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Bangladesh Progress with GDP Growth, Employment and Poverty Reduction

Background Paper for the Sixth Plan Mid-Term Review

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ABSTRACT

The Sixth Plan being the first five year plan of the implementation of the Vision 2021 laid out bold targets for GDP growth, employment and poverty reduction. This paper provides an assessment of progress in these areas during the first three years of the Plan implementation (FY10-FY13) and concludes with prospects and the way forward. The broad picture of performance of the Sixth Plan during the first three years in terms of economic growth, employment and poverty reduction is generally positive. The economy has made further solid progress in these areas, which is reassuring. Progress has also been made in transforming the economy from a rural-based agrarian economy to a more modern urban-based manufacturing and services based economy. Export performance is on track, which has provided the impetus for the expansion of the manufacturing sector. Yet, compared to Sixth Plan targets, there is a shortfall in GDP and poverty reduction targets. The shortfall in domestic employment has been offset by better-than-expected performance in overseas employment. Recent evidence suggests that the pace of expansion of overseas employment will slow down considerably owing to difficulties in several Middle Eastern markets. So, the employment impetus needs to come from domestic manufacturing and services sector. Recent political turmoil over the October-December 2013 periods slowed down domestic economic activity. While political stability has returned and there is likely to be a recovery in private investment, on the whole it is clear that the investment targets for the Sixth Plan will not be achieved. Apart from political uncertainties, the investment climate remains constrained by several factors. The export performance is likely to remain on track. But export will remain concentrated on RMG. On the whole, the significant slowdown in the rate of investment will reduce average growth rate to around 6 percent over the remaining two years of the Plan.

The Government can take several steps in improving the investment climate for private investment, increasing public investment and diversifying exports from RMG in order to create a better platform for higher growth in the Seventh Plan. The main priorities are: Improve the investment climate by removing the constraints identified by investors. These include land procurement, deregulation, power and gas shortage, trade logistics and contract enforcement. The shortfall in public investment needs to be addressed speedily with a range of measures including more focused and steady implementation of the Tax Modernization Plan, proper pricing of electricity and energy, rationalization of subsidies and improving the way in which public investment decisions are made and how projects are managed and budgeted for. Revamping the public-private investment partnership by creating a special implementation agency staffed with professionals that have adequate experience in mobilizing funds and developing PPP-type projects. The government needs to provide additional focus on strengthening labor skills and training. Learning from the positive experience of RMG, the government needs to improve the incentive framework for non-RMG exports. The creation of more jobs in the manufacturing sector is partly constrained by the lack of dynamism in small enterprises. While the government has supported the sector with subsidized credit, other supportive policies relating to markets, technology, vertical linkages and quality assurance needed to be beefed up. A particular problem is the lack of a proper information base that needs to be addressed urgently to dynamize this sector. A proper M&E framework also needs to be established in order to assess the effectiveness of government policies for stimulating SMEs in manufacturing. Establishment of a good database will also allow this.

Progress with GDP Growth, Employment and Poverty Reduction

Sadiq Ahmed[1]

A. Introduction

The Sixth Plan being the first five year plan of the implementation of the Vision 2021 laid out bold targets for GDP growth, employment and poverty reduction. The related targets in the Revised Results Framework (RRF) are shown in Table 1. The assessments of progress in these three areas provide a broad overview of the aggregate performance of the Sixth Plan. The rest of the chapter provides a detailed assessment of progress in these areas and concludes with prospects and the way forward[2].

Table 1: Sixth Plan Targets for GDP Growth, Employment and Poverty Reduction

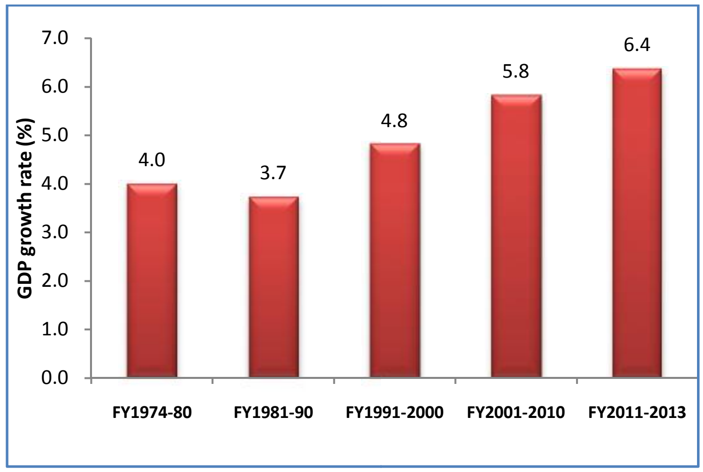
Performance Area	Base Year Value (FY10)	End Year Value (FY15)
Annual GDP growth rate (%)	6.1	8.0 (five year average 7.3)
Headcount Poverty Incidence (%)	31.5	22.9
Additional Employment (million)	--	10.4

Source: Sixth Plan

B. GDP Growth Performance in the Sixth Plan

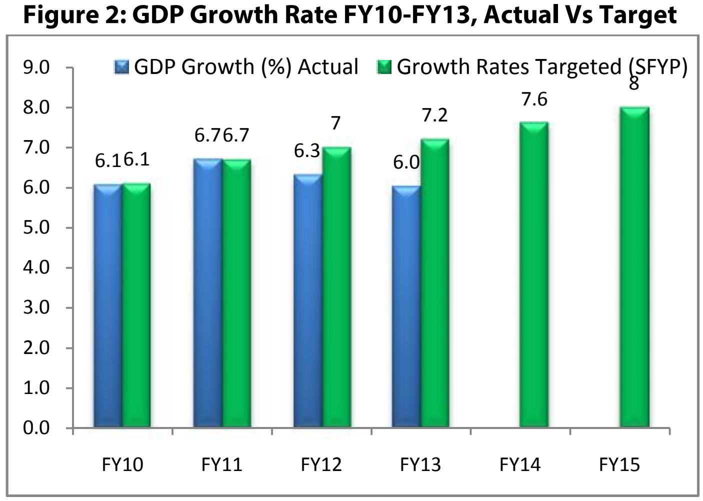
Bangladesh economy has been experiencing steady acceleration in economic growth over the last several decades; this pattern continued under the first three years of the Sixth Plan (Figure 1). This is a remarkable achievement, although the growth rate did not reach the planned targets (Figure 2). The shortfall in GDP growth over the planned targets is particularly significant in FY13 that needs careful review and management. On the whole, average annual GDP growth performance in the first three years is a solid 6.4 %, but significantly lower than the Sixth Plan target of 7.3%.

Figure 1: Average Real GDP Growth Rate



Source: Bangladesh Bureau of Statistics (BBS)

Figure 2: GDP Growth Rate FY10-FY13, Actual Vs Target



Source: Bangladesh Bureau of Statistics (BBS)

GDP Growth in International Comparison

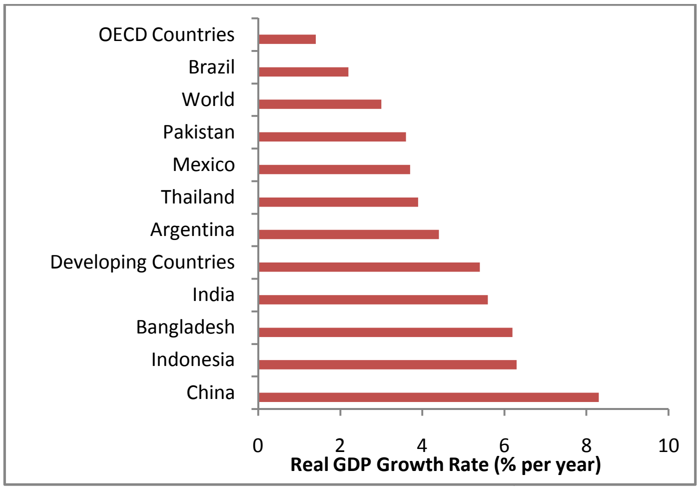
The solid growth performance in Bangladesh during the Sixth Plan so far compares favorably not only by own historical standards, it also looks very good in international comparison (Figure 3). Along with China, India and Indonesia, Bangladesh has been among the fastest growing countries in the World

[1] Sadiq Ahmed is Vice Chairman of the Policy Research Institute of Bangladesh. Comments from Professor Nurul Islam and Professor A. R. Khan are gratefully acknowledged. Errors are the sole responsibility of the author.

[2] BBS is in the process of revising the national accounts. The GDP has been re-based to 2005-06. However, reliable expenditure data that is consistent with this revised GDP is not available. The Mid-term Review uses National Accounts published by BBS as of June 2013. It also corrects some errors and inconsistencies in BBS data using a consistent national accounts framework. Annex 1 explains this in some detail.

during 2011-13. This is true even with the shortfall over the Sixth Plan targets.

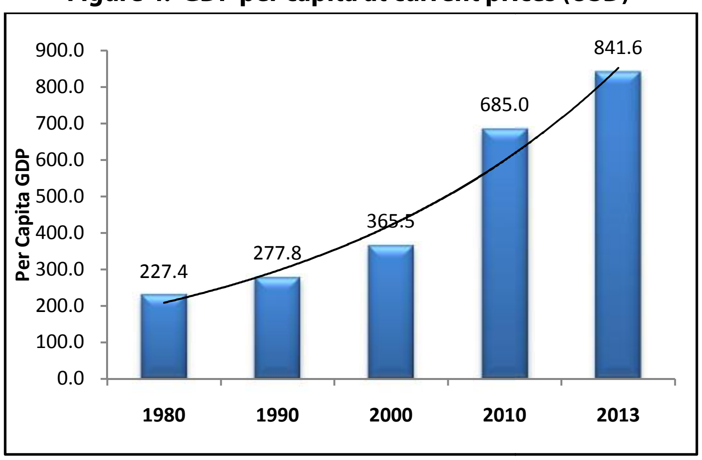
Figure 3 International Growth Comparison, 2010-13



Source: World Bank Global Economic Prospects, July 2013

As a result of attaining 6 percent plus economic growth rate over the first three years of the Sixth Plan, per capita income in US dollar terms has continued to rise, reaching US$ 870 in FY13 (Figure 4.). If this pattern continues in the remaining two years of the Plan and beyond, Bangladesh would be well set to attain middle income status by 2021.

Figure 4: GDP per capita at current prices (USD)



Source: BBS

Sectoral Composition of Growth

A review of the sectoral breakdown of GDP indicates that following rapid growth in FY10-FY11, agricultural GDP performance slowed considerably in FY12-FY13 (Table 2). The deceleration was particularly sharp in FY13. The services sector similarly grew well in FY10-FY11 but slowed somewhat in FY12-FY13, although less sharply than agriculture. Nevertheless, industrial sector performance maintained its upward trajectory and reached almost double digit figure in FY13.

Table 2: Major Components of GDP and Their Growth Performance, FY10-13

Sectors	FY10 (base year)		FY11		FY12		FY13 (Estimate)	
	Share	Growth	Share	Growth	Share	Growth	Share	Growth
Agriculture	18.6	5.2	20.0	5.1	19.4	3.1	16.7	2.1
o/w: Crops	11.4	6.1	11.3	5.0	10.8	1.9	9.7	0.1
Industry	28.5	6.5	30.3	8.2	31.1	8.9	31.99	9.9
Services	53.0	6.4	49.6	6.2	49.4	5.9	51.8	5.7
Real GDP	100.0	6.2	100.0	6.6	100.0	6.3	100.0	6.0

Source: BBS, National Accounts Estimates, June 2013

The crops sector fueled the agriculture sector's high growth in FY10-FY11. The slowdown in the expansion of the agricultural sector since then is largely due to the collapse in the growth of the crops-related production. Crops sub-sector value-added growth fell sharply from an average of 5.5 percent in FY10-FY11 to only 1.9 percent in FY12. For FY13, the BBS estimates this to have grown at only 0.15% as compared with the target of 4.5%. Given the dominant role of crop production in agriculture, this slump in the crop sub-sector has caused the sharp decline in the growth of agriculture in the past 2 fiscal years.

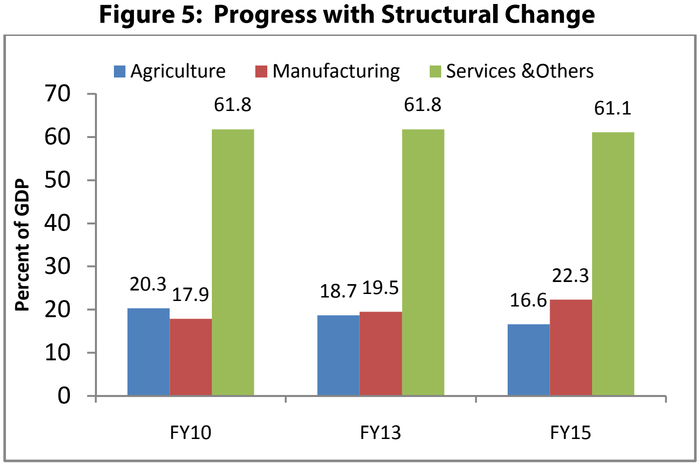
Cereal dominates crop production; so, it has become weak primarily because of a stagnant cereal crop production coupled with drop in output prices for farmers. Total food grain production in the FY12 was 34.88 million metric tons (mmt) (aus 2.33 mmt, aman 12.80 mmt, boro 18.76 mmt and wheat 0.99 mmt). This production was 1% higher than previous year's actual production. For the FY13, the Department of Agriculture (DAE) has set aus, aman, boro and wheat production targets at 2.37 mmt (1.72%), 13.3 mmt (3.9%), 19.03 mmt (1.44%) and 1.03 mmt (4%), respectively. Estimation of aus production has been finalized by BBS at 2.16 mmt, which is 7% lower than previous year's production.

The industrial sector growth has benefitted from a buoyant manufacturing sector and solid construction activities. The manufacturing sector has broadly tracked the expansion path envisaged in the Sixth Plan. Thus, the average manufacturing sector growth rate in the first three years of the SFYP was 10%, as compared with 6% during FY00-10. This compares reasonably well with the target of 12% average growth in the Plan. The main contributor to this robust growth performance of the manufacturing sector is the readymade garments (RMG) exports. Despite many odds, including continued slump in OECD economic activities including in Europe, the Bangladesh RMG sector has led the way in boosting the growth of the manufacturing sector GDP and exports. This is a particularly heartening feature of the implementation of the Sixth Plan growth strategy that emphasized the role of manufacturing sector value-added based on exports.

Structural Change and Composition of GDP

The underlying growth strategy in the Sixth Plan was aimed at facilitating a faster transformation of the Bangladesh economy away from a primarily agrarian one towards a modern manufacturing and services oriented economy. The Sixth Plan targeted manufacturing as the main engine of growth. Accordingly, the GDP share of manufacturing was to rise by 4-5 percentage point. Progress on this key objective is illustrated in Figure 5. It has achieved significant success as suggested by the growing GDP share of manufacturing and a falling share of agriculture. Nevertheless, full target will not likely be attained because of the likely shortfall in manufacturing sector value added in relation to the Sixth Plan target as noted earlier.

Figure 5: Progress with Structural Change



Source: BBS

Growth Drivers: The Rate of Investment

It is well recognized that Bangladesh growth is mostly driven by investment and exports. The Sixth Plan targeted an increase in the investment rate growing from 24% of GDP in FY10 to 32% by FY15, as a critical driver of growth. While private investment was projected to lead the way, a substantial increase in public investment was also planned. The specific targets for the investment rate by source are shown in Table 3.

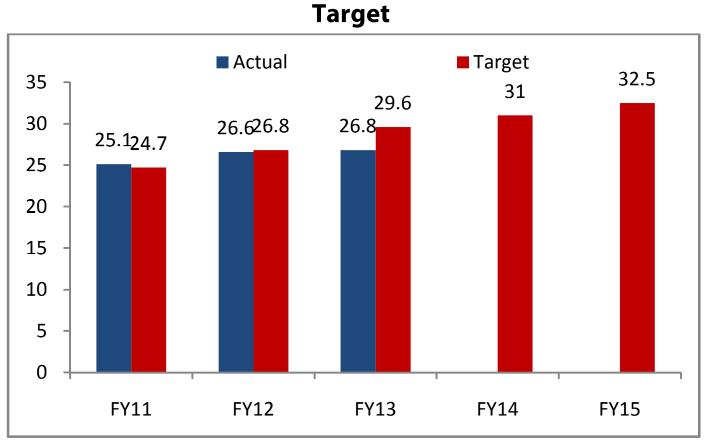
Table 3: Investment Targets for the Sixth Plan

Investment Rate (% of GDP)	Base Year (FY10)	Current Year (FY13)	End Year (FY15)
Public Investment Rate	5.0	5.4	7.5
Private Investment Rate	19.0	21.4	25.0
Total Investment Rate	24.0	26.8	32.5

Source: Sixth Plan

Total investment rate: The investment performance is illustrated in Figure 6. The Sixth Plan made some initial inroads in achieving its investment target during the first two years. The investment challenge has become progressively more difficult over time. Compared with the Sixth Plan's target to increase the investment rate from 24% of GDP in FY2010-11 to 32.5% by FY2014-15, the actual investment rate has stabilized at around 27 % of GDP during FY12-FY13. The inability to cross over to the 7% rate of growth of GDP is to a large extent a reflection of this investment constraint. Given this significant shortfall in FY13 and an uncertain environment in FY14, the ability to achieve the substantially larger investment targets for FY14 and FY15 do not appear feasible.

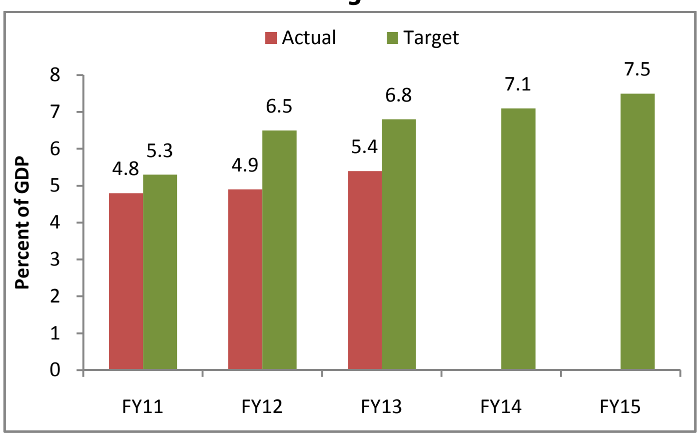
Figure 6: Total investment as Percent of GDP--Actual Vs Target



Source: BBS and National Budget

Public investment rate: The breakdown in performance shows the shortfall happened both in public and private sectors[3]. The Sixth Plan recognized the need for substantial increase in public investment especially to upgrade infrastructure and invest in human capital. Evidence shows that some progress was made in increasing the rate of public investment, but the effort fell substantially short of the Sixth Plan target during the first three years (Figure 7). There were two elements of public investment strategy underlying the Sixth Plan. The first strategic focus was to strengthen public resource mobilization with a view to financing increasingly higher levels of public investment. The second strategic consideration was that even with strong efforts there will be shortfall in required resources and as such the Sixth Plan aimed at considerable investment through public-private partnership.

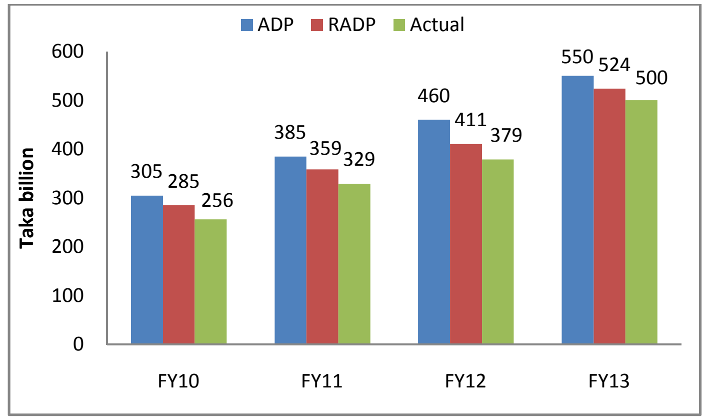
Figure 7: Public Investment as Percent of GDP--Actual Vs Target



Source: National Budget

The implementation of public investment through the Annual Development Plan (ADP) is shown in Figure 8. The ADP has increased progressively, but has always fallen substantially short of the budgeted level. The gap is partly due to financing shortfalls emerging from a range of issues including revenue shortfalls, subsidy expenditures and implementation concerns. However, a bigger disappointment is in the implementation of the PPP strategy. Despite ambitious plans, the PPP strategy has not taken off in any significant shape for a host of reasons including institutional challenges. The net result is a substantial shortfall in public investment rate in comparison with the Sixth Plan targets.

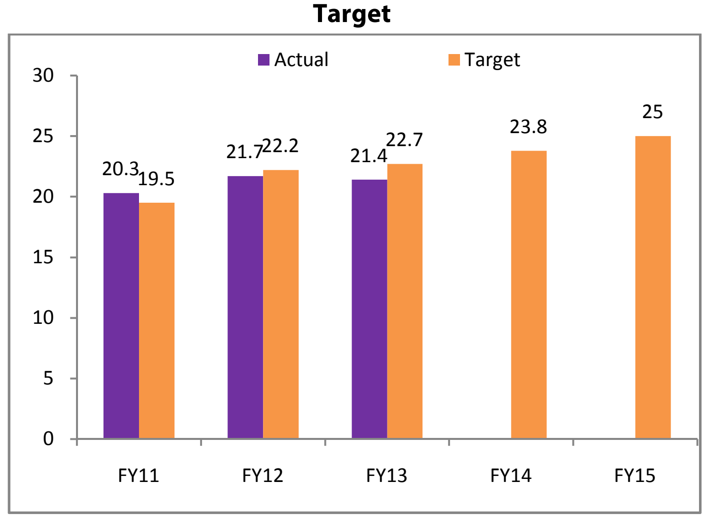
Figure 8: ADP Implementation (taka billion)



Source: National Budget

Private investment rate: The story is somewhat similar in the case of private investment. The shortfall in the actual rate of private investment from the Sixth Plan target rate is significant and growing (Figure 9). This is worrisome because the Sixth Plan identified private investment as a major engine of growth and exports, especially in the manufacturing sector.

Figure 9: Private Investment as Percent of GDP--Actual Vs Target



Source: BBS

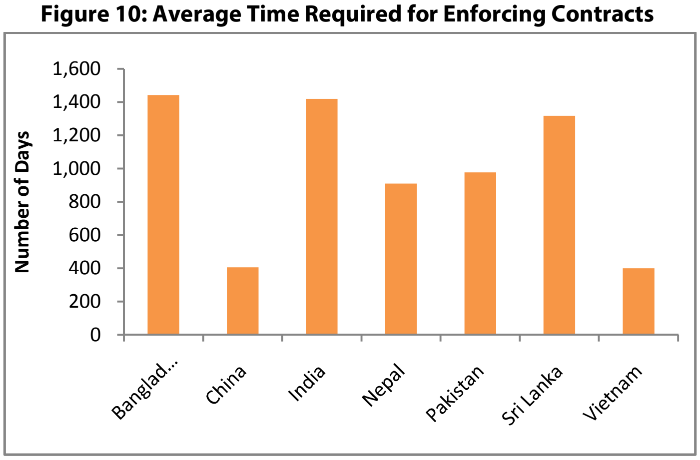
[3] Total investment data is obtained from BBS, which uses the commodity flow method. Private investment data is derived by subtracting public investment from total investment. Public investment data is from the budget and includes the ADP as well as capital spending outside the ADP. The BBS also compiles public investment data that shows huge variance from the budget. The gap grows exponentially in FY13. For example, BBS data suggests that some taka 360 billion was invested by public enterprises and local governments from own sources in FY13. It is well known that public enterprises run operational deficits. Local governments rely on government transfers to meet their operational costs. In this environment they do not have any surplus for investment and cannot possibly fund such huge investments (equal to 70% of ADP) from own resources.

It is often argued that the prime reason lower level of private investment is the "contractionary" monetary policy stance of Bangladesh Bank since the beginning of 2012. The proponents of "easy" or so called "accommodative" monetary policy argue that the recent tighter credit situation has been constraining private enterprises from increasing real investment. Evidence suggests that while availability of credit and its cost are important, this is only one factor underlying private investment decision. Indeed in the current business environment, availability of credit is not an issue for organized business enterprises. This is suggested by the fact that the growth in the demand for credit demand is much slower than the supply. Investor surveys show that what matters more for investors is the general investment climate and competitiveness of the economy. Long delays in contract enforcement, limited access to serviced land, power and gas shortages and red tape have all become major constraints to investment in Bangladesh.

Issues in private investment climate: Some useful insights on areas of policy constraints that impinge on private domestic and foreign investment emerge from a review of the investment climate. Such data are compiled by the World Bank and other global institutions based on cross-country investor surveys.

According to IFC's Doing Business Reports, while many countries have improved their institutional arrangements for contract enforcement, Bangladesh did not make major headway. At more than 1400 days, the time required for enforcing a contract in Bangladesh is the highest among its comparators and ranked at 182 out of 183 countries surveyed in 2012 (Figure 10).

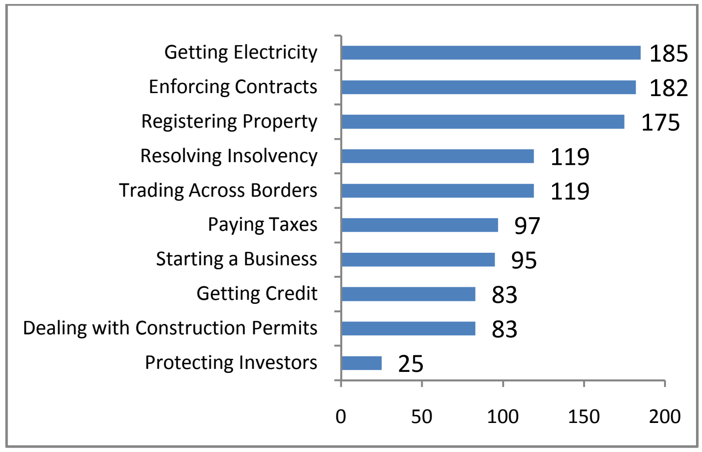
Figure 10: Average Time Required for Enforcing Contracts



Source: Doing Business 2013, IFC.

Similarly, performance rankings for attaining construction permits, getting electricity for business, registration of property suggest that investors continue to regard these areas as problematic. Moreover rankings for getting credit facility, protection of investment, payment of tax and resolution of insolvency have worsened relative to other countries. On the whole, investors feel that getting electricity, enforcing contracts and resolving insolvency are serious constraints.

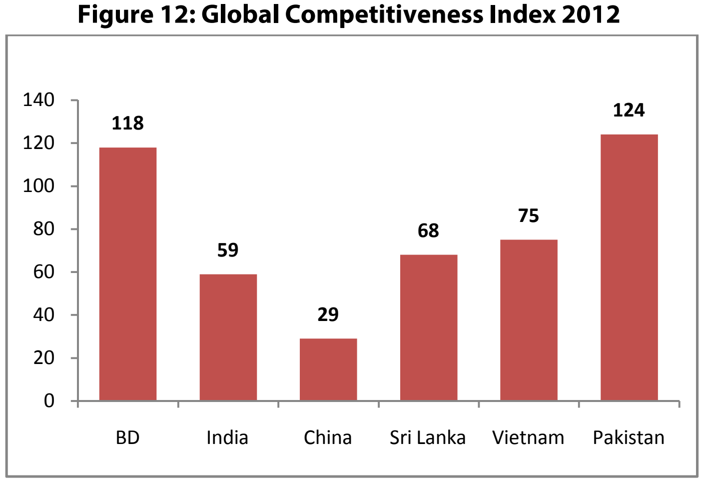
Figure 11: Bangladesh 2012 Global Performance Ranking



Source: Doing Business 2013

Some additional insights obtain from looking at the rankings of global competitiveness index (GCI). Bangladesh compares rather poorly with its major competitors, except Pakistan (Figure 12). At the global level Bangladesh ranks at 118 in terms of GCI when compared with 144 countries in 2012.

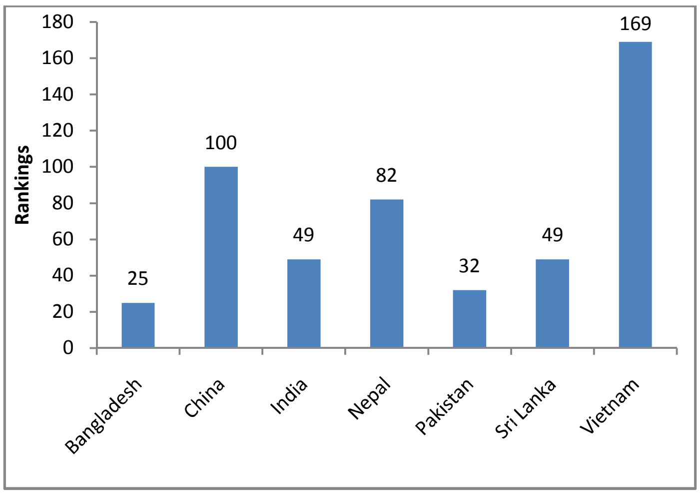
Figure 12: Global Competitiveness Index 2012



Source: GCI, 2012.

One positive finding, however, is with regards to the investor protection. Bangladesh ranks amongst the best performers (top 25 countries) globally in terms of protecting investors (Figure 13). This is a useful result and suggests that Bangladesh is regarded by foreign investors as a safe place to invest in terms of low sovereign appropriation risks. As such improvements in problem areas relating to acquisition of land, getting electricity and enforcing contracts will boost foreign investment in Bangladesh.

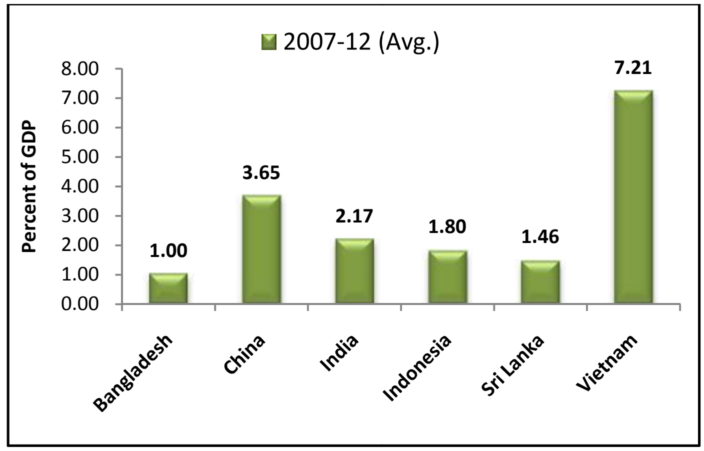
Figure 13: Protecting Investors



Source: Doing Business 2013, IFC

On the whole, the Bangladesh investment climate remains challenging and only modest progress has been made during the first three years of the Sixth Plan. As a result, the domestic investment effort has been restrained and the flow of foreign direct investment (FDI) has been small relative to competitors. Despite some recent improvements, Bangladesh's average net FDI level of less than 1% of GDP is the lowest among the regional comparators (Figure 14). It is generally believed that 1-2% of GDP in additional FDI inflows would help GDP growth by about 0.5% on average with employment generation of about 150,000 per year in the formal sector.

Figure 14: FDI Inflows as % of GDP

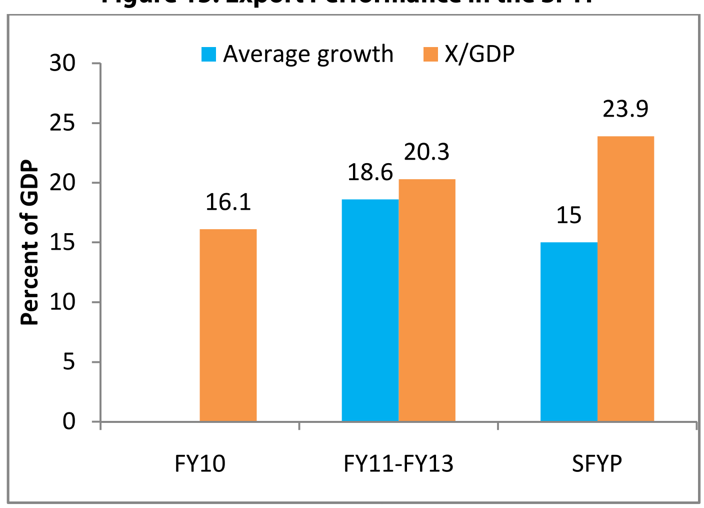


Source: UNCTAD Database 2013

Growth Driver: Export Performance

Overall export performance: Along with investment, exports growth is a major GDP growth driver in Bangladesh, The Sixth Plan put strong emphasis on export growth, especially the expansion of a diversified manufacturing export base (Figure 15). Exports were projected to grow by 15% per year in current US dollar terms over the Sixth Plan period. The share of exports in GDP was to grow from 16% in FY10 to 23.9 % by the end of the Sixth Plan (FY15). Actual performance shows that exports have done well on average in the first three years (FY11-FY13), growing faster than the projected rate. If present trend continues in the next two years, the Sixth Plan target for exports will be achieved. This is a solid performance.

Figure 15: Export Performance in the SFYP



Source: BBS and Export Promotion Bureau (EPB)

The Sixth Plan also sought to strengthen the export base by focusing on the establishment of a diversified manufacturing export base. The results are shown in Table 4. Export performance was outstanding in FY11 (42% growth) but lost momentum in FY12 (6%). It regained momentum in FY13. Total exports increased by 11.2% to US$27 billion in FY13. In all three years, the exports of ready-made garments (RMG) played the dominant role. In addition to RMG products, a number of other items such as ICT, jute goods, leather, footwear etc. also showed respectable growth.

Table 4: Export Performance in the Sixth Plan, FY10-FY13

	Jute & Jute goods	Leather	Footwear	Frozen Food	ICT	Others	Non-RMG Total	RMG	Total Exports
FY 10	736	226	204	445	35	2294	3702	12497	16176
FY 11	1115	298	298	625	45	2670	5005	17914	22919
FY 12	939	330	351	638	71	2941	5198	19090	24288
FY 13	1031	400	419	1031	93	2530	5502	21515	27018
Growth (in percent)									
FY 11	51.4	31.7	45.9	40.4		16.4	35.2	43.4	41.7
FY 12	-16.0	10.7	17.7	2.0		10.2	3.9	6.6	6.0
FY 13	9.7	21.2	19.6	61.6	30.6	5.0	5.9	12.7	11.2

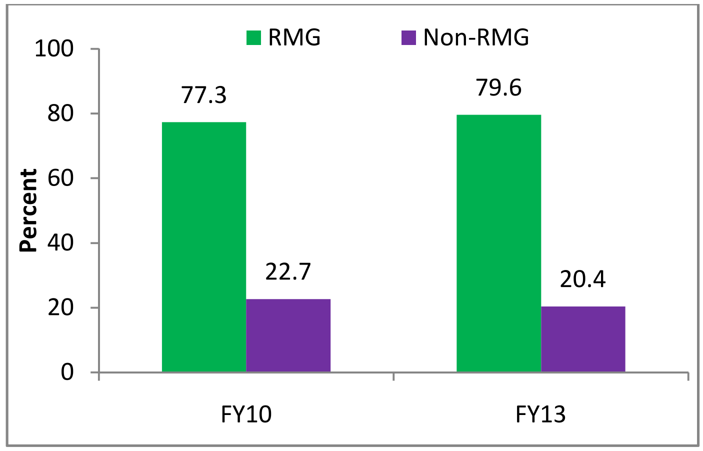
Source: Export Promotion Bureau (EPB)

Nevertheless, the dominance of RMG exports prevails. Indeed, the share of RMG exports in total exports has increased further notwithstanding the Sixth Plan's endeavor to diversify the export base (Figure 16). But two positive aspects of the diversification issue are worth noting.

First, within RMG, there has been growing diversification of products, from lower-end to higher end. And second, the performance of ICT, leather, jute goods and footwear if sustained over the longer term could provide the basis for strengthening the export base. Nevertheless, this is an area where further efforts are needed.

Second, in terms of demand, the European Union continues to remain the largest destination of Bangladeshi exports, primarily due to RMG products. Despite

Figure 16: Share of RMG in Total Exports



Source: Table 2

recessionary economic environment in the EU region due to the ongoing debt crisis, Bangladesh's RMG exports to the EU continued to increase in the Sixth Plan period. The sharp loss in China's market appears to have accrued mostly to Bangladesh. In addition to competitive edge, Bangladesh's success in RMG exports to the EU is also due the latter's decision to change the rules of origin in favor of Bangladesh. This particularly helped the growth of woven garment exports in the EU market. The story of Bangladesh's RMG exports to the US market is also positive, though not as robust as in the EU market. Following Vietnam, Bangladesh was the second fastest growing RMG exporter to USA. As a result, its market share of the US RMG imports is increasing steadily. Vietnam and Indonesia are more challenging competitors for Bangladesh in the US market relative to the EU.

Third, whether Bangladesh would be able to sustain its strong performance in RMG exports in the coming months and years in the aftermath of Rana-Plaza Accident and the Tazreen Fire is yet to be seen. It is clear that major western corporate buyers are still very keen to maintain strong commercial relations with the RMG sector in Bangladesh because of its competitive prices (for the quality) and the enormous capacity that Bangladesh can provide (outside China). However, these large multinationals are also extremely sensitive about the negative image created by these recent accidents for Bangladesh. Certainly Bangladesh needs to do a lot in a number of areas including building safety standards and relocation issues; other workers safety (like fire) and working conditions related issues; workers' rights and benefits issues (including minimum wage issue); and branding of Bangladesh RMG to restore its lost image.

C. Employment Performance in the Sixth Plan

Sixth Plan Employment Challenge

There are two dimensions of the employment challenge of the Sixth Plan.

First, there is the quantitative challenge. The combined effects of the ongoing demographic transition, whereby the share of the working population is increasing, and the growing labor force participation of women has contributed to a rapidly growing labor force (3.1 % per annum), much in excess of a slowing population growth (1.3% per annum). While this presents a huge potential dividend, this also requires the ability of the economy to create sufficient number of jobs to absorb this growing labor force (1.8 million jobs per year in the Sixth Plan period).

The second dimension is the quality aspects. The last available Labor Force Survey (LFS 2010) showed that some 50% of the total employment (54 million) is in low productivity agriculture. Research shows that labor productivity and real wages are higher in manufacturing and services sectors, especially organized services.[4] Accordingly, a major objective of the Sixth Plan is to create more jobs in manufacturing and organized services relative to agriculture and informal economy.

Analytical and Empirical Foundations

The employment strategy of the Sixth Plan is based on three major analytical and empirical foundations of the Bangladeshi economy. First, the analysis of labor markets in Bangladesh suggests that by and large labour markets work flexibly. Wages and employment respond to demand and productivity improvements.[5] Accordingly, the main driver of employment is the rate of the growth of the economy on the one hand and the rate of growth of manufacturing and organized services. Second, the Sixth Plan also took note of the fact that Bangladesh being a labor abundant economy it will have a comparative advantage in producing and exporting labor intensive products. The experience from RMG manufacturing provides a very strong foundation to this analytical basis of the Sixth Plan.[6] And third, the Sixth Plan seeks to build on the successes achieved in export of labor services especially to the Middle East.

Sixth Plan Employment Outcome

A major problem with assessing the employment outturn in the first three years of the Sixth Plan implementation is the absence of an updated employment database. BBS has not yet updated the labor force data base since the last LFS conducted in 2010. In view of this knowledge gap, the approach used to estimate domestic employment is to take the implicit sectoral employment elasticities underlying the Sixth Plan employment projections and apply them to sectoral and total GDP growth rates. Data on manpower exports are obtained directly from the Bureau of Manpower exports. The estimated results are shown in Table 5.

Table 5: Estimated Job Creation in the Sixth Plan (million workers)

	FY10 (Base Year)[7]/ (share of total)	FY13 (Estimated)/ (share of total)	FY 15 (Planned)/ (share of total)
Domestic Employment			
--Agriculture	24.7/ (48%)	24.2 / (43%)	23.5 / (39%)
-Manufacturing	6.4 / (12%)	8.2 / (14%)	10.0 / (16%)
--Services & Others	20.8 / (40%)	24.1 / (43%)	27.4 / (45%)
Total Domestic Employment	51.9/ (100%)	56.5/ (100%)	61.1/ (100%)
Additional Domestic Employment	--	4.6	9.2
Additional Manpower Exports	--	1.5	1.2
Additional Employment	--	6.1	10.4
Additional labor force	--	5.4	9.2

Source: Sixth Plan and Mid-term Implementation Review Projections

[4] See Sadiq Ahmed "Employment, Productivity, Real Wages and Labor Markets in Bangladesh". Working Paper No. 2, Policy Research Institute of Bangladesh, Dhaka: August 2013

[5] See Sadiq Ahmed, op cit.

[6] See also Ahmed, Sadiq and Zaidi Sattar (2004). "Impact of Trade Liberalization: Looking at the Evidence". Economic and Political Weekly, Volume XXXIX, No. 36, pp 4059-4067.

[7] Base year updated using LFS 2010 data, which was not available when the Sixth Plan was drafted. All projections similarly adjusted to be consistent with the revised base year.

The shortfall in the growth of total GDP as compared with the Sixth Plan targets has reduced the overall additional job creation from domestic employment but the shortfall has been made good by a much more impressive expansion of manpower exports. As a result, the total number of estimated job creation (6.1 million jobs) has likely exceeded the addition to the labor force (5.4 million). This has likely lowered the rate of open unemployment.

On the qualitative side, the growth of manufacturing employment has largely been on track. Agriculture employment has also continued to shrink, while the employment share of services has likely increased.

D. Poverty Outcome of the Sixth Plan

The Sixth Plan aimed at continuing the good progress Bangladesh made in lowering poverty over the period 2000-2010. The Plan sought to reduce head-count poverty from 31.5 percent in 2010 to 22.9 percent by 2015. Unfortunately, the last Household Income and Expenditure Survey (HIES) was done in 2010. Since then there is no survey based evidence on what has happened to poverty. The Sixth Plan poverty projection was based on projecting GDP growth and relating that to estimated elasticities. The same method is used in this chapter to estimate the poverty outcome in the last three years. The result is shown in Table 6. For FY14-FY15, it is assumed that GDP will on average grow at about 6.0 percent per year for these two years. Overall, the lower GDP growth than the Sixth Plan target will likely reduce the actual rate of decline in poverty as compared with the rate projected in the Sixth Plan. Even so, there is likely to be a substantial decline in poverty during the Sixth Plan, which is a commendable performance.

Table 6: Estimated Reduction in Poverty During the Sixth Plan

	Actual/Estimated				Projected	
	2010	2011	2012	2013	2014	2015
Per Capita Real GDP Growth (%)	4.7	5.2	4.9	4.6	4.3	4.9
Real GDP Growth (%)	6.2	6.7	6.3	6.0	5.7	6.3
Head Count Poverty (Poverty elasticity wrt GDP growth = 0.76, between 2000 and 2010)	31.5	30.25	28.87	27.60	26.46	25.25
Head Count Poverty (Poverty elasticity wrt GDP growth = 0.89, between 2005 and 2010)	31.5	29.73	28.15	26.72	25.42	24.07

Source: Mid-Term Review Estimates

E. Prospects and Way Forward

The broad picture of performance of the Sixth Plan during the first three years in terms of achieving major development targets relating to economic growth, employment and poverty reduction is generally positive. The economy has made further solid progress in these areas, which is reassuring. Progress has also been made in transforming the economy from a rural-based agrarian economy to a more modern urban-based manufacturing and services based economy. Export performance is on track, which has provided the impetus for the expansion of the manufacturing sector.

Yet, compared to Sixth Plan targets, there is a shortfall in GDP and poverty reduction targets. The shortfall in domestic employment has been offset by better-than-expected performance in overseas employment. Recent evidence suggests that the pace of expansion of overseas employment will slow down considerably owing to difficulties in several Middle Eastern markets. So, the employment impetus needs to come from domestic manufacturing and services sector. Recent political turmoil over the October-December 2013 periods slowed down domestic economic activity. While political stability has returned and there is likely to be a recovery in private investment, on the whole it is clear that the investment targets for the Sixth Plan will not be achieved.

Apart from political uncertainties, the investment climate remains constrained by several factors noted above. The export performance is likely to remain on track. But export will remain concentrated on RMG. On the whole, the significant slowdown in the rate of investment will reduce average growth rate to around 6 percent over the remaining two years of the Plan.

The Government can take several steps in improving the investment climate for private investment, increasing public investment and diversifying exports from RMG in order to create a better platform for higher growth in the Seventh Plan. The main priorities are:

- Improve the investment climate by removing the constraints identified by investors. These include land procurement, deregulation, power and gas shortage, trade logistics and contract enforcement. This is a long-term agenda but continued progress is needed.
- The shortfall in public investment needs to be addressed speedily with a range of measures including more focused and steady implementation of the Tax Modernization Plan, proper pricing of electricity and energy, rationalization of subsidies and improving the way in which public investment decisions are made and how projects are managed and budgeted for.
- Revamping the public-private investment partnership by creating a special implementation agency staffed with professionals that have adequate experience in mobilizing funds and developing PPP-type projects.
- Provide additional focus on strengthening labor skills and training.
- Learning from the positive experience of RMG, improve the incentive framework for non-RMG exports. Research suggests that a particular constrain here is the trade policy[8]. Establishing a similar trade policy environment for other exports as for RMG will be an important policy for securing export diversification in Bangladesh.
- The creation of more jobs in the manufacturing sector is partly constrained by the lack of dynamism in small enterprises. While the government has supported the sector with subsidized credit, other supportive policies relating to markets, technology, vertical linkages and quality assurance needed to be beefed up. A particular problem is the lack of a proper information base that needs to be addressed urgently to dynamize this sector. A proper M&E framework also needs to be established in order to assess the effectiveness of government policies for stimulating SMEs in manufacturing. Establishment of a good database will also allow this.

[8] See Sadiq Ahmed and Zaidi Sattar: **Assessment of Effective Rates of Protection: 2012 survey of manufacturing enterprises**. Report submitted to World Bank, 2012.

Annex 1: Revised National Accounts

Table A1: Bangladesh National Account Balances

(Taka billion)	FY10	FY11	FY12	FY13
GDP	6943	7967	9148	10380
Consumption	5807	6761	7650	8642
Investment	1695	2004	2437	2786
--Public	319	383	451	557
--Private	1376	1621	1986	2229
Domestic Savings	1136	1206	1498	1738
National Savings	1925	2057	2526	2938
Foreign Savings	-230	-53	-89	-152
Consumption (% of GDP)	83.6	84.9	83.6	83.3
Investment (% of GDP)	24.4	25.1	26.6	26.8
Public investment (% of GDP)	4.6	4.8	4.9	5.4
Private investment (% of GDP)	19.8	20.3	21.7	21.4
Domestic saving (% of GDP)	16.4	15.1	16.4	16.7
National Saving (% of GDP)	27.7	25.8	27.6	28.3
Foreign Saving (% of GDP)	-3.3	-0.7	-1.0	-1.5

Notes on Data Sources:

1) GDP and total Investment based on BBS (June 2013 National Accounts Statistics).

2) Resource balance, net factor income and current account balance data from BB on fiscal year basis. (3) Total consumption derived as residual using national income identity.

(4) Government consumption based on BBS. Private consumption is residual.

(5) Total investment from BBS in current prices based on commodity flow method. Public investment from national budget (includes both ADP and non-ADP capital). Private investment is the difference between total investment and public investment.

6) Domestic savings is residual from national income identity. National saving is sum of domestic saving and net factor income.