

Financing Infrastructure Deficit in Bangladesh

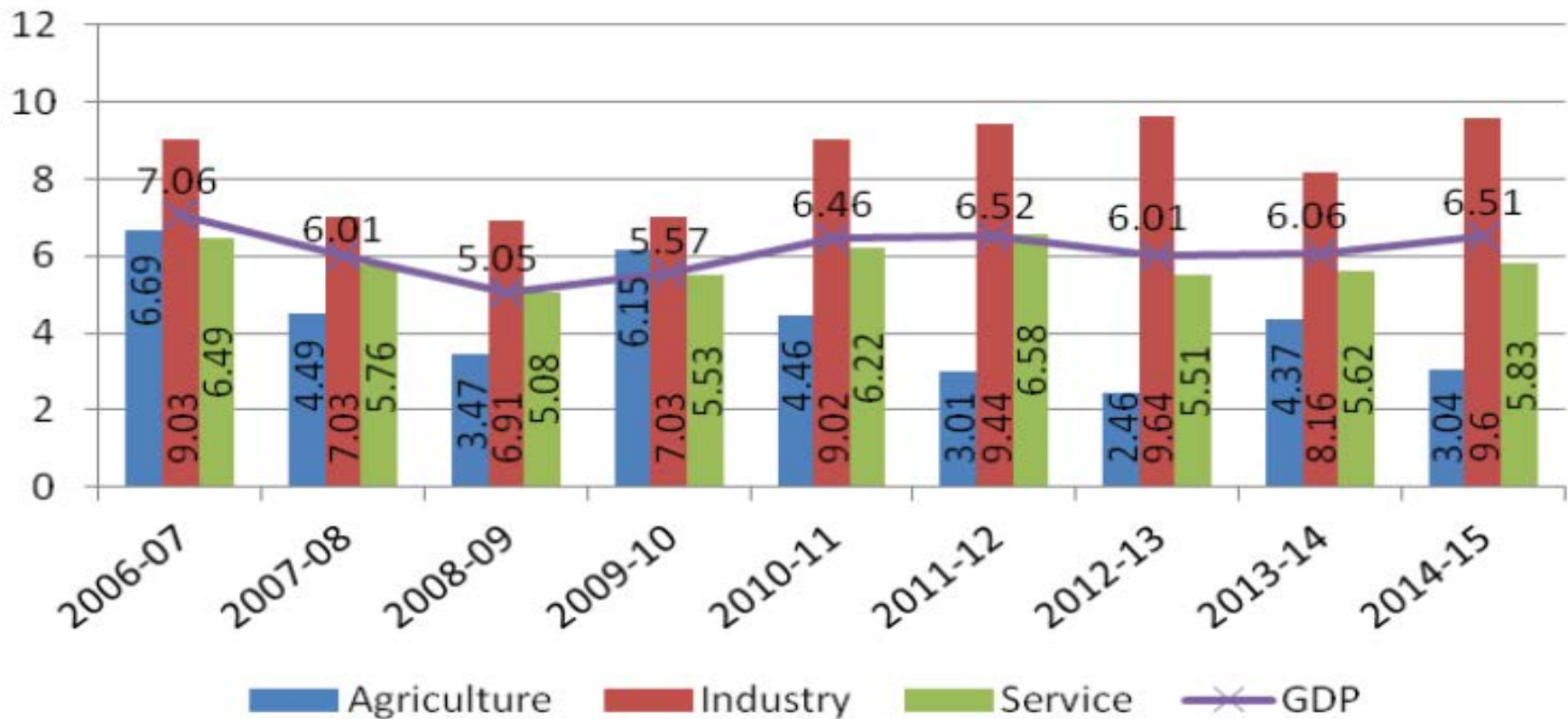
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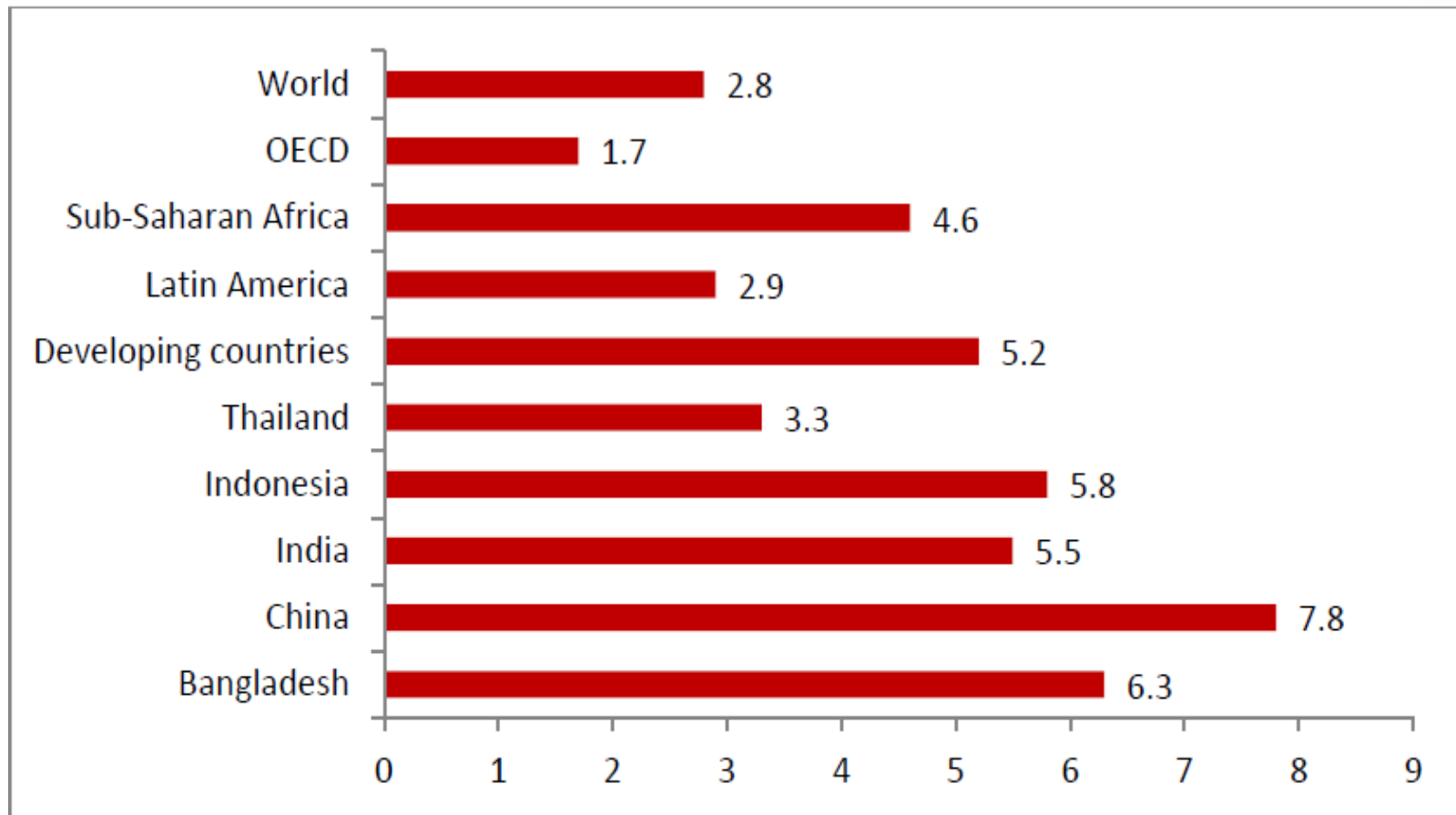
Bangladesh Institute of Development Studies (BIDS)

28 October 2016

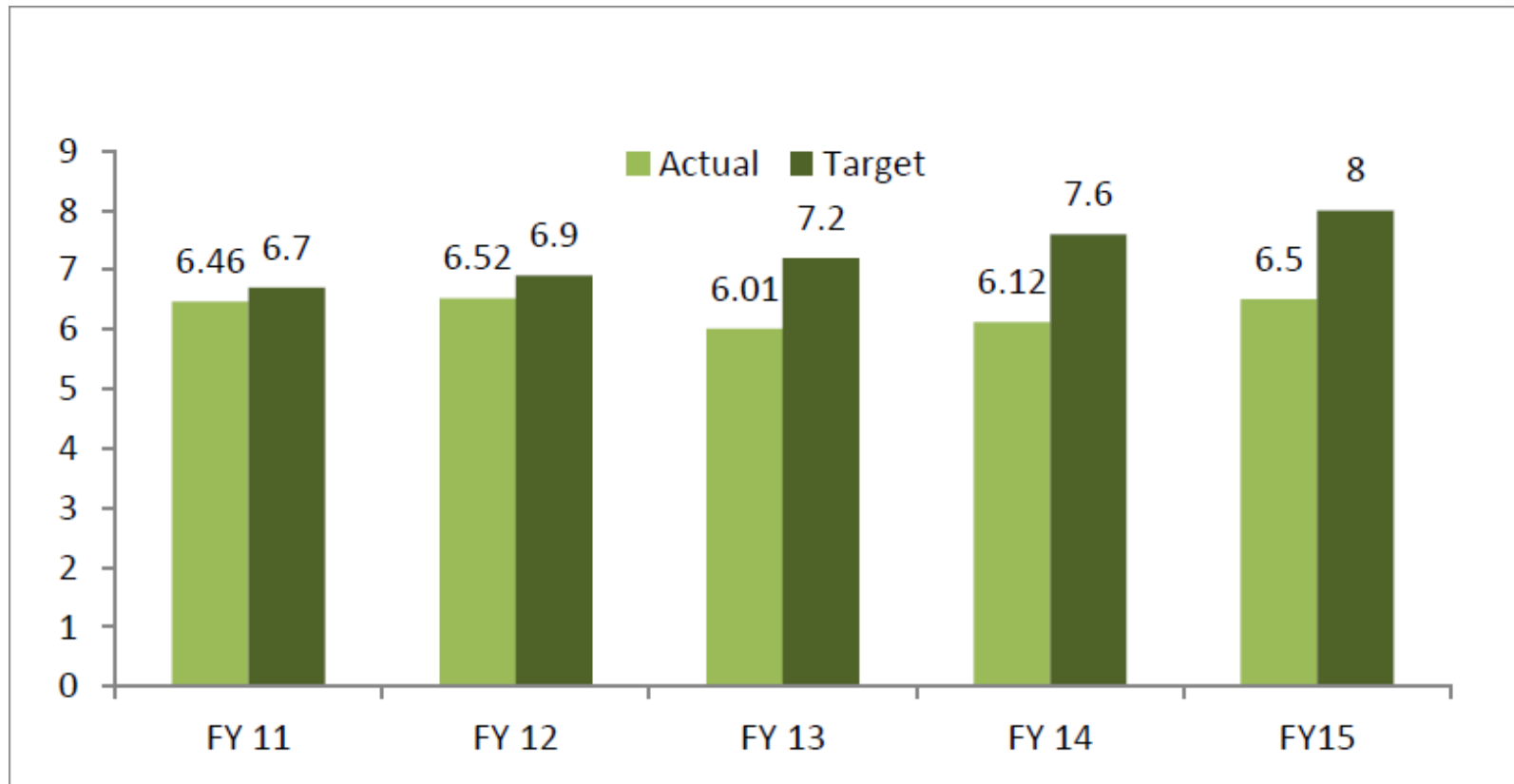
GDP Growth and Sectoral Growth (%)



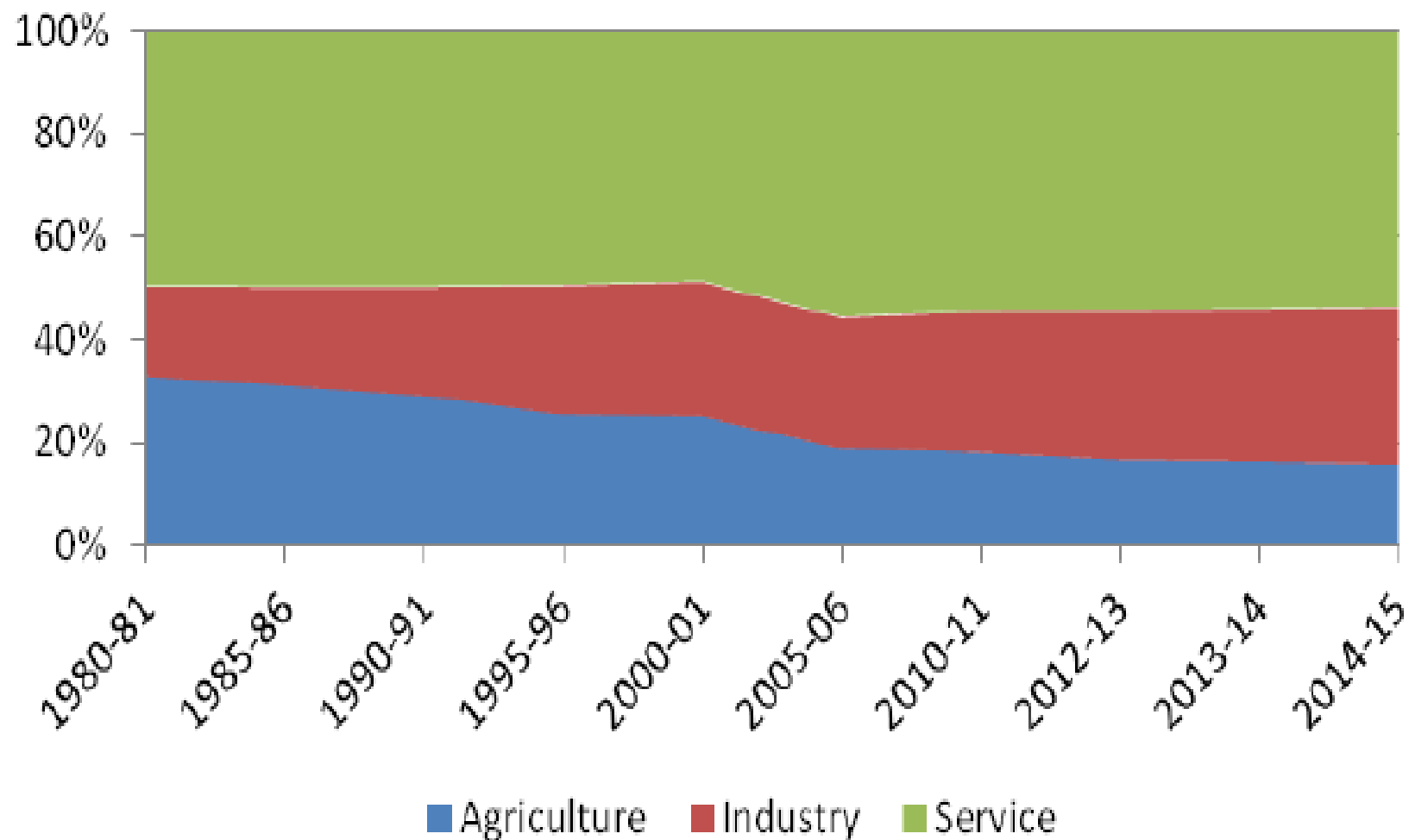
6th Five-Year Plan GDP Growth Performance in global context (% per annum 2011-2015, World Bank Global Economic Prospect)



Actual vs Targeted GDP growth during the 6th Five Year Plan period



Share of Major economic sectors at constant prices



Projection for 2021

(Share in GDP)

- Agriculture :15%
- Industry: 40%
- Services: 45%

Savings – Investment as % of GDP

Item	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15*
1. Consumption	80.76	79.61	79.14	79.30	78.78	77.96	77.91	77.70
i. Public	5.17	5.09	5.07	5.09	5.04	5.12	5.34	5.44
ii. Private	75.58	74.52	74.06	74.21	73.74	72.85	72.57	72.25
2. Investment	26.19	26.19	26.23	27.39	28.26	28.39	28.58	28.97
i. Public	4.50	4.31	4.67	5.25	5.76	6.64	6.55	6.90
ii. Private	21.69	21.87	21.56	22.14	22.50	21.75	22.03	22.07
3. Domestic Savings	19.24	20.39	20.86	20.70	21.22	22.04	22.09	22.30
4. National Savings	27.83	28.66	29.49	28.95	29.86	30.53	29.23	29.01

A core challenge for Development and
Pro-poor growth is Infrastructure
Deficit

Doing business in Bangladesh 2016(global ranking out of 189 countries)

Indicators	2015	2016
Ease of doing business	172	174
Getting electricity	189	189

Global competitiveness Indicators for Bangladesh (out of 144 countries, by World Economic Forum)

Indices	Rank		Score (out of 7)		% Change in Score
	2013-14	2014-15	2013-14	2014-15	
GCI	110	109	3.71	3.72	0.27
Basic Requirements (BR)	113	113	3.83	3.84	0.26
<i>Institutions</i>	131	131	3.08	2.96	-3.90
<i>Infrastructure</i>	132	127	2.37	2.45	3.38
<i>Macroeconomic Stability</i>	79	72	4.58	4.69	2.40
<i>Health and Primary Education</i>	104	102	5.3	5.29	-0.19
Efficiency Enhancers (EE)	108	103	3.59	3.60	0.28
<i>Higher Education and Training</i>	127	125	2.83	2.86	1.06
<i>Goods Market Efficiency</i>	89	84	4.10	4.20	2.44
<i>Labour Market Efficiency</i>	124	124	3.80	3.67	-3.42
<i>Financial Market Sophistication</i>	102	88	3.68	3.77	2.45
<i>Technological Readiness</i>	127	126	2.69	2.66	-1.12
<i>Market Size</i>	45	44	4.44	4.46	0.45
Innovation and Sophistication (IS)	124	122	3.03	3.02	-0.33
<i>Business Sophistication</i>	113	118	3.51	3.45	-1.71
<i>Innovation</i>	131	129	2.54	2.58	1.57

Quality of Infrastructure (Global Competitiveness Report)

Country/ Region	Country Ranking*	Overall Infrastructure Score	Electricity	Roads	Railroads	Port
Bangladesh	130	2.8	2.5	2.9	2.4	3.7
India	87	3.6	3.4	3.8	4.2	4.0
China	46	4.7	5.2	4.6	4.8	4.6
Cambodia	107	3.1	3.0	3.4	1.6	3.6
Myanmar	137	2.1	2.8	2.4	1.8	2.6
Pakistan	119	2.7	2.1	3.8	2.5	4.4
Sri Lanka	75	4.0	4.8	5.1	3.7	4.2
Thailand	48	4.6	5.1	4.5	2.4	4.5

Source: World Economic Forum, the Global Competitiveness Report 2014-2015; Ranking out of 144 countries

Enabling Trade Index 2014: Bangladesh

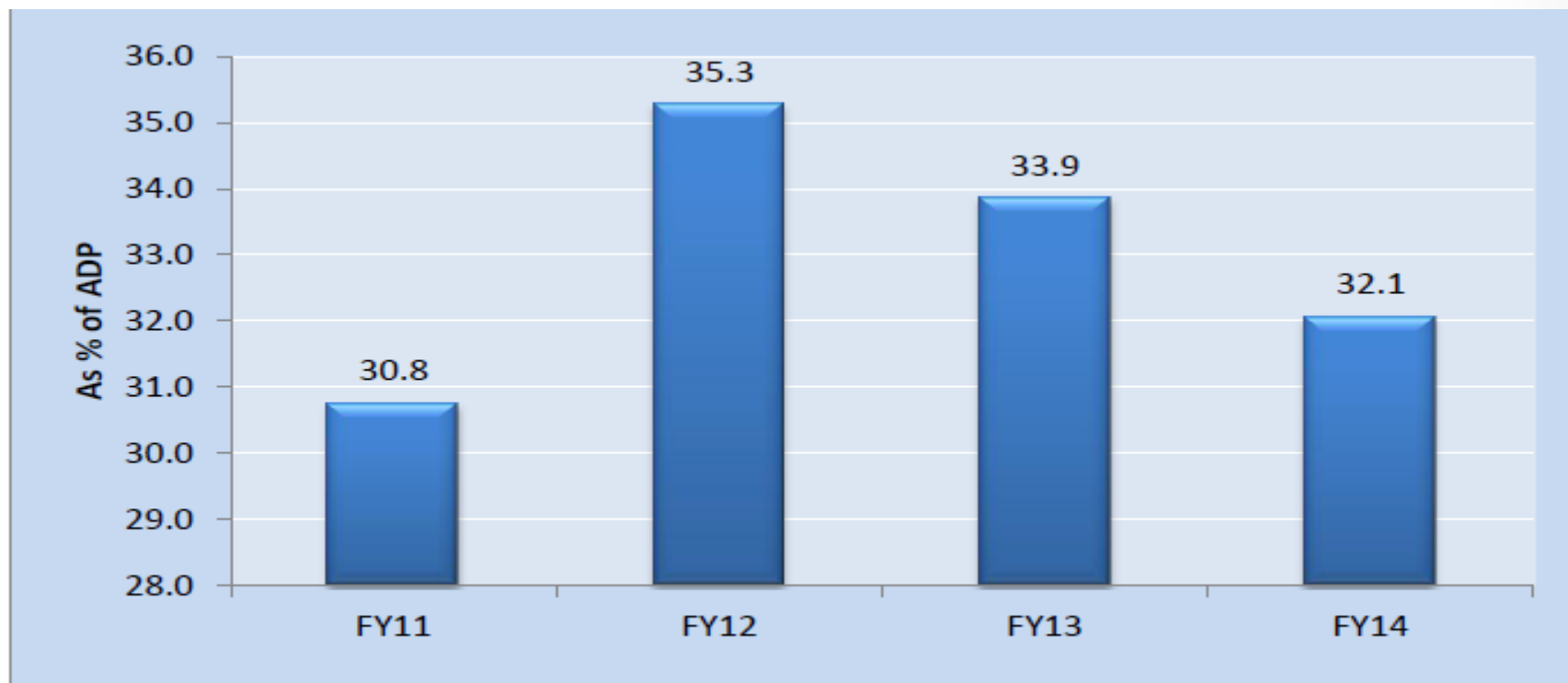
	Rank *	Score (1-7)
BORDER ADMINISTRATION	123	3.2
Efficiency and Transparency of border administration	123	3.2
INFRASTRUCTURE	119	2.8
Availability and quality of transport infrastructure	120	2.3
Availability and quality of transport services	103	3.6
Availability and use of ICTs	118	2.4
MARKET ACCESS	57	3.8
Domestic Market Access	126	3.4
Foreign Market Access	7	4.2
OPERATING ENVIRONMENT	99	3.7
Physical security	90	4.9

(*) out of 138 countries

Source: Global Enabling Trade Report 2014, World Economic Forum

No doubt about need for
infrastructure development.
But how to finance?

Infrastructure Allocation as % of Annual Development Programme



Source: Ministry of Finance

Investment requirement for major transport projects between 2007-08 to 2020-21

	Sector	Project cost	
		(In billion Tk.)	(In billion US\$)
1	Road Sector Development	455.69	5.56
2	Railways Development	362.14	4.42
3	Inland Water Transport Development	81.60	0.99
4	New Sea Port Development (Tentative)	6.00	0.07
5	Deep Sea Port Development	74.20	0.90
6	Dhaka Transport System Development	341.42	4.16
	Total Requirements:	1321.42	16.10
	Average Yearly Requirements during FY 2008/09 to FY 2020/21	101.65	1.24

Source: Ministry of Communications.

Note: Conversion rate of Taka versus US\$ is 1 US\$ equals 82 Taka.

Major macroeconomic, regulatory and institutional constraints for infrastructure financing

- **Macro Constraints----**

- Domestic Savings and investment gaps (scarcity while compared with domestic savings; surplus while compared with national savings)
- Fiscal discipline and budgetary constraints (leading to external borrowing; Sovereign bonds)
- Capacity to absorb capital inflows (Monetary management problems)

- **Institutional and regulatory constraints----**

- Commercial banks (capital base of a single bank is not enough to finance infrastructure projects; also long term financing is a problem)
- Non-Bank Financial institutions (limited access to low cost and long term financing)
- Insurance Companies (no exposure to energy and infrastructure sector)
- Capital market (equity and debt financing)

Way forward

- Private investment is unlikely to pick up readily in the face of shortfalls in the supply of electricity and gas. Hence, the government should continue its expansionary fiscal stance (more public investment, transfer payments, social spending).
- This will crowd in more private investment.
- And also supportive political environment will need to be there.

Way forward

- Floating of sovereign bonds?
- Diaspora bond
- Bangladesh Infrastructure development bond? (channel funds from institutional pension fund or insurance companies)
- Syndicated international commercial loans? (may not be available in large volume and for longer period.)
- Bilateral Loans from other countries? Look for new partners like Russia?
- BRICS bank (Brazil, Russia, India, China, South Africa)– Supporting public and private projects.

Bangladesh and MDG 8.

Millennium Development Goals and Bangladesh

No of Goals	Goals <small>Source: www.bd.undp.org/content/bangladesh/en/home/mdgoverview</small>	Achievement
1	Eradicate extreme poverty and hunger	56.7% in 92 29% in 2015
2	Achieve universal primary education	98.7% enrolment
3	Promote gender equity and empower women	Achieved significantly
4	Reduce child mortality	44 per 1000
5	Improve maternal health	194 per 100,000
6	Combat HIV/AIDS, malaria and other diseases	Less than 0.1%
7	Ensure environmental sustainability	Area 19.4 close to 20% Density 10<70%
8	Develop a global partnership for development	Grant decline, rise in 10 Loan rising

Targets and Indicators	Base year 1990/91	Status in 2000	Current status (source)	Target by 2015
Official development assistance (ODA)				
8.1a: Net ODA received by Bangladesh (million US\$)	1,732	1,588	3,084 (ERD 2014)	4,175
8.1b: Net ODA received by Bangladesh, as percentage of OECD/DAC donors' GNI, %	-	-	0.0022 (ERD 2014)	0.003
8.2: Proportion of total bilateral sector-allocable ODA to basic social services, %	-	42 (2005)	50.82 (ERD 2014)	-
8.3: Proportion of bilateral ODA of OECD/DAC donors that is untied (received by Bangladesh), %	-	82 (2005)	100 (ERD 2013)	100
8.4: ODA received in landlocked developing countries as a proportion of their gross national incomes	Not relevant to Bangladesh			
8.5: ODA received in small island developing States as a proportion of their gross national incomes	Not relevant to Bangladesh			

Thank you