country has in a 100 km² area in Rangpur-Dinajpur a deposit of 2800 MMPTA capacity extractable superior quality bituminous coal capable of generating through open pit method at mine mouth or adjacent areas, 20,000 mw of power for 50 years (Eng. Khandker Abdus Siddique: Energy and Power Magazine, February 01, 2012). Energy experts and economists in Bangladesh have estimated the cost of generation of one kwh electricity from various sources as under :

Table 2: Unit Cost (Taka/Kwh) of Electricity Generation from Various Sources

Indigenous Coal	Taka 4-6
Imported Coal	Taka 7-8
Imported oil & LNG	Taka 8-10
Diesel and Furnace oil	Taka 12-14

14. A mega plan for setting up a Coal Bangla a corporate entity with adequate operational autonomy, leadership and strong funding support to (a) acquire the land around the mines at a price several times the market price (b) provide equity shares to the land owners (c) generate job opportunities for the children of the affected and (d) formulate and implement a full proof relocation and rehabilitation plan before the open pit electricity generation from indigenous coal project is launched. We recommend national consensus at least on this critical issue.
15. Hydro electricity generation on a joint venture mega scale can be sought in cooperation with India, Nepal, Bhutan and other countries.
16. Nuclear energy that is being pursued by the government can be a major supplementary source with acceptable safety provision guarantees.
17. For all or any major public sector undertaking in the power and energy sector, it is desirable that a feasibility study is undertaken first and an accountability chain established before the use of the national resources.
18. Public sector domination in the power and energy sector is recommended for strategic reasons.

4.4 SOCIAL INFRASTRUCTURE: EDUCATION, HUMAN RESOURCES AND MANAGEMENT

19. Bangladesh has seen asymmetrical results from investment in education. Pre-primary and primary education have received somewhat positive evaluation in terms of almost 100% enrolment in primary, gender parity, reduced drop out and improving quality; shortage of qualified teachers and appropriate classrooms has continued though. Tertiary education has shown impressive growth: 2.6 million enrolment (1.7% of the population) with major questions on quality variation from institution to institution. It is in the secondary education regarded as the backbone for human resources development that a major quality decline seems to have taken place. Despite spending hundreds of crores of taka in the Master Payroll Office (MPO), the downward slide in quality has persisted. There is an urgency in looking into the quality improvement in secondary education and a review of the MPO scheme. It may be necessary to stop any further expansion or even existence of the scheme for those which (a) do not exist (b) blank in public examination results (c) exaggerate in the number of teachers (d) do not sharing of the tuition revenue from the students. Experience in several Asian countries, Republic of Korea, Singapore, Taiwan, India, Malaysia and Srilanka suggests a positive relationship in the process of the knowledge bases societies. For Bangladesh, a Private-Public Partnership (PPP) is perhaps a necessity towards establishment of thousands of technical and vocational skills training centres or strengthening the same in the secondary schools for skills training towards the transformation of the young into human resources. Another step forward in education may be a compulsory residence of all tertiary students in the rural areas for a 09 credit full semester preferably in winter. The students under faculty and expert supervision will (a) live with and learn from the peasants the practical ways of eking out an existence (b) help birth registration (c) advocate small family norms in a planned population growth (d) motivate resource preservation, regeneration and use of renewable resources for sustainable development (e) resource mapping and so on. Such a practical orientation would make the graduates feel, plan and work better for the people they would be knowing in the process.
20. Tertiary education should, in general, have higher contents of technological and scientific coverage of relevance to the factor endowment context of Bangladesh.

V. GOVERNANCE IS A KEY FACTOR PROMOTING OR HINDERING GROWTH

21. Even if all the other conditions are favorable, ideal growth scenario may elude Bangladesh unless there is a confidence about political stability and continuation of the economic policies. On paper Bangladesh offers one of the best incentive schemes for the foreign direct investment, FDI to flow in. The end result is a \$1.7 billion inflow in 2012-13 which is not the most encouraging development. The investment: GDP ratio is stuck at around 25% and the private sector investment is on the decline. Soul searching is essential to find out if the hesitation of the investors is caused mainly by the shortage of physical infrastructure or is it a silent devaluation of confidence in good governance that keep them from rushing boldly and hugely. Availability of electricity, gas, land and even a stable law and order is perhaps only a necessary condition for achieving more than the growth rates Bangladesh has experienced in recent times. A twin strategy of gradually increasing the investment: GDP ratio to 30 (should not be difficult as the national savings rate is already at 29% of GDP) and an overall confidence generating governance system without fear or favour reducing the ICOR to 3.5 will break the current trap and attain a 9% growth rate in the next five years or so. In the arena of law and order, exemplary but expeditious punishment within the framework of the due process, to the perpetrations of abduction and murder, land grabbing, usurping water bodies and tender terrorists may have a salutary effect in curbing the crimes and confidence building. In the long run, however, constitutional reforms in the areas of (a) intra party democracy (b) term limitations of the head of the government (c) one person one position principle (d) limiting the operation of Article 70 of the constitution to only two instances, no-confidence motion and passage of the national budget (e) commitment to accept election verdicts and limiting oppositions to the constitutional means preferably in the parliament and (f) review of balance of power between the head of the government and head of the state may be necessary to help remove the uncertainties, help reaching consensus on major national issues and assert a strong march towards the cherished goal of a domestic, progressive, non-communal Sonar Bangla.