BANGLADESH

PUBLIC EXPENDITURE REVIEW
1997 UPDATE

MAKING THE BEST USE OF PUBLIC RESOURCES

AUGUST 1997

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South Asia Region
The World Bank

Contents

Abbreviations

ADP	Annual Development Program
BADC	Bangladesh Agriculture Development Corporation
BANBEIS	Bangladesh Bureau of Educational Information and Study
BCIC	Bangladesh Chemical Industries Corporation
BIDS	Bangladesh Institute of Development Studies
BIWTC	Bangladesh Inland Water Transport Corporation
BJMC	Bangladesh Jute Mills Corporation
BMRE	Balancing, Modernization, Rehabilitation and Extension
BMR	Balancing, Modernization and Rehabilitation
BOI	Board of Investment
BOO	Build-Own-Operate
BPDB	Bangladesh Power Development Board
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSEC	Bangladesh Steel and Engineering Corporation
BSFIC	Bangladesh Sugar and Food Industries Corporation
BTMC	Bangladesh Textiles Mills Corporation
BWDB	Bangladesh Water Development Board
CEPZ	Chittagong Export Processing Zone
CUFL	Chittagong Urea Fertilizer Limited
DAP	Di-Ammonium Phosphate
DEPZ	Dhaka Export Processing Zone
DESA	Dhaka Electricity Supply Authority
DESC	Dhaka Electricity Supply Company
DIA	Department of Inspection and Audit
DTW	Deep Tubewell
EPB	Export Promotion Bureau
EPZ	Export Processing Zone
ESP	Essential Service Package
FDI	Foreign Direct Investment
FFE	Food for Education
FFW	Food for Work
FY	Fiscal Year
GDP	Gross Domestic Product
GOB	Government of Bangladesh
HPSS	Health and Population Sector Strategy
HYV	High Yielding Varieties
IDA	International Development Association
IPGMR	Institute of Post Graduate Medicine and Research
IPPs	Independent Power Producers
KAFCO	Karnaphuli Fertilizer Corporation
KPM	Karnaphuli Paper Mill
KWH	Kilowatt Hour
LGED	Local Government Engineering Department
LGRD	Local Government and Rural Development
MOA	Ministry of Agriculture
MOE	Ministry of Education
MOEMR	Ministry of Energy and Mineral Resources
MOHFW	Ministry of Health and Family Walfare
MOU	Memorandum of Understanding
MT	Metric Ton
MW	Megawatt
NGO	Non-Government Organization
NHP	National Health Policy
NPK	Nitrogen, Phosphate and Potassium
NRHS	National Reproductive Health Strategy
O&M	Operations and Maintenance
OMS	Open Market Sales
PB	Privatization Board
PC	Power Cell
PEC	Public Expenditure Criteria
PEDP	Primary Education Development Program
PFDS	Public Food Distribution System
PGCB	Power and Grid Corporation of Bangladesh
PSEPZ	Private Sector Export Processing Zone
PSPGP	Private Sector Power Generation Policy
RAJUK	Rajdhani Unnayan Katripakha
REB	Rural Electrification Board
RFP	Request for Proposal
RISS	Rural Infrastructure Strategy Study
ROM	Rehabilitation, Operation and Maintenance
RRMP	Road Rehabilitation and Maintenance Project
RRMIMP	Rural Road and Market Improvement and Maintenance Project
SOE	State-Owned Enterprise
THC	Thana Health Center
TORs	Terms of Reference
TYRIP	Three Year Rolling Investment Program
UHFWC	Union Health and Family Welfare Centre
VGD	Vulnerable Group Development

Currency equivalents

The external value of Bangladesh Taka (Tk) is fixed in relation to a (weighted) basket of currencies, with the US dollar being the intervention currency. The official average exchange rate on August 18, 1997 was Tk.44.1 per US dollar

US $1 = Tk. 44.55
Tk 1 = US $ 0.0225

Fiscal Year (FY)
July 1 - June 30

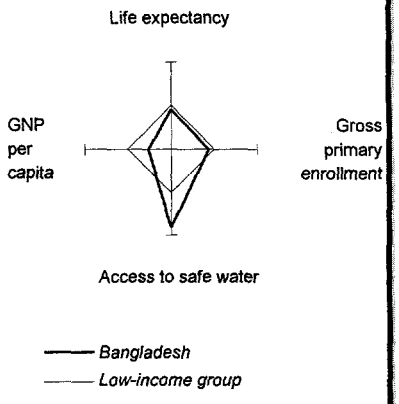
Following local convention, expenditures and revenues are sometimes denominated in units of crore (abbreviated CR), which is equal to Tk. 10 million.
In this report, US$ is sometimes abbreviated as $.

This Public Expenditure Review Update was prepared by a team led by Tercan Baysan. The other members of the team were Syed Nizamuddin and Zahid Hussain. Mark Gersovitz (Consultant) prepared Annex IV on O & M expenditures. Pierre Landell-Mills made useful comments. World Bank intern Afsana Ahmed (Dhaka) and Lalita Moorty (Washington D.C) provided research assistance. Mehar Akhter was responsible for processing the report. Useful comments and inputs were received from Chrisantha Ratnayake, Bashirul Huq, Md. Iqbal, Humayun Hye, J.S. Kang, Milia Ali, Regina Bendokat, Audrey Aarons, Mir Bashir Ahmed, Phil Gowers, Jonathan Kamkawalala, M. Quazi, Tajul Islam, and Shekhar Shah. Lorene Yap and Pierre Landell-Mills provided overall guidance during the preparation of this report. Subrata Dhar was responsible for the publication of this report. The excellent cooperation of the Government of Bangladesh (particularly that of the Ministry of Finance, ERD, Planning Commission, and IMED) in preparing this report is gratefully acknowledged.

Bangladesh at a glance

POVERTY and SOCIAL	Bangladesh	South Asia	Low-income
Population mid-1996 *(millions)*	121.6	1,264	3,229
GNP per capita 1996 *(US$)*	260	380	500
GNP 1996 *(billions US$)*	31.6	481	1,601
Average annual growth, 1990-96			
Population *(%)*	1.6	1.9	1.7
Labor force *(%)*	2.1	2.1	1.7
Most recent estimate *(latest year available since 1989)*			
Poverty: headcount index *(% of population)*	48	..	..
Urban population *(% of total population)*	18	26	29
Life expectancy at birth *(years)*	58	61	63
Infant mortality *(per 1,000 live births)*	77	75	69
Child malnutrition *(% of children under 5)*	67	..	..
Access to safe water *(% of population)*	96	63	53
Illiteracy *(% of population age 15+)*	62	50	34
Gross primary enrollment *(% of school-age population)*	92	98	105
Male	98	110	112
Female	86	87	98

Development diamond*

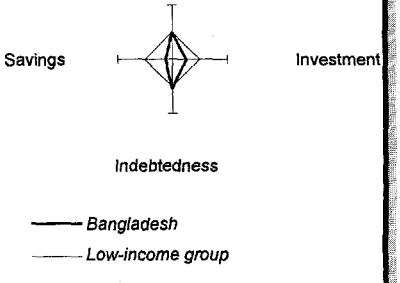


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1975	1985	1995	1996
GDP *(billions US$)*	14.3	15.7	29.1	32.1
Gross domestic investment/GDP	6.1	12.9	16.6	17.0
Exports of goods and services/GDP	2.9	7.4	14.2	14.3
Gross domestic savings/GDP	0.9	2.0	8.3	7.1
Gross national savings/GDP	4.9	9.6	13.1	11.9
Current account balance/GDP	-4.3	-3.9	-3.5	-5.1
Interest payments/GDP	0.1	0.6	0.6	0.6
Total debt/GDP	13.0	43.9	56.2	53.2
Total debt service/exports	23.4	22.5	13.3	11.6
Present value of debt/GDP	..	..	31.4	..
Present value of debt/exports	..	..	166.7	..

	1975-85	1986-96	1995	1996	1997-05
(average annual growth)					
GDP	5.0	4.2	4.4	5.3	6.0
GNP per capita	2.4	2.4	2.8	3.2	7.3
Exports of goods and services	6.0	15.0	34.6	11.4	7.7

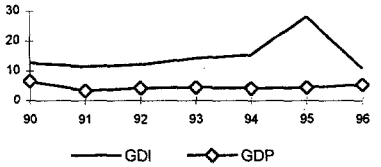
Economic ratios*



STRUCTURE of the ECONOMY

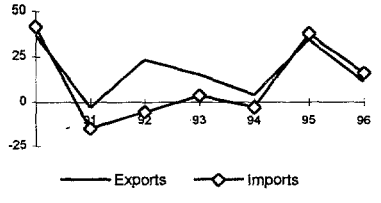
	1975	1985	1995	1996
(% of GDP)				
Agriculture	62.0	41.8	30.9	30.0
Industry	11.6	16.0	17.6	17.7
Manufacturing	7.0	9.9	9.6	9.6
Services	26.4	42.3	51.5	52.4
Private consumption	95.9	90.6	77.9	79.1
General government consumption	3.2	7.3	13.7	13.7
Imports of goods and services	8.1	18.3	22.5	23.9

Growth rates of output and investment (%)



	1975-85	1986-96	1995	1996
(average annual growth)				
Agriculture	3.5	1.8	-1.0	3.7
Industry	4.7	6.5	8.4	5.3
Manufacturing	2.9	5.9	8.6	5.3
Services	6.8	5.2	6.9	6.5
Private consumption	..	*1.4*	0.6	5.2
General government consumption	..	*3.9*	5.3	7.2
Gross domestic investment	8.4	7.9	28.2	10.9
Imports of goods and services	7.9	7.0	37.7	16.2
Gross national product	4.9	4.3	4.4	4.7

Growth rates of exports and imports (%)

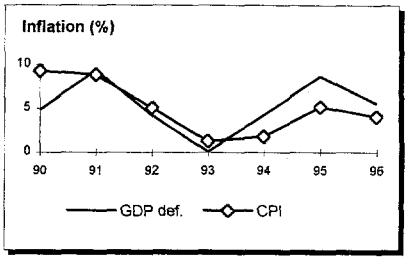


Note: 1996 data are preliminary estimates. Figures in italics are for years other than those specified.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

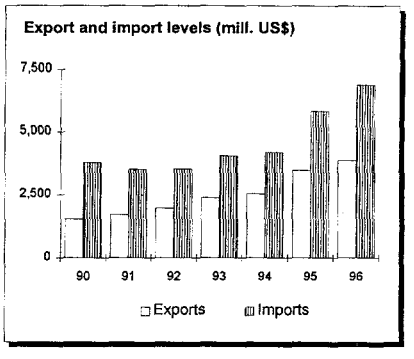
PRICES and GOVERNMENT FINANCE

	1975	1985	1995	1996
Domestic prices				
(% change)				
Consumer prices	21.9	10.7	5.2	4.1
Implicit GDP deflator	..	11.1	8.7	5.6
Government finance				
(% of GDP)				
Current revenue	..	8.5	12.1	11.5
Current budget balance	..	1.3	3.3	2.8
Overall surplus/deficit	..	..	-6.8	-5.7



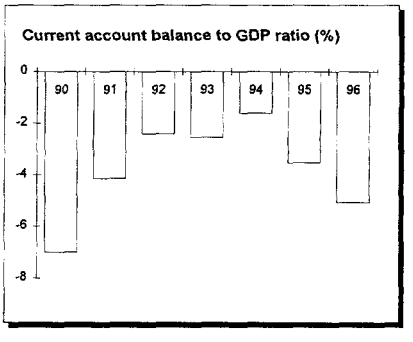
TRADE

	1975	1985	1995	1996
(millions US$)				
Total exports (fob)	..	940	3,473	3,882
Leather	..	70	202	213
Frozen food	..	87	299	315
Jute goods	..	358	319	330
Garments	..	116	1,980	2,548
Total imports (cif)	..	2,647	5,834	6,831
Food	..	607	476	586
Fuel and energy	..	359	383	456
Capital goods	..	691	1,688	1,918
Export price index *(1987=100)*	..	74	186	194
Import price index *(1987=100)*	..	104	127	130
Terms of trade *(1987=100)*	..	71	146	150



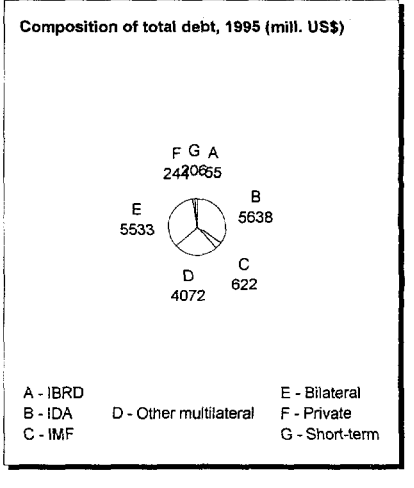
BALANCE of PAYMENTS

	1975	1985	1995	1996
(millions US$)				
Exports of goods and services	427	1,162	4,130	4,508
Imports of goods and services	1,459	2,864	6,545	7,614
Resource balance	-1,033	-1,702	-2,415	-3,106
Net income	-6	-90	-41	-6
Net current transfers	417	1,178	1,426	1,475
Current account balance, before official capital transfers	-621	-613	-1,030	-1,637
Financing items (net)	666	536	1,304	575
Changes in net reserves	-45	77	-274	1,062
Memo:				
Reserves including gold *(mill. US$)*	148	356	3,070	2,018
Conversion rate *(local/US$)*	8.9	26.0	40.2	40.3



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1995	1996
(millions US$)				
Total debt outstanding and disbursed	1,861	6,874	16,370	17,070
IBRD	55	55	55	46
IDA	295	2,021	5,638	5,713
Total debt service	105	356	729	687
IBRD	0	3	8	8
IDA	2	22	83	92
Composition of net resource flows				
Official grants	315	472	890	678
Official creditors	576	563	849	766
Private creditors	-3	-3	-72	-25
Foreign direct investment	0	0	2	..
Portfolio equity	0	0	67	-14
World Bank program				
Commitments	205	398	356	168
Disbursements	91	288	197	278
Principal repayments	0	6	46	55
Net flows	91	282	151	223
Interest payments	1	20	46	45
Net transfers	90	262	105	178



Development Economics. 1996 external debt and resource flows data are staff estimates (preliminary).

BANGLADESH
PUBLIC EXPENDITURE REVIEW:
1997 UPDATE

MAKING THE BEST USE OF PUBLIC RESOURCES

1. **Objectives and scope** This is an update to the FY96 benchmark Public Expenditure Review[1] (PER) and the first one of such updates that will be prepared annually. This PER Update focuses on a few important current fiscal issues. One of the principal areas of focus is the quality of the Government's Annual Development Program (ADP), which constitutes most of public sector investment in Bangladesh. On this, the Update reviews the FY97 and FY98 development projects with a view to assessing their rationale/priority, and their consistency with the declared development objectives of public expenditures, including rapid economic growth and poverty alleviation, reaching the vulnerable groups, and fostering private sector activity. In addition, the report also looks at two key budgetary expenditure management issues: first, the problem of including a large number of "unapproved" projects in the ADP and, the second, the issue of absorbing the personnel of the completed ADP projects in the recurrent budget.

A. AN OVERVIEW: RECENT EVOLUTION OF BUDGETARY EXPENDITURES, AND FISCAL SUSTAINABILITY

A.1 Changing Composition of the ADP

2. Budget constitutes a powerful vehicle through which the Government of Bangladesh can fulfill its primary mandates of facilitating faster economic growth and poverty alleviation. This is most effectively achieved through the implementation of well-prioritized public expenditure programs that are targeted for developing the country's human resources, building up its public infrastructure and services, and promoting a dynamic and competitive private sector. It is important, of course, that the budget remains within prudent limits, consistent with macroeconomic stability, with the revenue side being supported by an increasingly broad-based and incentive-neutral tax system and an effective tax administration.

3. In recent years, with the steps initiated to improve the quality of public expenditures and adopt to the changing role of the state in economic and social development, the Government has achieved progress in shifting public resources toward social sectors and infrastructure. In line with the objective of enhancing economic opportunities for the poor through human development, the share of ADP allocations for education, health, family planning, and other social sectors has been steadily increasing--from about 11 percent of total ADP in the second half of 1980s (and in FY90) to over 23 percent by FY95. The latter share, after falling to 21 percent in FY96, further rose to over 24 percent in FY97. Thus, since FY95 Bangladesh has been satisfying one of the key commitments made under the Copenhagen Declaration and

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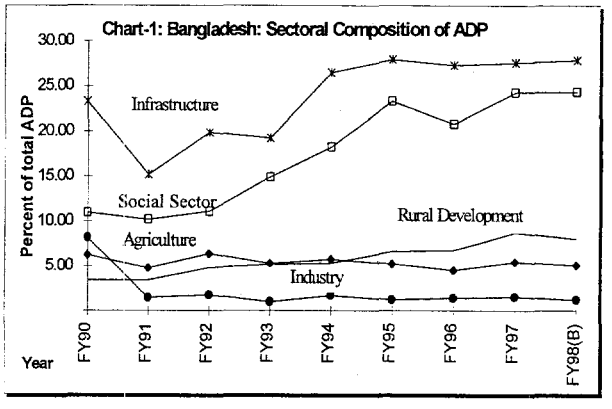
[1] World Bank, *Bangladesh: Public Expenditure Review*, Report No. 15905-BD, July 31, 1996. The latter benchmark PER reviewed the issues of consistency of the budgetary aggregates and of composition of deficit financing with the macroeconomic stability objectives and resource envelope. As one of its principal areas of emphasis, the report focused on the quality and priority aspects of the FY96 public expenditures and, in this context, the report included a detailed evaluation of the sectoral public expenditure programs. In addition, it also looked at other important public expenditure management (PEM) issues, including those pertaining to: wages/salaries and the food account; performance of SOEs and their burden on the budget and the economy; selected institutional weaknesses concerning accounting, monitoring, audit and evaluation of public expenditures, integration of current and capital account expenditure management; monitoring of deficit and debt; institutional capacity building needs; and project implementation and management of ADP.

the Program of Action agreed during the March 6-12, 1995 World Summit for Social Development (Chart 1 and Statistical Appendix, Table 6). As for the share of social sector expenditures in the recurrent budget, this has varied in the 31 - 32 percent range during FY90-FY97 (Statistical Appendix, Table 4). Bangladesh's performance in shifting an increasing share of the ADP resources to social sectors compares favorably relative to Sri Lanka's recent 12-14 percent social sector share in the corresponding "public investment program", Pakistan's 14-16 percent share in the "development budget", and India's 16 percent in the Annual Plans.

4. Similarly, physical infrastructure and rural development, which are critically important for fostering private investment and achieving faster economic growth, have been receiving an increasing share of ADP expenditures, as reflected in their rising share from about 27 percent in FY90 to around 35 percent in FY95 and further to 37 percent in FY97. And consistent with the policy of reducing the public sector's role in the production activities and promote private investment, the Government has also been reducing ADP resources channeled to industry, scaling down the latter's share in the ADP significantly from the 10-15 percent range in the 1980s to below 2 percent in the 1990s.



Source: Statistical Appendix-table 6.

5. ***Notwithstanding the progress achieved so far, there is still ample room for improving inter-sectoral and intra-sectoral distribution of public expenditures. And within the priority sectors, sustained efforts are needed for improving the quality of public expenditures programs by selecting and designing programs with high social returns. Development impact of public expenditures could be enhanced further by strengthening ongoing efforts to address the existing weaknesses in the public expenditure management (PEM), especially those pertaining to project preparation, approval process, and project implementation.***[2]

6. *The Government's ongoing efforts aimed at formulating and, in some cases, updating sectoral development strategies and policies, including for health, education, infrastructure and energy, need to be accelerated in order to provide a framework for further refining the public sector's appropriate role in these sectors and for proper prioritization of public expenditures within each as well as across sectors.* In addition, to improve the quality of public expenditure programs, there is a need for formulating a set of clearly defined criteria--on the basis of sound economic rationale for public sector involvement and development priorities--and applying these in identifying, evaluating, and prioritizing worthwhile public expenditures programs.

7. These measures are important for eliminating low priority projects at the outset, and also for giving clear signals to the private sector as to where the Government stands in determining the public sector's role in production of goods and public services. ***At present, there are a significant number of public sector projects that appear to be of low priority. And some public sector expenditure programs are in activities that should clearly be left to the private sector, in line with the Government's declared***

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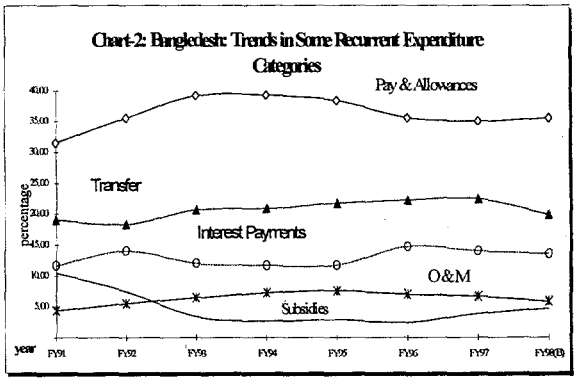
2 Many of these weaknesses, including those pertaining to institutional capacity and PEM processes, have already been discussed and elaborated on with specific recommendations aimed at addressing them in earlier Bank reports, including: the FY96 benchmark PER cited above; also *Bangladesh: Government That Works-Reforming the Public Sector*, February, 1996; and *Bangladesh: Country Portfolio Performance Review*, December 8-9, 1996, which was jointly prepared by the Government of Bangladesh and the World Bank.

policy of private sector-led growth. Such expenditure programs would give mixed signals and inhibit rather than promote private sector investment. On the basis of a partial review, Annex II lists 91 projects included in the FY98 ADP and TYRIP for FY96-98 which warrant re-examination of rationale and priority. (Section B discusses these projects within the context of sectoral public expenditure programs). ***In this list (which is by no means exhaustive), 59 are new or recently- initiated projects or older projects with very limited cumulative spending so far. The total cost of these projects is about Tk. 161 billion. In addition, it may be noted that sizable spending has been continuing for a significant number of unapproved projects in the ADP. A sample of large projects in the latter category is listed in Annex III Table 5.***[3]

A.2 Issues Pertaining to Recurrent Expenditures

8. On the recurrent budget side, there are a couple of expenditure categories whose rapid expansion in recent years deserves particular attention (Chart 2).[4] First, the *rapidly growing level of subsidies* is a cause for concern. Total food and other (mainly urea fertilizer) subsidies increased--in nominal terms--by 70 percent in FY97 over the FY96 levels, and the budgeted amount for FY98 indicates a 41 percent nominal increase. The principal source of this expansion is the growing (explicit) fertilizer subsidies, as the domestic ex-factory price is still being kept below 50 percent of the international price, notwithstanding the 29 percent increase effected in early June 1997, and sizable amounts of urea are imported;[5] (Box 1 in Section B below provides information about the total size of fertilizer subsidies in Bangladesh). Further adjustments in (and eventual liberalization of) urea prices[6] are needed to contain the burden on the budget, improve the financial position of fertilizer producing SOEs, encourage efficient use of urea by the farmers, and promote private investment in fertilizer production to develop the sector and also achieve higher returns from Bangladesh's natural gas reserves. Bringing urea prices to economic levels will also be instrumental in solving the present problem of imbalance in fertilizer use--that is too much of cheap urea and too little of phosphates.



Source: Based on data from Ministry of Finance.

9. Second, interest payments on domestic debt has been increasing significantly since FY94, rising from about 0.5 percent of GDP in FY94 to 0.8 percent of GDP in FY97. This is attributable to the steady increase in the amount of relatively high cost non-bank domestic borrowing to finance budget deficits, while highly concessional foreign financing has been declining. Better aid utilization through

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3 The FY96 benchmark PER had identified 47 questionable projects in the FY96 ADP with a total planned investment cost of Tk 61 billion. Some of these have been carried over to the FY97 program.

4 The FY96 benchmark PER reviewed key issues related to the largest component of current expenditures--pay and allowances--and the food account.

5 The fertilizer subsidy mentioned here includes only the component resulting from the Government's imports and purchases from KAFCO, which are procured at international prices, but then sold at the very low domestic ex-factory prices. However, there is also an additional implicit subsidy that is being met by the six state-owned urea factories that sell their output at the administratively controlled ex-factory price which is set below the production cost and far below the relevant border price. Including the latter component, the total economic subsidy on urea might have reached a figure of around $328 million in FY97 (about 1.0 percent of GDP).

6 Obviously, gas prices in general and the very low gas price applicable to the fertilizer industry also need to be brought to economic levels.

improvements in project implementation and acceleration of reforms would help contain the growth in interest payments. Third, there is a creeping increase in (real) defense expenditures, which already account for 17 -18 percent of current spending.[7] This is questionable in view of the tremendous poverty alleviation task facing the country.

10. A fourth issue concerns the declining trend in budgetary resources allocated to operations and maintenance (O&M), which is critical for extending the economic life of and raising returns to publicly-owned capital stock (some of the sector-specific O&M issues are discussed in Section B). In nominal terms, public expenditures on O&M increased by 1 percent in FY97 and budgeted to increase only by 2 percent in FY98, implying negative real growth in this category of spending. In view of the expanding public capital stock, especially in infrastructure, reduction in the real level of resources devoted to O&M is a concern. However, it appears, as also stressed by the officials of Ministry of Finance, that there is room for improving the effectiveness of O&M expenditures through better management and by not diverting non-wage O&M allocations to finance wage payments. Improvements in budgetary control, accounting practices, and accountability would contribute in this respect.[8] Moreover, robustness and standardization in the initial choice of equipment, machinery, and structures in public projects, together with beneficiary supervision/involvement in maintenance whenever feasible and practicable, would contribute to efficient use of O&M resources and contain the growth of maintenance expenditures; (Annex IV provides further details on this issue).

11. Fifth, there is an issue related to the absorption of personnel from the completed public projects under the recurrent budget. This has been one of the factors contributing to a rapid increase in the wage bill ; (this issue is looked at in some detail in Section C below).

12. There are also a couple of additional issues that are causing difficulties in budgetary management, and addressing them would require further investigation. They are not covered in this report, but given their importance, a separate exercise appears warranted. One of these issues concerns the increasing number of micro-credit type operations carried out by various Government Departments.[9] These activities have been supported by loans from the Budget, and have either been converted to revolving funds or are in the process of being converted. They are run mostly at the Upazilla level, and currently there is no institutional capacity (and mechanism) to monitor/supervise their efficiency, impact, and viability as revolving funds. If these operations prove to be unsustainable, then the Government loans will become *de facto* grants, burdening the budget. It is therefore important to find an efficient way of monitoring these operations.

13. Another issue is related to the "commercial accounts"--specifically the accounts of Railways, T&T, Post Office, and the food account--included in the (central) Government budget. These accounts are a source of uncertainty in budgetary management. This is because they are currently treated as Government Department accounts and, since these entities lack detailed and timely expenditure and revenue information, Ministry of Finance is having difficulty in determining the level of deficits/surpluses resulting from these particular commercial activities. For example, the recent slowdown in sales from the monetized food operations had not been foreseen, and Railways' projections on ticket sales tend

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7 Note that it is not clear whether the latter figure on defense spending is all-inclusive. However, it does not include, for example, food subsidies accruing to the defense personnel.

8 Under the technical assistance "Reform in Budgeting and Expenditure" (RIBEC) supported by the British ODA, the Government is trying to improve budgeting, accounting and expenditure control mechanisms. Planned improvements in budgetary information flows and expenditure classifications would help in monitoring, auditing, and evaluation; (see the FY96 benchmark PER--Appendix 6--for further details).

9 Such as: Directorates of Women's Affairs, Social Welfare, Youth, Livestock, Fisheries, and Bangladesh Small and Cottage Industries Corporation (BSCIC).

overestimate actual sales. Various solutions, particularly the implementation modalities of the often recommended option of taking these commercial accounts off the central Government budget, need to be looked at.

14. Finally, there is the issue of growing magnitude of payments made to the exporters of ready made garments (RMG) as cash incentives --equivalent to 25 percent of the cost of purchases made from domestic sources. This subsidy has recently been introduced to foster backward linkages and thus support domestic textile industries. Total payments under the subsidy apparently exceeded $23 million in FY97, and there are concerns about its possible abuse. This is a questionable intervention, and its effectiveness should certainly be examined.

A.3 Macroeconomic Management and Fiscal Sustainability

15. Before proceeding with the assessment of FY97 and FY98 ADP projects, this section briefly reviews the recent macroeconomic performance, especially aggregate demand management both to shed light on the adequacy of the macroeconomic framework in sustaining macroeconomic stability and also to provide the macroeconomic context for the discussion of public expenditures.

16. *Loose macroeconomic management* In recent years, there has been some weakening in macroeconomic balances as a result of lax macroeconomic management and poor rice harvests of FY94 and FY95. The expansionary FY96 budget added further to demand pressures, which had already emerged in FY95 due to the loose demand management (see Statistical Appendix, Tables 2 and 3). A similar macroeconomic scenario emerged in FY97. Again, the year started with an expansionary budget and optimistic projections about net foreign financing of the budget deficit. *Budgetary pressures increased due to expenditure overruns*[10] *and shortfalls in tax revenues and non-tax revenues associated with the rigid administered pricing policy.*[11] *While the slow implementation of ADP (coupled with cuts) is likely to have provided some offsetting adjustment on the expenditure side, thus possibly leading to lower than the budgeted deficit, composition of deficit financing shifted again in an undesirable direction, resulting in a significant increase in bank borrowing.*[12] Adverse consequences of this was contained only because investment and non-agricultural production activities remained subdued, thus restraining credit and foreign exchange demands of the private sector. Another good rice harvest helped to contain the full effects of intensifying inflationary pressures. Inflation, which reportedly remained below 4 percent,[13] has been repressed due to rigid administered prices and the appreciation of the real exchange rate. During FY97, the Government continued its policy of mini-devaluations and effected a 4.6 percent cumulative nominal devaluation of Taka vis-à-vis the US dollar in seven small adjustments. This was insufficient to stop a further reserve drawdown--to the tune of $320 million--and a 5 percent appreciation of the real exchange rate.[14]

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10 These were associated with unanticipated additional interest payments and sharp increases in fertilizer subsidies.

11 Aside from electricity tariffs, prices of urea, gas, and petroleum products are administratively fixed and adjusted fairly infrequently. Following a cumulative 15 percent increase in power rates in mid-FY97, GOB also raised urea (ex-factory) prices by 29 percent in June 1997, which still left the domestic urea price at less than half the international price and even below the production cost despite low-priced gas supplies. The much delayed adjustments in petroleum product prices, despite sharp increases in international prices, reduced non-tax revenues, while the sale of imported and domestically procured urea at the much lower domestic price significantly increased explicit fertilizer subsidies. In August 1997, the Government raised gasoline price by about 60 percent, and diesel/kerosene price by less than 2 percent.

12 Particularly in the first half of FY97, the Government faced a significant shortfall in non-bank borrowing as investors shifted their funds to the stock market when share prices were riding high. This also contributed to the Government's increased recourse to central bank financing and borrowing from the banks.

13 Based on the old (1973-74=100) Dhaka middle-income CPI series, calculated on a twelve-monthly moving average basis.

14 On July 21, 1997, the Government announced an additional 1.0 percent nominal devaluation vis-a-vis the US dollar.

17. Corrective measures are needed to strengthen macroeconomic balances and sustain macroeconomic stability. It will be important to contain the growth of credit to the Government[15] within prudent levels in order to meet private sector credit demands and facilitate revival in private investment. Continuing to accommodate the Government's excessive credit demands will risk fueling inflation and lead to a further loss of reserves. This would threaten economic stability, given that the foreign exchange reserve cushion has already been lost.

18. *Need to reduce subsidies and raise revenues* It is essential to continue adjusting gas, urea, and petroleum products prices to ensure that they reach economic levels.[16] This would reduce the distorting effects of subsidies and improve non-tax revenues. However, in view of its very low ***revenue mobilization effort***--about 12 percent of GDP in contrast to 18-20 percent in other South Asian countries--Bangladesh needs to continue expanding coverage of the VAT and income taxes. Such structural fiscal measures, together with improvements in tax administration, are needed to achieve lasting improvements in the revenue/GDP ratio and government savings. Of course, there is also a need for serious effort to contain the growth of budgetary expenditures in line with the available resource envelope and drop low-priority/questionable expenditure programs--which are discussed subsequently in Section B.

19. The policy measures announced with the FY98 budget do not appear to be sufficient to address the above cited structural weaknesses in fiscal balances. Some of the positive policy measures include: the extension of VAT's coverage; removal of a few VAT exemptions; rationalization of the supplementary duty (SD) system; and a further simplification of tax payment procedures with increased provision of self assessment. However, the introduction of a 2.5 percent import (*Infrastructure Development)* surcharge (IDS), which is intended to raise the tax revenue/GDP ratio, constitutes a reversal in trade liberalization. Even with these measures, budgetary pressures may continue in FY98 in view of the optimistic projections on the revenue side and possible underestimation of expenditures. In order to restore macroeconomic stability and maintain the budget deficit within a sustainable range, additional measures discussed in this section would be needed.[17]

20. ***In this context, it is important to emphasize that improving aid utilization--through improvements in project implementation and acceleration of policy/institutional reforms--would contribute to strengthening of fiscal balances***. Better aid utilization would also increase, given the very high concessionality of foreign aid, the size of the fiscal deficit which can be sustained and the development impact of the additional spending, under, of course, sustained sound macroeconomic management. These points are analyzed in much greater detail in a technical note given in Annex I; (the latter annex presents some estimates of the size of sustainable budget deficit for Bangladesh for different rates of real GDP growth, inflation, real exchange rate depreciation, and for various public external/domestic debt to GDP ratios).

21. In relation to the preceding issue, it needs to be pointed out that the servicing of highly concessional external debt should not pose a problem for Bangladesh. The debt servicing capacity of Bangladesh has been improving as a result of fast increase in the exports to GDP ratio and strong

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15 On a year-on-year basis, growth of credit to the Government reached over 27 percent by end-June 1997. Indeed, in contrast to the initial budgeted figure of zero bank borrowing to finance budget deficit, the actual net bank borrowing by the Government amounted to a sizable 1.3 percent of GDP in FY97.

16 On grounds of equity and poverty alleviation, it would be desirable to continue the policy of keeping diesel and kerosene prices relatively lower, but keeping the price differential within certain limits so as not to encourage whole-scale substitution.

17 For a detailed discussion of desirable measures for strengthening macroeconomic balances, see the World Bank report : *Bangladesh : Annual Economic Update : Recent Economic Performance, Policy Issues and the Priority Reform Program*, September 1997.

performance of workers' remittances, as also reflected in a steady decline of the debt service ratio since the mid-1980s (see Statistical Appendix, Table 2). This positive trend in external sustainability will continue if the increased emphasis on strengthening the economy's export capacity is maintained by: continuing import liberalization to further reduce the remaining anti-export bias of the trade regime; maintaining a competitive real exchange rate policy; and intensifying efforts aimed at improving Bangladesh's investment climate. It needs to be noted also that concessional external loans, which carry a nominal interest rate of around 1.0-1.2 percent, are mainly directed to priority development areas such as education, health, nutrition, infrastructure, energy, and rural development. By supporting high quality social sector and infrastructure programs, concessional loans contribute to the resulting high social returns to public expenditure programs and to the development of human capital and infrastructure, which are critical for strengthening Bangladesh's export capacity.

22. Below, the FY97 and FY98 sectoral public expenditure programs are reviewed and assessed (Section B). Then, the issues of "unapproved" ADP projects and of the absorption of the staff from completed public projects are discussed (Section C).

B. AN EVALUATION OF SECTORAL EXPENDITURE PROGRAMS

23. This section presents an overview of the recent developments -- including progress in formulating and implementing sectoral strategies, policies and institutional reforms, and an evaluation of the public expenditure programs in six key sectors -- agriculture, industry, power, infrastructure, education and health.[18] The evaluation of the expenditure programs is based on a review of the FY97 and FY98 ADPs and Three-Year Rolling Investment Program (TYRIP) for FY96-98, and selected areas of expenditure in the FY97 and FY98 Revenue Budgets. As part of this exercise, a sample of 91 projects warranting reexamination of rationale and priority have been identified, and these are presented in Annex II.[19] This evaluation also covers selected recurrent budget issues in some areas, particularly fertilizer, foodgrain operations, water resource, power and education.

B.1 Agriculture

24. Following a slowdown in recent years, growth in foodgrain production has recovered, partly reflecting favorable weather conditions and input availability. Future agricultural growth will have to rely primarily on enhancing land productivity and also exploiting the potential for diversification into higher value crops for domestic and external markets. Given the limited coverage of irrigation and HYV, considerable potential for yield improvement and growth still exists. Declining land productivity due to soil degradation is however threatening growth, and addressing this problem is a major challenge. The problem is attributed to a combination of factors, resulting from more intensive land use, including soil nutrient imbalances due to unbalanced application of NPK fertilizers, the increased appearances of micro-nutrient deficiencies, increased monoculture cropping of rice and changing cropping systems that maintain too low levels of organic matter in the soil. The incentive for the unbalanced application of NPK fertilizers is the low administered price of urea relative to fertilizers containing phosphate and potash.

25. A strategy to promote faster agricultural growth and diversification is needed. In this context, the Agriculture Commission set up by the Government in November 1996 could provide useful inputs for such

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[18] The World Bank has recently shared with the Government its comments on the investment program proposed in the *draft Fifth Five Year Plan* for each of these sectors.

[19] Out of these 91 projects, 68 have been included in the FY98 ADP, while 5 additional projects have been recommended for inclusion in the ADP after approval. In addition, 16 of these projects have been included in the TYRIP for FY96-98, while 2 have been completed recently.

a strategy. One task assigned to the Commission is to formulate a strategy for generating a surplus in foodgrains and to determine the required investment program. A foodgrain production target of 25 million tons by the end of the Fifth Five Year Plan period (FY98-FY2002) has been proposed. The target of generating a surplus itself requires careful reassessment as it could easily lead to sub-optimal development patterns in the sector.[20] Some of the other issues to be examined by the Commission are: the adequacy of food production for improving nutritional standards; better utilization of flood control and irrigation facilities; strengthening of agricultural research and extension; the future role of BADC and required reforms; consolidation of the rural credit system; and strategy for enhancing export of agricultural products.

26. The share of agriculture, broadly defined, in total FY97 ADP allocations was shown to be about 23.3 percent (Statistical Appendix, Table 6), while its share in the Revenue Budget is about 4.5 percent.[21] These estimates however do not fully reflect the total budgetary resources actually allocated to agriculture. This is because some input subsidies, ad hoc allocations for agricultural rehabilitation and producer price support are not reflected adequately or transparently in the agriculture budget, and in some cases not accounted for in the budget. Consequently, the true share of budgetary resources devoted to agriculture is higher than implied by these sectoral shares. The most sizable but unaccounted income transfer is the subsidy on sale of domestically-produced urea. There are also sizable budgetary transfers to parastatals like BADC and BWDB for manpower rationalization and wage support which have not been included in the agriculture budget. The implicit budgetary cost of producer subsidy provided in the form of price support through the domestic procurement program is not accounted for in the agriculture budget.

27. *Fertilizer* Fertilizer marketing has become increasingly more regulated in the past year as a result of formal restrictions on area of sales by dealers and informal restrictions on retail prices. This inevitably is likely to have led to inefficiencies in resource allocation and high costs of administering, policing and rent seeking. There has been no change in the inefficient system of dealership awarded to an enlisted group of traders. The rigid administrative restrictions limiting the area within which urea can be sold by each dealer still continue. Although the maximum limit on retail price of urea has been withdrawn officially, dealers have been subjected to informal restrictions from the local administration on their selling prices. In the face of a tight domestic supply-demand balance, restrictions on exports of urea have continued.

28. It is clear that subsidized and regulated distribution of urea is not a sound and sustainable means of delivering much needed fertilizer to the farmers. In addition to the high budgetary cost of subsidy (see Box 1), the regulated distribution system has also imposed high indirect costs -- in terms of imbalanced application of fertilizer nutrients and consequent decline in soil fertility, leakage of part of the subsidies to intermediaries and possibly farmers across the border, and in policing and administrative interventions. Heavy underpricing of urea has encouraged its excessive and wasteful use and led to an imbalance in application of nitrogen vis-à-vis phosphates and potash, and this has affected soil fertility and hence land productivity. It is altogether a harmful policy which should be abandoned.

29. *Seeds* The seed sub-sector in Bangladesh is quite underdeveloped, relative to the situation in India for instance, with a fairly small share of crop production being grown from quality seeds. The sub-sector suffers from inadequate investment. In this context, the Seed Development project, executed by the Seed Wing of BADC (Annex II, project 1.1), is not conducive to active private sector participation, as envisaged under the revised Seed Policy. As explained in Annex II, the project, through its underpricing

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[20] World Bank's assessment cited in footnote 17 provides detailed comments in this regard.

[21] Agriculture broadly defined includes crops, forestry, fisheries, livestock, rural development and water resources.

of seeds is likely to have discouraged more active private participation and growth in the seeds sub-sector. While the revised Seed Policy of 1993 called for further liberalization in the seeds sub-sector and more active involvement of the private sector, its implementation was constrained by the absence of legislation until the recent approval of the Seed Act in March 1997.

Box 1: The Cost of Fertilizer Subsidy

The economic subsidy on urea produced domestically by BCIC has not been accounted for in the national budget for many years. Because of shortfalls in domestic urea production last year, budgetary funds had to be released to BCIC for sizable commercial purchase (about 0.44 million tons of urea in FY97) at world market prices. BCIC's estimate of the domestic production cost of urea is a poor indicator of the social opportunity cost of gas and capital, given the underpricing of gas supplied to the fertilizer sector, and inadequate allowance for depreciation and interest costs. The widening gap between domestic and world prices of urea has not been addressed for a long period. Under the pressure of increasing budgetary burden of subsidy, compounded by sizable commercial imports, ex-factory price of urea was raised by 29 percent in June 1997. Following this increase, ex-factory price is still less than half the import parity price. Based on the import parity price in FY97, the total economic subsidy on urea sales is estimated to have been about Taka 14 billion in FY97. This is a sizable income transfer, equivalent to almost two and a half times the FY97 ADP allocation for agriculture, only a small part of which has been reflected in the national budget under "other subsidies" and not under the agriculture budget. These subsidies need to be fully accounted for in the agriculture budget to encourage efficient allocation decisions based on transparent choices between competing claims for investment and income transfers in agriculture. Much of the benefits of fertilizer subsidies have accrued to traders and other intermediaries and richer farmers. The opportunity cost of the large income transfer on account of the urea subsidy are the foregone worthwhile investment, such as rural infrastructure in the growth centres, which could have been financed with these resources and would have resulted in a much larger growth and poverty impact. It would therefore be desirable to continue urea ex-factory prices towards the relevant border prices.

30. *Water Sector* The water sub-sector has received about 9 percent of total ADP allocations in recent years. The Teesta Barrage, one of the largest projects in the water sector, has claimed a sizable amount of the sector budget, with cumulative spending of about Taka 9.7 billion so far, and additional spending is planned in FY98[22] (Annex II, project 1.7). In the context of the rapid development of minor irrigation by farmers in the project's command area, additional investments under the project should be limited to the minimum required to realize benefits from the investment. The proposal for a phase II of the Teesta Barrage project should be reexamined on the same grounds stated above for which more spending on the original Teesta Barrage project has been questioned.[23]

31. One priority area in the water sector is O&M, for which budgetary provision has been limited -- about Taka 0.5 billion in FY97. Much of these funds have been diverted for wage payments, leaving little for the non-wage components of O&M. Cost recovery for BWDB's irrigation schemes has been very poor. Annual cost recovery (as irrigation water charges) in recent years has been merely Taka 9 million, or just 2 percent of the annual O&M allocation. This problem has been largely due to the lack of political commitment and is essentially a governance issue. Political announcements of waivers have nullified the prospects for cost recovery. Given the large O&M needs of the sub-sector, new approaches would need to be tried in order to achieve a more sustainable basis for O&M activities. One proposal worth considering is to allow local Government bodies and stakeholder organizations to recover and retain water user fees to finance maintenance activities of water sector investments under

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22 Out of this total, cumulative taka spending on the Teesta Barrage project so far is Taka 7.6 billion, which is equivalent to 180% of GOB's taka funding (Taka 4.25 billion) for the water sector in the FY98 ADP.

23 The plan under the proposed phase II of the Teesta Barrage project is to cover 0.43 million hectares, compared to 0.11 million hectares under phase I.

local control, and make them accountable for managing this task. If warranted, budgetary support to supplement these fees could be provided on a matching-grant basis.

32. *Public Foodgrain Operations* Given the favorable foodgrain production in FY97, commercial imports this year was limited (112,000 MT) but sizable domestic procurement of rice (615,000 MT) has compounded the net cash outlay on account of food operations. While the Public Foodgrain Distribution System (PFDS) consists largely of targeted channels for the poor, monetized channels still account for 20 percent of the PFDS distribution. The budgetary subsidy on foodgrains and edible oil sold under these monetized channels is considerable. In FY97 the subsidy was Taka 3.5 billion, which is projected to rise to Taka 3.9 billion in FY98. This subsidy accrues to the non-poor, primarily the "essential priority groups" (consisting of defense personnel, paramilitary and law enforcement agencies), and partly to flour mills and "large employers." The rationale for this substantial subsidy is therefore highly questionable. Sizable domestic procurement, subsidized sales and high non-monetized distribution have all contributed to a large net cash outlay under the food budget, estimated at about Taka 12.5 billion in FY97, and this has contributed to the deterioration in the overall fiscal deficit.[24] The problem of stock disposal is being compounded due to quality deterioration, particularly for the boro rice which is more prone to deterioration.

33. Three ADP projects relating to public foodgrain operation (Annex II, projects 1.4-1.6) have been identified in Annex II for questionable rationale and priority. The construction of new food godowns in selected locations needs reexamination in the context of the overall surplus storage capacity in the public sector and the diminished role of the state in food distribution, which should be limited to only targeted channels. The project for building a silo at Mongla needs to be reexamined in the context of the long-run uncertainty about the location of the port itself. The Flour and Animal Feed Mill is a business activity, which should be privatized. The BMRE decision should be left to the new private owners and the project should be closed down. It is a mistake to carry out BMRE prior to privatization as the new owners should be in the best position to decide what is needed to assure a profitable operation.

34. Recommendations

Some key suggested actions include the following :

- Avoiding policies under the foodgrain production strategy which might distort the incentive regime and discriminate against non-cereals and thus discourage agricultural diversification; considering adequately demand-side factors, including export prospects, in planning the expansion of cereal production.

- Examining critically and rationalizing the projects and public interventions in agriculture, including public foodgrain operations, based on the appropriate role of the state vis-à-vis the private sector, and refocusing on only those areas with a clear "public good" rationale ; critically reviewing projects 1.1-1.7 identified in Annex II and taking appropriate actions.

- Liberalizing markets for fertilizer by removing existing policy distortions and reforming the regulatory framework; the key elements of the fertilizer sub-sector policy reform are : (i) alignment of domestic ex-factory price of urea with international price within a reasonable time frame; (ii) replacement of the dealership system and the administrative restrictions on area of sales by a market-based distribution system; (iii) effective deregulation of retail prices; and (iv) privatization of fertilizer factories.

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[24] Non-monetized distribution in FY97 was 1.13 million tons -- consisting of a record volume (0.62 million tons) of rice and 0.51 million tons of wheat -- which accounted for a record share (81 percent) of total PFDS distribution.

- Accounting fully for all subsidies, ad hoc allocations and block grants to agriculture in the agriculture budget so as to facilitate transparent allocation decisions based on efficient choices between competing claims for investment and income transfers in agriculture; fully accounting for both the explicit and hidden subsidies on fertilizer and transferring this budgetary provision to BCIC to compensate for its loss on account of the domestic underpricing in the interim period before the fertilizer subsidy is phased out.

- Rationalizing the institutional and regulatory framework and incentive regime in the seeds sub-sector through : (i) abolition of the Seeds Project and, based on the ongoing review by the Agriculture Commission, conversion of the Seed Wing of BADC into an autonomous company operated commercially and with full representation of stakeholders on its Board; (ii) limiting activities of the new entity to just foundation seeds, and effective implementation of the policy of access to breeder seeds by the private sector; and (iii) strengthening of the Seed Wing of the Ministry of Agriculture (MOA).

- Empowering local government agencies and stakeholder organizations to recover and retain user fees to finance O&M of water sector investments, while being made accountable for efficient management of this task.

- Abolishing all monetized channels of the PFDS -- the Open Market Sales (OMS), large employers and flour mills -- there being no justification for government's involvement in these trading activities.

- Transferring the food distribution among the essential priority groups and associated food subsidies to the relevant budgetary Heads and subsequently monetizing these in-kind benefits.

- Scaling down the level of domestic procurement -- in view of limited prospects for stock disposal and the likelihood of deterioration of old stocks -- and reviewing and prioritizing the coverage of non-monetized distribution and limiting its level to a sustainable level in order to contain the rising food account deficit, which is contributing to the deterioration in the overall fiscal deficit.

B.2. Industry

35. It is the Government's stated policy that investments in manufacturing should be the domain of the private sector, while the role of the state should be to provide promotional services and set up an appropriate regulatory framework. This is a sound policy. Withdrawal of the public sector from existing manufacturing and other business activities is in line with the need for the Government to focus its resources and attention on priority areas. An additional rationale is that for many years manufacturing SOEs have preempted public resources from other more worthwhile purposes while generating little economic or social return and depriving the public of the benefits of services which could otherwise be funded with these monies. Their huge losses have been financed through budgetary transfers or bad loans, thus imposing a heavy budgetary burden and cost on the banking system. The losses of the 5 major manufacturing corporations -- BSEC, BSFIC, BCIC, BTMC and BJMC -- rose sharply to Taka 6.4 billion in FY97. It is imperative that existing manufacturing SOEs are privatized expeditiously in order to minimize their further costs to the economy. In addition, new public investment in manufacturing needs to be ruled out to avoid repeating the mistakes of the past.

36. *Privatization* The privatization program in Bangladesh has been lagging conspicuously in recent years, with only 12 SOEs being divested during 1993-1996. Some 64 manufacturing SOEs were targeted for privatization in FY97 but very little progress was achieved during the year. The activities of the

Privatization Board (PB) were seriously hampered by the absence a Chairman for a long time. The recent appointment of a private sector representative as Chairman has led to a revival of activities of the PB after a long period of standstill. Limited progress has been achieved in recent months, with the issuance of letters of intent (LOIs) to successful bidders for 8 SOEs. Also a decision has been taken to offload the shares of additional 8 SOEs in the capital market. Some 60 enterprises have been recently identified for privatization in FY98. The overall progress so far has been very limited, with no SOE being handed over yet since 1996. A strong political commitment to the privatization program and a much more decisive stance are warranted for the much needed success of the program.

37. While the share of ADP allocation for industry has come down in recent years -- 1.6 percent in FY97) (Statistical Appendix, Table 6) -- there are now clear indications of a policy reversal. The FY98 ADP and the TYRIP for FY96-98 show that a number of new manufacturing projects, including some large ones, are being initiated under the public sector. It may be noted that while the share of ADP allocation for industry is shown to decline to 1.2 percent in FY98, the 11 new projects being initiated for FY98 have a large combined project cost of Taka 22.5 billion, equivalent to 18 percent of the total FY98 ADP size. If these investments go ahead, the budgetary share of industry will rise again.

38. Based on a review of the public sector industrial investment program in the FY97 and FY98 ADPs and the TYRIP for FY96-98, some ongoing and planned projects with questionable rationale and priority have been identified in Annex II (projects 2.1-2.21). Public sector involvement in these projects appears unwarranted and could be avoided with more committed adherence to the Industrial Policy and the privatization program. Some recently completed and ongoing projects include setting up a *new sugar mill* and installation of *spindles in 10 textile mills*, which should not have been initiated in the public sector. The investment program also includes a number of *BMRE projects* -- in fertilizer, pulp, paper and newsprint, cement, jute and textiles. While BMR is generally not a low priority activity, in the context of the stated policy that manufacturing enterprises should be divested, it is prudent to leave BMR decisions to future private owners, rather than the SOEs taking the risk of a possible wrong decision. BMR activities should be limited to just those which are critical for continued operation, provided these are undertaken within the context of a privatization strategy and a clear commitment to divest. It may be noted that BMRE projects (Annex II, projects 2.1, 2.7, 2.8 and 2.11) are being initiated even for SOEs which have been included in the privatization program for FY98. Given the uncertainty about prospective private owners' future plans regarding the continuation of existing lines of production and possibility of restructuring, BMR decisions by SOEs could turn out to be wasteful.

39. <u>*Proposed New Projects*</u> The major concern now is that about 15 new industrial projects, including some large ones, are being initiated or planned in the public sector (Annex II, projects 2.1-2.7, 2.11, 2.12, 2.14, 2.15, 2.18, 2.20 and 2.21). The list includes *three new large fertilizer plants* -- Shahjalal Fertilizer Factory (costing $242 million), a urea fertilizer factory in the Northern/Southern part ($386 million) and Di-Ammonium Phosphate Plant at CUFL ($70 million) -- and *one paper plant* at Sylhet Paper and Pulp Mill ($19 million).[25] Three large BMRE projects -- BMRE of Chhatak Cement Factory ($37 million), BMRE of Karnaphuli Paper Mill (KPM) ($79 million) and BMRE of Carew and Company Sugar Mill ($8 million) -- are also being initiated.

40. <u>*Fertilizer Sub-Sector*</u> Additional investment could be warranted in the fertilizer sub-sector, as urea requirements are expected to expand with crop sector growth in the foreseeable future. However, such investments should be carried out by the private sector. The incentive regime in the fertilizer sector is distorted because of administered underpricing, with ex-factory prices being less than half the world market prices, and an embargo on exports (except by KAFCO), which will no doubt discourage foreign

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[25] Capacity expansion is being initiated at the Sylhet Pulp and Paper Mill (Annex II, project 2.6) despite the fact that this SOE has been identified for privatization in FY98.

investment in the sector. Unless these policy distortions are addressed and an environment conducive to private investment is established, domestic production capacity could lag behind fertilizer requirements, leading to possible shortage and import dependence.

41. *Export Processing Zones* The recent enactment of a Private Sector EPZ Act (PSEPZA) is a welcome development since it provides the legal basis for private sector participation. Following this enactment a Korean company has expressed interest in setting up a private EPZ in Chittagong. At the same time three new public sector EPZs are being initiated in Gazipur, Mongla and North Bengal, while the extension of the Dhaka EPZ is planned (Annex II, projects 2.12-2.15). A concern is that increasing public sector involvement in setting up new EPZs is likely to send a conflicting signal to prospective private investors and could lead to a crowding out effect. GOB should scale down public sector investment and instead focus on improving the business environment in order to attract FDI for private EPZ development. It should be noted that efforts by the Government to speed up infrastructure development and facilitate land acquisition by the private sector are likely to have much greater economy-wide impact on industrialization than developing EPZs under the public sector.

42. *BSCIC Estates* Industrial estates have been set up by BSCIC with ADP funding for many years but the experience has been mixed (Project 2.16). Some estates have been seriously underutilized for many years, because of diverse factors, including inappropriate location, but the unused plots have not been reallotted to other entrepreneurs. Another questionable aspect of the estate allotment policy has been the provision of industrial land at subsidized prices below the market rate. Such public policy is neither necessary for promoting small scale industries nor desirable because of disincentives for private sector participation. Public sector involvement should no longer be necessary for the development of such estates. This activity can now be left to the private sector and BSCIC's role should be limited just to promotional services. There is every reason to prefer the private sector to develop industrial estates and parks, particularly with active cooperation of public sector agencies providing utilities and infrastructure facilities, if this is a viable investment proposal.

43. One large project with questionable rationale for public sector involvement is a proposed *Dhaka World Trade Centre* project, costing $122 million (Annex II, project 2.21). This project appears in the TYRIP, which shows commencement of implementation in FY98 but the project does not yet appear in the FY98 ADP. Strong reservations had been expressed earlier about this "prestige" project, which, being a business activity, should be left for the private sector.

44. The continued involvement of the public sector in manufacturing enterprises, particularly initiation of new projects, is not consistent with the Government's stated policies on the role of the state and raises questions about its industrialization strategy and commitment to leave all business ventures to the private sector. At a time when initiatives are underway to involve foreign investors in energy, such involvement of the state in manufacturing does not augur well for industrial development. The manufacturing projects discussed above are all business activities which should be left to the private sector. If capacity addition is warranted in these sectors, the private sector is capable of carrying out feasibility assessments and undertaking the necessary investment. A reexamination of the industrial sector strategy by the Government, as also a critical review of the industrial investment program, is highly recommended. If the implementation of the above-mentioned projects goes ahead under the public sector it would raise questions about the credibility of the Government's industrial policy and the government's commitment to privatization.

45. Recommendations

- Announcing a clear privatization policy with a strong political commitment to implementing the privatization program. Some key suggested actions are : preparation of a privatization policy paper and its approval by the Cabinet; early action on a Privatization Act, which is under preparation and will require approval by the Cabinet and parliament, in order to strengthen the legal framework for privatization; setting up of a Cabinet Committee on Privatization to be chaired by the Prime Minister; Cabinet approval of the list of SOEs to be privatized every year; greater empowerment and operational autonomy of the Privatization Board (PB); and review and revision of tender conditions which have introduced rigidities.

- Critically reviewing the proposed industrial investment program in the FY98 ADP and the TYRIP (FY96-98), particularly the new proposed investments, in the light of the specific reservations explained in Annex II (projects 2.1-2.21) and taking appropriate actions -- limiting of investment in ongoing projects to the minimum necessary to make the enterprises ready for privatization, and dropping the proposed new investments from the ADP and TYRIP.

- Adopting a cautious and selective policy on BMRs, limiting such investments to critical maintenance necessary for continued operation, within the context of a privatization program, and avoiding capacity expansion through BMRE as a matter of policy.

- Avoiding new projects for expanding existing EPZs or establishing new EPZs in the public sector, in the context of the recently approved Private EPZ Act.

- Focusing on improving the industrial regulatory framework and removing distortions in the incentive regime and reorienting the public sector agencies responsible for promotional services, utilities and infrastructure facilities, in order to enhance prospects for attracting FDI into industrial projects.

B.3 Power

46. While there has been an urgent need to enhance electricity supply to support the targeted economic growth rate, sectoral development and expansion of power supply have been severely constrained by the poor operating performance of the parastatals, BPDB and DESA, largely because of management and governance problems. Earlier in the year the power shortage was exacerbated by problems of gas supply to some of the power plants, which led to load shedding, thus seriously affecting economic activities. One factor underlying this problem has been a loss in generation capacity due to neglect of routine and preventive maintenance for many years, in addition to derating of capacity due to normal depreciation. This resulted in capacity falling significantly to about 2000 MW, or only two-thirds of the installed capacity (2908 MW). About one-fourth of installed capacity has been out of service or in poor state. Another problem has been the lack of effective load management to deal with the variable load problem, with the load varying from a base level of 1300 MW to a peak level of 2100 MW. Much of the current power shortages could have been avoided with timely and adequate routine and preventive maintenance, better load management and more timely construction of the Ashuganj-Bakhrabad (A-B) gas pipeline. The short-term problem is being tackled through the rehabilitation and expansion of some old power stations, and the recent completion of the A-B gas pipeline.

47. *Power Sector Reform* There has been noticeable progress in power policy reforms and in improving the institutional framework. GOB has adopted a sound policy framework for restructuring the power sector and promoting private sector participation in the generation of electricity. After a slow and delayed start by the Power Cell (PC), progress has been achieved in preparing a power sector reform program. The Power Cell (PC) has been mandated to act as the focal point to lead private power

development, recommend power sector reforms and restructuring, conduct study on tariffs and formulate regulatory framework for the power sector. A *private sector power generation policy* (PPGP) was approved in October 1996. This policy states that new power generation capacity will be created through Independent Power Producer (IPP) projects to be implemented on a BOO basis. A standard "security package" and "request for proposals" (RFP) have been prepared for soliciting offers from IPPs. In the absence of prior experience by the Power Cell in dealing with IPP projects, the Bangladesh Power Development Board has been temporarily involved in inviting and finalizing bids from IPPs for selected projects -- 4 barge-mounted power plants and the Meghnaghat power plant. For the future, however, given the need for a consistent and coordinated approach, it is expected that only the Power Cell, in line with its mandate, will be processing IPP projects.

48. A program has been initiated for unbundling power sector operations and creation of independent and commercialized entities to gradually take over the functions of BPDB and DESA. The Power Grid Company of Bangladesh (PGCB) and the Dhaka Electric Supply Company (DESC) have been incorporated. The distribution networks are being rationalized and a redefined boundary for DESA/DESC/REB has been approved. Progress in transferring assets to PGCB and DESC and making them fully operating has however been slow. Since unbundling is a key element of the reform, it is vital that a firm time schedule be adopted for the transfer of assets and operations to these entities. After a long gap since the last adjustment in September 1991, power tariffs were raised by 15 percent in two installments in October and December 1996, and by a small increase in March 1997.[26]

49. *IPP Projects* GOB has been actively seeking private investment in power generation in order to improve power supply in the medium-term. Bids have been received, solicited or are being initiated from IPPs for the following power plants :

- Four barge-mounted power plants, two at Khulna (200MW), one at Haripur (100 MW) and one at Sikalbaha (100 MW) under BOO arrangement;[27]
- Gas turbine power plant at Mymensingh (60 MW);
- Combined cycle power plant at Meghnaghat (300-450 MW);
- Power plant at Haripur (300 MW) ;
- Power plant at Baghabari (100MW);
- Combined cycle power plant at Baghabari (300 MW); and
- Power plant at Khulna (210 MW);

50. While the stage of processing and gestation period of the above-mentioned plants will vary, it should be noted that the combined effect of all these investments will be an addition to installed capacity by 1570 -1720 MW or over 50 percent of the current installed capacity. To this should be added the capacity to be recovered through rehabilitation and expansion of existing power plants as well as the commissioning of the second Raojan Power Plant (210 MW) and the Ghorashal 6th Unit (210 MW). At the same time, total capacity needs to be discounted on account of some old plants which are nearing the end of their economic life and could need to be shut down in the near-term. If all the above investments are carried out, "installed" capacity would rise significantly from the present level of 2908 MW to about 5000 MW.

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[26] The increase in March 1997 was Taka 0.05/Kwh or about 2.5 percent

[27] The Government has recently signed two agreements with IPPs for setting up two barge-mounted power plants, one in Khulna and the other in Haripur.

51. *Proposed Public Investment* The above estimate (para 50) does not include the following four generation plants (Annex II, projects 3.1-3.4) that are being initiated or planned in the public sector, under BPDB's direct investment, as shown in the FY98 ADP and TYRIP for FY96-98 :

- Coal Based Barapukuria Plant (250-300 MW)
- Shahjibazar Gas Turbine Power Station (60 MW)
- Baghabari Gas Turbine (Second Unit) (71 MW)
- Sylhet Gas Turbine (100 MW)

52. The initiation of public sector investment in the above-mentioned projects warrants reexamination, particularly in the context of the PPGP. If capacity addition is justified and viable for the three gas-turbine plants listed above (Annex II, projects 3.2-3.4), they should be offered in the first instance to IPPs under the PPGP on a BOO basis. The cost effectiveness of the Barapukuria power plant, on the other hand, seems questionable, especially if compared with the cost of gas-based plants.[28] Clearly it is necessary to evaluate various options, including re-sizing or postponing of the power plant and determine the least-cost option. In this exercise, possible revisions to gas reserves estimates should also be considered in the light of recent findings and initiatives in gas exploration. If after such an analysis a coal-based plant is justified, the project should be offered to IPPs under the PPGP. It should be noted that the four projects listed above (para 51) would mean adding up to 531 MW of capacity to the estimates indicated in para 50. A comprehensive assessment of the need for these proposed public sector investments, taking account of all the IPP and other investments that are in the pipeline, is warranted.

53. Recommendations

- Establishing an appropriate legal/regulatory framework and transparent pricing policy for the unbundled power sector, with a view to promoting efficiency, competition and lower cost. In this context, early actions are warranted in some key areas: (i) early transformation of PGCB and DESC to become fully operating companies within a reasonable time frame; (ii) commercialization of BPDB's generation assets and establishment of profit centres; (iii) commercialization and corporatization of the distribution units; (iv) private sector participation by way of rehabilitation, operation and maintenance (ROM) contracts in selected profit centres; (v) establishment of a regulatory body to oversee operating entities; (vi) revision of electricity legislation; and (vii) recasting of the power tariff structure so as to reflect operating costs better and ensure financial health of the sector entities.

- Deciding carefully on new power purchase agreements and investment, based on close monitoring of all new initiatives in power generation and rehabilitation/expansion programs in the pipeline, and assessing their implications for total power availability, in order to ensure that power supply is not out of line with projected demand and the capacity of the transmission and distribution networks.

- Giving attention to the implications of new power generation for investment in transmission and distribution capacity, and initiating required investments on a timely basis so as to avoid potential problems in the utilization of the enhanced power generation.

- Assessing carefully the implications of the proposed addition to power generation capacity for requirements of natural gas, and hence for investment in gas exploration, production and infrastructure development, in order to ensure that the utilization of the enhanced power generation capacity is not constrained because of inadequate gas supply.

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[28] The Barapukuria Power project (cost Taka 15.4 billion) is based on coal to be supplied by the Barapukuria Coal Mine (project cost Taka 8.9 billion.). Some infrastructure investment is being made for transporting coal from the mine to the power plant.

- Institutionalizing routine and preventive maintenance, which has been neglected in the past, and implementing an action plan for this purpose.

- Reexamining BPDB's proposed direct investment in the 4 public sector power generation projects (Annex II, projects 3.1-3.4), which, if feasible and justified, could be carried out through IPPs, taking into account the private sector generation projects in the pipeline and the projected power supply-demand balance.

B.4 Infrastructure

54. Bangladesh has an extensive rural road network, representing one of the highest density of roads among developing countries in Asia. However only 5 percent of these roads are in good condition, while 78 percent are in much less satisfactory but usable condition, and 17 percent are in poor condition.[29] The use of this extensive rural road network is severely limited by the existence of a large number of road gaps, inadequate drainage structure and uneven surface. In the past much of the rural infrastructure investment was carried out on an ad hoc basis, with emphasis on new road construction, rather than adequate priority to the O&M of the existing road network and its utilization. Increasing amounts of budgetary funds have been made available for O&M in the road sector in recent years but these have not always been effectively used. Consequently, the backlog of maintenance work is still considerable. The growth potential has not been realized in some areas with high demand for good roads and importance for the national economy, such as greater Dhaka and the Chittagong region, because of lack of prioritized road development.

55. *Rural Infrastructure Strategy* A Rural Infrastructure Strategy Study (RISS), which has been prepared recently by the World Bank in association with the LGED, Ministry of LGRD and Cooperatives and Planning Commission, will provide a useful basis for future investment planning A road prioritization plan for feeder road A is being prepared for the IDA-financed RRMP-III project. A prioritization study for feeder road B is being initiated under the IDA-financed RRMIMP-II project. These are expected to provide a basis for well prioritized feeder road development. The RISS confirms that rural infrastructure development should be based on the "growth centre" approach, focusing public investment on centres which have the greatest growth potential and are selected on the basis of well-defined criteria. The immediate priority is to invest in improving the quality of existing roads, particularly feeder roads connecting high growth centres, rather than constructing new roads. For the rest of the road system, the focus should be on providing all-weather accessibility, which can be achieved relatively cost effectively.

56. *Urban Development* Sound urban development has been constrained by the absence of a comprehensive urban strategy, and inadequate coordination and inappropriate division of functions between the public sector agencies responsible for urban services. A major constraint has been the weak institutional framework and capacity of the municipal authorities, as well as poor cost recovery and inadequate resource mobilization. Master Plans were prepared for Dhaka and Chittagong in 1995 but these have not been effectively reviewed, revised and finalized. They have some major shortcomings. The Government is currently working on the preparation of a Dhaka Urban Transport project with the assistance of the World Bank in order to address the increasingly difficult traffic situation in Dhaka. A Private Sector Infrastructure Development (PSID) project aimed at facilitating private sector involvement in infrastructure has reached the implementation stage.

57. Based on a review of the investment program for roads, inland water transport, physical planning and housing sub-sectors, a number of projects with questionable rationale and priority have been identified

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[29] See : World Bank, *Bangladesh : Rural Infrastructure Strategy Study*, page 7, Table 3.

in Annex II (projects 4.1-4.10 and 5.1-5.12). The two public priority roads projects (4.1 and 4.3) include roads which have been based on ad hoc decisions, rather than prioritization plans or feasibility assessments. The *thana connecting road project* (4.2) is a massive project which raises a question about the budgetary sustainability of project financing as well as future O&M costs. In addition, this includes a large number of roads which have not been selected on the basis of feasibility studies or a prioritized investment plan. Only 4 percent of the project costs are allocated annually, which means thin spreading of resources on too many roads, which will take many years to complete, thus deferring benefits into the distant future.

58. The investment program includes two urban road projects, a flyover and a bypass road project (Annex II, projects 4.4 and 4.5), which need to be considered in the context of a comprehensive assessment under the proposed Dhaka Urban Transport project. The construction of a *three-star hotel* (project 4.6) in the public sector is not justified since this is a business activity which should be left to the private sector. Also the rationale and priority of 4 projects (projects 4.7-4.10) of the BIWTC for the acquisition of new ferries and passenger vessels warrants reexamination. There are seven ADP projects (Annex II, projects 5.1-5.3, 5.5, and 5.7-5.9) for housing construction for Government employees with questionable rationale and priority, and the concerns have been elaborated in Annex II.

59. There are two large projects (Annex II, projects 5.6 and 5.11) for land and town development, executed by RAJUK. The concern here is that these projects are not in line with the appropriate role of the public sector and could have undermined a more active role by the private sector in land development. The role of RAJUK needs to be reviewed and revised to distinguish between three distinct functions: (i) town planning; (ii) regulation of city development in the context of master plans and building codes; and (iii) housing schemes and site development, which should largely be in the private sector. The Government should focus on the measures, including setting up an efficient regulatory framework, necessary for developing efficient land and housing markets and promoting active participation by private developers.

60. Recommendations

Steps need to be taken to:

- Prioritize the investment program for roads, inland water transport, physical planning and housing sub-sectors, focusing on the projects identified in Annex II (projects 4.1-4.10 and 5.1-5.12);
- Institutionalize an objective system for identification of new feeder roads, based on feasibility assessments and prioritized plans, such as the plan for Feeder Roads A being prepared for the IDA-financed RRMP-III project, and that for Feeder Roads B to be prepared under the IDA-financed RRMIMP-II project;
- Adopt and adhere to the priorities identified in the RISS for the development of rural infrastructure in the future; and
- Emphasize user/community participation in planning, implementation and monitoring of infrastructure projects; promote improved use of local resources, greater selectivity in choosing investments in keeping with priority needs, and emphasis on building and funding a sustainable maintenance system.

B.5 Education

61. Education has received a sizable share of budgetary resources -- accounting for 18.3 percent of the revenue budget and 13.5 percent of the ADP in FY97 (Statistical Appendix, Tables 4 and 6 respectively). While educational spending has been increasing noticeably over the years, there are questions about the

efficiency and effectiveness of the public educational system and the quality of education, which is generally poor at all levels. While considerable progress has been made to update curriculum and textbooks at primary levels, these are relatively outdated at the secondary level. In addition, poor use of instructional time, inadequately trained teachers, low student and teacher attendance, weak management and lack of supervision, and low community participation have all contributed to the low quality. Low internal efficiency generally permeates all levels of education, as reflected by high dropout and repetition rates, leading to wastage of resources devoted to the education sector.

62. *Sectoral Policy and Priority* The priority need in the sector is to improve efficiency of the education system and quality of learning. This will require greater prioritization of the sectoral expenditure program, including improvement of the intra-sectoral balance in the education budget and streamlining of the assistance to private institutions to enhance their impact and effectiveness. Given the limits on budgetary resources and the massive needs of the sector, financing strategies need to capitalize on the community contribution to the provision of education and ensure that the burden of costs do not fall heavily on the poor. In January 1997, the Government constituted a 54-member committee to prepare a national education policy. It was decided that this work would be based on the 1974 Qudrat-e-Khuda Education Commission report. The Committee has recently submitted its report to the Government. This report is expected to be reviewed widely before it is adopted as a basis for a new national education policy. In addition, a Primary Education Committee has been deliberating on the problems and priority reforms in the primary education sub-sector.

63. *Primary Education Development Program* The Government has prepared a primary education policy statement which reiterates its commitment to the development of primary education. The primary education sub-sector still faces problems in the efficiency of education and quality of schooling, equitable access, and limitations in management, planning and evaluation. GOB has prepared an ambitious Primary Education Development Program (PEDP) for the period 1997-2002 which aims to focus on these critical problem areas. With support of bilateral and multilateral donors, the Government will implement an agreed investment program focusing on raising learning achievements and enhancing institutional capacity to plan, implement and monitor the primary education program.

64. *Salary Subvention* The major category of recurrent expenditure in education is the Government's support for salary subvention of teachers in private secondary and higher educational institutions. Annual spending on subvention is about Taka 7.7 billion, or 76 percent of the secondary and higher education budget and 33 percent of the recurrent education budget. Demands for such support have been increasing noticeably in recent years because of the increasing number of enlisted educational institutions. The number of schools, madrashas and colleges benefiting from this support has increased significantly -- from about 5 thousand in 1980 when the scheme was introduced to about 20 thousand at present. This expansion in enrollment and demand for salary support raises a question about the budgetary sustainability of the subvention policy. Also given that the subvention is not linked to performance, it raises a question about whether the subvention policy in its present form is the most worthwhile means of addressing the priority problems and needs in the sub-sector, particularly the quality of education. Linkage of subvention grants to performance indicators will be a critical pre-condition for enhancing the effectiveness of this major budgetary support provided to private educational institutions.

65. Although subventions have been accounting for a very large share of the Revenue Budget for education they have been subjected to very little financial audit and there has been no provision for performance audit. The accounts of educational institutions receiving subvention support have not been audited adequately for many years, partly because the Department of Inspection and Audit (DIA) under the MOE has been very under- equipped in terms of manpower and logistics to carry out its functions. The DIA has been able to audit only about 1500 institutions, or less than 10 percent of the institutions receiving subvention, every year. Recent inspections and audits by the Office of the Auditor and Comptroller

General and by the DIA have revealed many cases of false reporting and irregularities in the use of the subvention. For instance, some schools have been overstating enrollment and class sections, and, hence, subvention claims. There were also instances of subvention being claimed against fictitious or deceased names.

66. In October 1995, the Ministry of Education (MOE) issued guidelines on pay/allowance support and standardized manpower structure for the private educational institutions benefiting from the subvention program. These guidelines also stipulated the eligibility conditions for institutions and the minimum educational qualifications for teachers. The budgetary implications of the proposed manpower had however not been assessed or discussed with the Ministry of Finance. This created problems as private institutions came up with increased demands for subvention, based on new posts prescribed under the new guidelines. Consequently the implementation of the new policy had to be suspended. The MOE has been reviewing all aspects of the 1995 guidelines, in consultation with the Ministry of Finance, relevant Departments and BANBEIS, and revised guidelines are expected to be issued soon.

67. *Stipend Program* Another major claimant of the education budget is the female secondary stipend program. Because of a rapid expansion of the program in recent years, a high geographical coverage and gender parity in enrollment have been achieved. This has been remarkably successful in raising the enrollment rate of girls. There is now a proposal to expand the female stipend program beyond class 10, but this may be financially difficult to sustain. It would be prudent to consider an alternative targeted stipend program, linked to merit and academic performance, to replace the current almost across-the-board coverage.

68. *Projects with Questionable Rationale/Priority* Based on a review of the FY97 and FY98 ADPs and the TYRIP for FY96-98, some projects with questionable rationale and inconsistency with sectoral priorities have been identified in Annex II (projects 6.1-6.17), which suggest that there is considerable scope for gains through prioritization. Out of these, 7 are ongoing projects (6.1-6.7) for which the FY98 allocation is Taka 4.5 billion, or 41 percent of GOB's taka funding for education in the FY98 ADP. Four of these are new projects (6.12-6.15) included in the FY98 ADP and have a total project cost of Taka 2.3 billion. Six projects in this list are new projects (6.8-6.11, and 6.17) included in the TYRIP for FY96-98 but not yet included in the FY98 ADP, and have a total cost of is Taka 21.3 billion.

69. *Food-for-Education (FFE) Program* The FFE program (Annex II, project 6.1) claims Taka 3.4 billion annually, accounting for a sizable 43 percent of the primary education budget in the FY98 ADP. The FFE program is basically an in-kind income transfer which benefits the relatively poorer families of about 13 percent of primary students. The continuation of the program in the education budget needs to be reexamined in the context of the sectoral problems, priorities and resource needs. The FFE program appears to be basically a poverty alleviation program , which is clearly not the most effective means of promoting the priority needs and objectives of the sub-sector. An evaluation of the FFE program recently carried out by the BIDS suggests that the program has been subject to considerable inefficiencies and leakages.[30] This review has estimated that the cost of transferring Taka 1 income under the program varies from Taka 1.12 to as high as Taka 1.51. This appears to be an underestimate since it not only excludes the costs incurred by the school administration in terms of teachers' time and logistical support provided for distributing the food but also the implicit cost of public procurement of foodgrains at a price greater than the market price.[31] The BIDS review also shows that about 26 percent of the beneficiaries are

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[30] A draft of the review report prepared by the BIDS entitled *Enhancing Accessibility to and Retention in Primary Education for the Rural Poor in Bangladesh*, May 1997 is currently available and is being discussed.

[31] The opportunity cost of the time spent by teachers in administering the food distribution is high, given that the average instructional time is already low.

outside the target group of poor defined under the program. Also whilst daily attendance appears to have improved as a result of the program, internal efficiency as measured by the dropout rate and repeaters rate has not improved. The BIDS review has concluded that use of resources under the FFE program is neither efficient nor equitable. While the Government could decide whether to continue the program as a poverty alleviation program, the continuation of the program in the primary education budget needs to be questioned seriously in the context of the massive resource needs for addressing the sub-sectoral priorities.

70. *Renovation and Development* A sizable amount of support for the renovation and development of private educational institutions is already being provided and also planned through 5 ADP projects (Annex II, projects 6.2, 6.3, 6.4, 6.8 and 6.9). As explained in Annex II, this support should be coordinated with other forms of assistance, notably salary subvention, and also streamlined and linked to performance indicators, including educational standards and local community contribution.

71. Recommendations

- Increasing the share of education in the overall budget during the Fifth Five Year Plan period, particularly the intra-sectoral shares of primary and mass education and secondary education, provided the investment program can be prioritized and its efficiency and quality improved ; the priority within the secondary sub-sector in the medium-term is the lower grades (classes 6-10).

- Prioritizing and pruning the public investment program in education, focusing on the projects listed in Annex II (projects 6.1-6.17), taking into account the concerns and suggestions.

- Considering taking the FFE program out of the primary education budget and providing equivalent funding for priority needs in the sub-sector.

- Institutionalizing emphasis on improving quality of education programs, focusing on learning and skill acquisition, rather than emphasizing coverage and enrollment expansion, through comprehensive and integrated interventions -- such as improved curriculum and wider range of teaching materials, increased instructional time and its efficient use, improved teacher training and incentives and accountability for teacher performance, competent management and supervision, credible examination system, and accountability of schools to the community and funding sources.

- Instituting more effective control on rising costs in secondary education, particularly cost of salary subventions, which would be difficult to sustain financially and could affect the share of other priority needs in education; a rigorous review of the current policy on salary subvention, based on the ongoing work of the MOE, is warranted in order to address the following concerns: (i) coordination of subvention support with other forms of budgetary assistance provided to private educational institutions, such as ADP allocations for renovation and development; (ii) streamlining of eligibility criteria for such support and its linkage to performance indicators, particularly quality of teachers and educational standards, (iii) requirement of financial and performance audit as a pre-condition for support, and (iv) channeling such support through local government bodies, with stakeholder representatives, which would be made accountable for the effective management of these funds and performance by educational institutions.

- Reviewing the female stipend program, particularly the proposal for its expansion beyond Class 10, for its possible replacement by a more targeted program, linked to merit of students.

- Reexamining the policy for provision of grants for renovation and development and revision, taking into account the relevant concerns indicated in Annex II (project 6.2).

- Encouraging Government-sponsored universities to undertake financial management reform and develop market-driven programs that charge more realistic tuition fees, and leaving the expansion of university education to private institutions.

- Adopting a cautious approach towards building additional capacity for vocational and technical education in the public sector, taking into account the potential for private sector involvement in this sector and the need to encourage such participation, and reorient and overhaul the government-sponsored technical and vocational training programs to achieve better linkage with skill requirements in the labor market, through collaboration with private sector employers.

- Involving Ministry of Finance closely in the future deliberations on salary subvention and stipend policy, which has significant budgetary implications.

- Integrating expenditure control function with the task of the budget wing in the Ministry of Finance in the interest of a more coordinated and sound approach in responding to funding demands from the Ministry of Education, as well as other Ministries.

B.6 Health

72. While progress has been achieved in improving some of the critical health and family planning indicators, maternal and infant mortality rates are still unacceptability high and need to be reduced further. The key challenge in health and family planning is to expand access to basic services by the poor, particularly vulnerable women and children, without compromising on their quality. This will require prioritizing of public expenditures to ensure wider and more equitable access to basic services and improving the quality of services both in the public and private sectors. The utilization of existing capacities and facilities, particularly rural health infrastructure can also be markedly improved. The efficiency of public sector programs also needs to be enhanced through appropriate organizational and management improvements and new decentralized approaches, involving the stakeholders.

73. *Sector Strategy* Past efforts to address the above critical issues have yielded very limited results because of lack of a coherent national policy and strategies to guide the development of public and private sector programs and rational use of resources. In addition, there has been a lack of adequate commitment and institutional capacity to implement the reform measures. A recent major achievement has been the preparation of a Health and Population Sector Strategy (HPSS) by GOB which will fill the gap by providing a strategic framework for the development of the sector during 1998-2003. The HPSS was developed through a wide participatory process involving various stakeholders. The Government has recently approved the HPSS.

74. *Sectoral Priority* Improving the quality and effectiveness of services through a prioritized package of basic services and a reorganized and better managed service delivery is a core concern of the HPSS. In the context of Bangladesh, the "essential services package" (ESP) consists of four components of health care, corresponding to the four major sectoral goals: (i) improved child survival and development; (ii) enhanced reproductive health, including avoidance of unwanted fertility and reduction of maternal mortality and morbidity, (iii) control of communicable diseases; and (iv) provision of limited basic curative care.

75. *Role of Government, NGOs and Private Sector* The HPSS states that achievement of the objectives in health and family planning will require sector-wide collaboration between GOB, NGOs and the private sector, based on four principles regarding the appropriate role of GOB: (i) public financing should focus on services with demonstrated public good and/or positive externalities (e.g., family planning, immunization, sanitation, control of communicable diseases, health education) and services for

the poorer segments who would be deprived of the minimum essential health care in the absence of subsidies; (ii) public provision should focus on areas where the private sector is unlikely to provide the services; (iii) the Government should play a regulatory role to set and maintain standards to ensure quality of services, ensure fair competition among private providers and control malpractice; and (iv) the Government should disseminate information to enable consumers to make informed choices.

76. The above principles of the HPSS imply that GOB should focus both its financing and its provision of services on the ESP. These principles therefore imply that: (a) the Government should focus on the ESP at the primary level, (b) the private sector should play an active role at the secondary and tertiary levels, and (c) the NGOs would be involved at all levels.

77. *Sectoral Policy and Reorganization* A national committee was constituted by GOB in January 1997 to prepare a national health policy (NHP). A National Reproductive Health Strategy (NRHS) has been prepared and this was discussed at a workshop in August 1997. In addition, a high-level committee has been working on the institutional reorganization and unification of the health and family planning sectors.

78. The major challenge in the sector will be to improve the long-term efficiency and equity of public expenditures, and sustainability of sectoral programs. Cost recovery in the sector has been very poor, amounting to only Taka 0.2 billion annually in recent years, and will need to be improved appreciably for achieving financial sustainability of sectoral expenditure programs, particularly for meeting the financing gap for the ESP. Simultaneous actions will be required on four fronts: (i) stronger financial commitment and higher budgetary allocations to the health and population sector; (ii) prioritization and reallocation of resources within the sector to support the ESP; (iii) improving the efficiency of public sector inputs and services; and (iv) increased reliance on resource mobilization through cost recovery through user charges, based on the public's willingness and ability to pay.

79. *Projects with Questionable Rationale/Priority* The share of health in total ADP allocation has been increasing noticeably in recent years, rising to 5 percent in FY97 (Statistical Appendix, Table 6). However, a review of the public investment program suggests that its quality is being compromised by the funding of some projects with questionable rationale and priority. These projects have been identified in Annex II (projects 7.1-7.17). Out of these, 9 are ongoing projects (7.1-7.7, 7.16 and 7.17), with a total project cost of Taka 3.8 billion -- equivalent to 155 percent of the Government's taka funding for health in the FY98 ADP. Some of these projects are: (i) Establishment of 5 Medical Colleges; (ii) Establishment of a National Centre for Control of Rheumatic and Heart Disease; (iii) Development of National Institute of Mental Health and Research and Establishment of a 100 Bed Hospital; (iv) Establishment of a National Institute of Kidney Diseases and Urology; (v) Conversion of IPGMR into a Centre of Excellence; (vi) Establishment of a National Eye Science Institute and Hospital, and (vii) Construction of a 200 Bed Hospital at Mirpur.

80. Specific concerns about the above projects have been elaborated in Annex II. The opening of 5 additional Medical Colleges in the public sector is questionable on grounds of poor management, deterioration of quality of training and hence of medical graduates, and opening of medical colleges in the private sector, quite apart from the problem of underemployment of a large number of doctors. There are four projects (7.2, 7.4, 7.5 and 7.7) relating to the setting up of Dhaka-based national institutes. These urban tertiary facilities are not related to the priority-based ESP identified in the HPSS and hence appear to be of low priority. If the need and priority for these institutes can be justified, they should be set up as private foundations with autonomous management and stakeholder representation on their Board. Rather than adding to the proliferation of institutes in the public sector, where management has deteriorated noticeably, a prudent alternative to these projects would be to set up worthwhile institutes as private foundations, with possible budgetary support, linked to some performance indicators. If support is

justified and is provided to such private foundations, it should be made contingent on performance audit of these entities. The project related to the expansion of the IPGMR (project 7.6) appears questionable since the new facilities, including building of 200 hospital cabins, would be catering to the needs of affluent sections, and hence not consistent with the required focus on the essential service package identified in the HPSS.

81. Based on a review of the health sector investment program in the TYRIP for FY96-98, 8 new proposed projects with questionable rationale and priority have been identified in Annex II (projects 7.8-7.15). The total costs of these 8 projects is Taka 4.4 billion, or 180 percent of the Government's taka funding for health in the FY98 ADP. The reservations about these projects have been elaborated in Annex II.

82. Recommendations

It is highly recommended that steps are taken to:

- Formally adopt the HPSS, following its recent approval by the Government, so that it becomes the accepted basis for sector reform and the preparation of donor consortium assistance in the sector during the period 1998-2003, and provide full commitment and support for the HPSS at the political and official levels for the effective implementation of the reform agenda envisaged in the HPSS;

- Ensure that the HPSS is used as the main input in formulating the NHP, and that the sectoral priorities to be identified in the NHP are consistent with those laid down in the HPSS, particularly the focus on the ESP;

- Finalize the NRHS in the light of: (i) the reproductive health component of the ESP recommended in the HPSS, (ii) the report of the workshop on National Reproductive Health Strategy (NRHS) with a Gender Perspective held in August 1996; (iii) the recently prepared GOB Action Plan on ICPD follow-up; and (iv) recent workshop on the draft NRHS document, held in August 1997.

- Critically reexamine the health investment program in the FY98 ADP and the TYRIP (FY96-98), based on the priorities and the role of Government identified in the HPSS, and restructure, phase out or drop projects with questionable rationale and priority (Annex II, projects 7.1-7.17);

- Improve the allocative efficiency of expenditures by targeting an increasing share of health and family planning budgets on the ESP at the thana level and below, which have the highest returns in terms of health status improvements;

- Adopt alternative decentralized approaches for improving the management of public hospitals, with greater autonomy of management, combined with local accountability. One promising option would be to enter into management contracts or partnerships with autonomous private bodies, NGOs or private non-profit hospitals with stakeholder representation, which would be responsible for managing the use of budgetary grants and made accountable for their efficient management and service delivery;

- Reduce the underutilization of the health infrastructure at the THCs and UHFWCs, through appropriate institutional reforms, for improving the delivery of essential health care and population services at the local level; involvement of the local government institutions and the local stakeholders will be critical for improving accountability for satisfactory delivery of service;

- Give special attention in the NHP to improving the financial sustainability of sectoral programs, through exploitation of all possibilities of cost recovery in the form of user charges, particularly in the

context of the poor cost recovery in the sector and the large funding gap for the key ESP component of health care; and

- Update and revise the National Drug Policy of 1982 so as to promote greater availability, safety, affordability and rational use of drugs.

C. POTENTIAL FOR IMPROVING PUBLIC EXPENDITURE MANAGEMENT

83. This section covers two outstanding issues in public expenditure management -- inclusion of unapproved projects in the ADP and absorption of personnel from completed development projects in the recurrent budget. The former issue has implications for improving the quality of the public investment program while the latter is one of the reasons causing recurrent spending on salaries/wages to increase continuously.

C.1 Unapproved Projects in ADP

84. Every fiscal year the ADP includes a large number of unapproved projects involving the commitment of a sizable amount of funds(Table C.1).[32] The total cost of these projects -- equivalent to more than twice the budgeted ADP size -- represent very large commitment to projects that have not yet been sufficiently evaluated and scrutinized. Inadequate capacity to prepare projects and a limited pipeline of worthwhile projects, together with continued pressure to maintain a predetermined ADP size have sustained the practice of including UPs in the ADP over the years.

85. Once a project is included in the ADP, its subsequent approval has generally been a procedural formality. This has been reflected in: (i) the high proportion of ongoing UPs (Table C.1),[33] indicating that a large number of them are carried over from the previous year; and (ii) the bunching of UP approval during the year.[34] Instances of dropping the included UPs appear to be rather infrequent.[35]

86. While some UPs may ultimately deserve to be included in the ADP on the basis of sound public expenditure criteria (PEC), inclusion before approval makes the projects questionable since these are yet to qualify all the PEC tests that the approved projects presumably have.[36] Below some of the important features of UPs included in the FY96, FY97 and FY98 ADPs are described and some reasons for the undesirability of the practice of including UPs in the ADP are explained. Also, some specific measures are recommended for improving discipline in the ADP project selection process.

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32 As reported in the 1996 benchmark PER, project approval process in Bangladesh, controlled by a tall hierarchy, is fairly long. A project is approved when it is cleared by the Executive Committee of National Economic Council. ECNEC usually accepts the recommendations of the interministerial pre-ECNEC meetings. For details see World Bank, *Bangladesh: Public Expenditure Review*, Report No. 15905-BD, July 31, 1996, Ch. 3.

33 The number of ongoing unapproved projects account for 60 percent of UPs in the FY98 ADP. See Annex-III, Part-B, Table-1 for sectoral details.

34 During the first eight months of FY97, only 40 percent of FY97 UPs were approved. Bunching is indicated by the concentration in the number of projects approved in any given period, particularly later in the year. For instance, in a meeting on April 1, 1997, ECNEC approved 28 investment projects and in another meeting on April 29, ECNEC approved 21 projects. These two meetings together accounted for 19 percent of all FY97 UPs approvals. In FY98, in July alone, 155 out of a total 512 UPs (including TA projects) were approved.

35 In the revised FY97 ADP, 37 UPs were reportedly dropped. The reasons for dropping them and the characteristics of the dropped UPs are not known.

36 This does not mean that the UPs are not scrutinised at all. The UPs are included after examination at the sector division levels of the Planning Commission and at the interministerial programming committee.

Key Features of Unapproved Projects

87. ***The incidence of unapproved projects is high in infrastructure and social sectors.*** UPs in transport, power, physical planning, and education sector together account for nearly 80 percent of the total project cost in FY98 ADP.[37] The dominance of transport, power and physical planning in terms of project cost could in part be a manifestation of the possible lumpiness and larger minimum scale requirements of projects in these sectors. Apart from the possible weaknesses in project preparation capacity, political considerations are likely to have contributed to the large incidence of UPs in the education sector.

88. ***Most of the financial burden on ADP due to UPs are typically from a few large projects.*** While most UPs are small in size, a few large projects account for most of the estimated total cost of all UPs.[38] In fact, in the FY98 ADP, just two projects --Thana Connecting Road and National Secretariat - account for 24 percent of the total estimated cost of all UPs.[39] This indicates that full application of PEC is relaxed irrespective of the extent of the financing burden that the project may generate. The presence of a large number of small projects appears to reflect the tendency to accommodate constituencies and interest groups in most sectors.

89. ***The unapproved status does not preclude incurring expenditures for the projects.*** The Ministry of Finance has not so far denied requests for fund release on grounds of a project's unapproved status because of an apparent procedural flaw. The problem has arisen because, under the existing fund release procedures, provisions made for UPs in the development budget[40] allow spending based on recommendations by the Planning Commission. This may have been further complicated by the fact that the development budget does not make a distinction between approved and unapproved projects.[41] The amounts actually spent so far are not insignificant (Table C.1).[42] There are even UPs where the costs incurred constitute over 60 percent of the total project cost.[43]

90. Not surprisingly, there is correlation between the total project cost and allocation for the current year. There is also a fairly strong correlation between the project cost and cumulative expenditures. A plausible interpretation is that larger is the size of the project, the larger allocation it receives from the ADP leading to larger accumulation of expenditures actually incurred. The latter in turn can provide the basis for using the *sunk cost* argument to justify approval at a later stage.

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37 See Table C.1 and Annex-III, Part-B, Table-2 for details on the sectoral distribution of the project cost and ADP allocation to UPs.

38 In the FY98 ADP, 64 out of the total 362 projects account for over 80 percent of the estimated total project cost of all UPs. Similarly, in the FY97 ADP, 51 out of the total 289 projects and in the FY96 ADP, 44 out of the total 301 projects accounted for over 80 percent of the total estimated project cost.

39 See Annex-III, Part-B, Table-3 for a list of high cost UPs in the FY98 ADP. The Thana Connecting Road project also dominated the FY97 and the FY96 ADP. The project was still unapproved at the time of writing this report. Apparently, the Roads and Highways department was finding it difficult to determine the length of the roads proposed for construction under this project. This was delaying PCP preparation. For more details on this project, see Annex-II, Section 4.2.

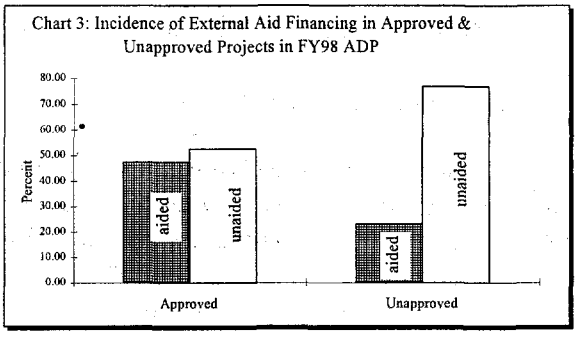
40 This is the budget document titled *Demands for Grants and Appropriations (Development)*, prepared by the Ministry of Finance. It specifies the Grant Number, the Account Title and the Account Code against which the released funds should be charged.

41 See GOB, *Unnayan Prakalpa Shomuher Artha Abamukti O' Bebohar Nirdeshika*, a user guide in Bengali on GOB's fund release procedures for development projects, January 1996. P. 3-4.

42 See Annex-III.4 for more details.

43 See Annex-III, Part-B, Table-5 for a list of projects in which a very high proportion of total project cost has already been incurred.

91. ***Most UPs are unaided.*** Of the total 362 UPs in the FY98 ADP, 278 are unaided projects (Chart 3).[44] Also, there are no identified donors in many aided UPs. It possibly leads to the risk that if the efforts to obtain donor funding do not succeed, these projects would have to be financed from the Government's domestic sources since the possibility of dropping projects, after including them in the ADP, is relatively remote in practice.[45]



Source: Based on FY98 ADP.

92. ***Inclusion of UPs permits projects with insufficiently established merit and priority to get financing under ADP, thus undermining the credibility, transparency, and efficiency of the project approval and implementation process.*** It rewards processing delays by making available the option of including projects that could not go through all the necessary stages of project approval; weakens the incentive to be rigorous in project identification and appraisal; makes the approval process more vulnerable to the influence of purely political considerations in the choice of projects; and diverts resources from the approved projects, thus delaying the latter's implementation. Benefits from flexibility added to the process of determining the size and composition of the ADP are unlikely to be large enough to outweigh the costs; the latter resulting from damage done by undermining the ADP project approval and implementation processes.

Recommendations

- ***In principle, the ADP should only include projects whose merit, viability and priority have been rigorously established.*** Inclusion of UPs, if at all, need to be limited only to projects whose implementation cannot wait for the completion of the approval process because of demonstrated national urgency and which have well-founded a priori indication of their high merit and priority. For these *rare* cases, a transparent process needs to be instituted to preclude the use of ad-hoc and arbitrary mechanisms for establishing indications of urgency and merit. Even in these cases, ADP allocations need not be made to all the included projects until they are approved. This will augment the availability of resources for the implementation of projects whose priority has already been established. It will also preclude releasing funds for UPs, thus removing the possibility of using the sunk cost argument to justify approval.

- ***The capacity of the line ministries to identify and appraise projects needs strengthening in order to build up a pipeline of high impact, priority projects and thus avoid pressures for including UPs on grounds of the inadequacies and limitations of the approval process.*** This in turn would require:

  - ◊ Training existing staff in the line ministries;
  - ◊ appointing qualified staff for project preparation; and
  - ◊ reshuffling relevant staff, say, from the Sector Divisions of the Planning Commission to the line ministries, to assist the latter in building up a pipeline of high quality projects, as recommended by the Nurun Nabi committee.

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44 The latter account for 99 percent of the cumulative expenditures through end-June 1997, 76 percent of the total number of UPs and 66 percent of the total cost of UPs in the FY98 ADP (see Table C.1).

45 There are 31 such UPs in the FY98 ADP involving a total cost of over Tk 40 billion.

C.2 Absorption of Personnel From Completed Development Projects

The Magnitude and Nature of the Problem

93. ***Absorption of personnel from completed ADP projects is a perennial source of increase in the size of the revenue budget every fiscal year.*** Over 76 percent of the increase in pay and allowances (explicitly shown plus hidden) in the revised FY97 Budget relative to the original FY97 Budget was due to the appointments of staff from completed ADP projects. Staff of completed ADP projects are built-in stimulants to the expansion of revenue budget. A provision of Tk 1.8 billion has been made in the FY98 revenue budget -- constituting about 4 percent of the FY98 budgeted pay and allowances -- to meet the expected cost of staff from completed development projects in FY98 (see Annex-III, Part-A).[46]

94. About 25 to 30 ADP projects are completed each year and most ministries request transfer of the completed project staff to the revenue budget.[47] The transfers recommended during July 1994 to end-December 1996 constitute about 2.2 percent of total employment in the central Government (Table C.2).[48] Over 40 percent of the positions recommended for transfer were from just 6 projects. The time taken between the commencement and closure of these projects ranged from 4 to 20 years. In some cases the rationale for recommending transfer appears highly questionable.[49]

95. ***There is a major timing and matching problem in the recruitment and transfer of completed ADP project staff,*** Personnel needed to operate the facility/recurrent activities generated after the completion of projects are recruited long before commencement of project implementation. For example, in a homeopathic hospital project, doctors, nurses and drivers were recruited before the construction of the hospital even began. There are reportedly many instances of early and somewhat premature recruitment of project personnel. Thus, among the 16,853 recommended positions awaiting transfer to the revenue budget in FY97, at least some are likely to be needed now since the facilities, which they were recruited to operate, have been built. However, there could still be a matching problem because a large number of them are candidates for Class-III and Class-IV positions where the size of needed, and yet unfilled, positions are believed to be small.[50] In fact, the Government is most likely to have a substantial surplus of

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46 GOB, Annual Budget 1997-98, Budget Summary Statements, Statement XI, Section 2.

47 The existing administrative process for approving manpower transfer from completed projects works as follows. Proposals for post creation are submitted first to IMED by the line ministries. Based on IMED recommendations, the line ministries send the proposal to the Organization and Management Wing of the Establishment Ministry. Thereafter, the proposals are sent to the Finance Division along with the recommendations of the Establishment Ministry and IMED. A Standing Committee chaired by the Joint Secretary (Development) examines the proposals in the Finance Division. Recommendations of the Standing Committee are then sent to the Finance Secretary for approval. Given the Finance Secretary's approval, an administrative order is issued from the Development Wing of the Ministry of Finance to effect the transfer. As a matter of formality, approval for transfer of the positions to the revenue budget is also required from the Expenditure Control, Budget and Implementation Wing of the Finance Division. The whole process takes 1 to 2 years to complete. Meanwhile, payment of salaries to these staff are made from the "unexpected" account (Head 179) in the revenue budget.

48 Total employment in the central Government currently exceeds one million. Based on BBS, *1995 Statistical Yearbook of Bangladesh*, seventh edition, p.66.

49 For example, the largest number of transfer of 1,544 personnel in the autonomous bodies was from a Reorganization of BSCIC project. Since BSCIC is a facilitating organization, which most likely was over-staffed before this project was undertaken, it is difficult to see why it would need so many staff after completing a project on its own reorganization. Typically, reorganization involves rationalization of the staff size and composition. In an over-staffed organization, this is expected to lead to a cut in the size of the staff.

50 The class concept is used to distinguish officials by rank. The low ranking support Staff, such as cleaners, messengers and tea boys are classified as Class-IV, while typists and lower division clerks are classified as Class-III. Complete information on the distribution of the 16,853 personnel by job class is not available. However, an analysis of seven projects covering

manpower in these categories.[51] Thus, the skill composition of the particular group of project staff under consideration does not seem to match with the requirements of the relevant line-ministries/implementing agencies.[52]

Underlying Factors

96. ***Transfer of completed project staff has in practice become a process with a predetermined outcome.*** *The project staff take for granted the continuation of their employment and perceive transfer to the revenue budget as just a mater of administrative formality even though they are appointed only for the duration of the project.* These perceptions are nurtured by:

- *Non-enforcement of the rules determining transfer of project staff to the revenue budget.* According to the rules, the staff of completed ADP projects have to compete with outsiders if they want to be absorbed in the activities generated by the projects.[53] This notwithstanding, termination of the completed project staff has been the exception rather than the rule in practice.

- *Appointment of project staff on the National Pay* Scale (NPS) *despite an ECNEC decision to appoint them on consolidated pay in February 1994.*[54] Appointment on NPS masks the distinction between the project staff and the regular Government employees. As a result, the staff perceive their employment as a regular appointment.

- *Long duration of employment caused by delays in project completion and transfer of staff from one phase to another phase of the project.*[55] According to service rules, 5 years of continuous employment in a "temporary" post provides the incumbent legal claims to the post.[56] Nebulous statement of the terms and conditions in the letter of appointment contributes to these legal claims for continuation of employment after completion of projects.

4,202 personnel reveals that the Class-IV employees constitute 35 percent and Class-III employees constitute 55 percent of the employees recommended for transfer from these completed projects. Note also that the average, per staff monthly cost of the 16,853 staff is around Tk 4,500, which too indicates that the Class-III and Class-IV staff dominate this group.

51 According to the Nurun Nabi Committee report, the Government had a surplus of 48,774 Class-III and Class-IV employees not too long ago. See GOB, Report on Administrative Reorganization: Transmittal Note, Administrative Reorganization Committee, June 1996, Annex-Cha.

52 According to information (guesstimates) given by GOB officials, 90 percent of the Class-IV positions and 50 percent of the Class-III positions recommended for transfer are not needed due to the existing excess manpower. On the basis of these figures and also assuming that the percentage distribution of staff by grades is the same as the distribution found in the analysis of seven projects, the proportion of surplus among the total staff recommended for transfer amounts to nearly 60 percent, that is, over 10,000 staff.

53 If the position is a cadre position, they are supposed to take the civil service examination and for non-cadre positions they have to compete through the regular open recruitment process; (the cadres include BCS administration, education service, trade, and economic services). This rule is not enforced uniformly for the non-cadre Class-III and Class-IV positions. The Finance Minister himself disclosed, in an interview published in the June 22nd, 1997 issue of the *Bhorer Kagoj*, that the regular procedure for recruiting staff against vacant permanent positions is not applied in deciding absorption of the completed projects staff against those positions.

54 The circular issued by the Establishment Ministry to give effect to the ECNEC decision does not preclude appointment on NPS basis. Unlike the NPS, all additional benefits such as house rent, medical allowance, entertainment, festival allowance and so on are paid as part of salary under the consolidated pay system.

55 For instance, the Rural Health Development project under the Ministry of LGRD commenced in 1962 and was closed in 1995 and the Modernization of Zila Hospital project under the Ministry of Health and Family Welfare commenced in 1963 and was closed in 1992.

56 In legal jargon, 5 years of continuous employment creates "lien of a person to the post". Even though the positions in development projects are not regular "temporary" positions, this rule has been invoked by the staff in some cases (e.g., in the water sector) to obtain court ruling in favour of continuing their employment.

- *Human compassion.* This is very difficult to deny particularly to those who have been employed for a long time.[57]

Recommendations

97. Given that there already exists a sizable number of recommended transfers and there would be regular requests for transfer of staffs employed in the ongoing ADP projects, there are two sets of questions that need to be addressed, as also recommended by Government officials and the members of Nurun Nabi Committee: (i) how to deal with the personnel already recommended for absorption and (ii) how to prevent the recurrence of this problem in future.

98. The first is essentially a problem of dealing with surplus manpower which can be handled along the lines recommended in the Nurun Nabi Committee report.[58] This report proposed that some of the Class-III and Class-IV employees can be absorbed across organizations with little or no training while the others can be re-deployed where vacant positions matching their skills exist. The rest will have to be retrenched with appropriate separation payments. And new Class-III or IV positions established to implement new projects should be filled as far as possible from the pool of staff who are effectively redundant following the completion of ongoing projects.

99. In addition, the corresponding number of existing vacant positions in the concerned Ministry/Divisions will have to be abolished before transferring the positions to the revenue budget. Creation of new posts needs to be considered only if there are no vacant positions. Where permanent positions can not be created under the revenue budget, financial provisions, in the form of grants-in-aid, *should not be made.*

100. The following measures are recommended to prevent recurrence of the absorption problem in future:

- Recruit project staff with a renewable fixed term contract and on consolidated pay for every position in a development project, including phased projects. Staff in the ongoing ADP projects need to be reappointed on this basis with sufficient advance notice.

- Discontinue the practice of transferring staff from one project to another project, or from one phase to another phase of the same project.

- Determine the grade-wise distribution of consolidated pay staff and review it regularly on a yearly basis.

- Amend Item 9 in the PCP to include the cost of manpower based on consolidated pay and delete the cost of manpower line under PCP's item 12.[59]

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57 Some staff even attempt to exert pressure through agitation.

58 GOB, Report on Administrative Reorganization: Transmittal Note, Administrative Reorganization Committee, June 1996, p.8-9.

59 Item 9 provides detailed project cost estimates and item 12 provides recurrent cost estimates after completion of the project. It may be mentioned that the Government is currently reviewing the existing PCP/PP/TAPP formats for further simplification.

- Develop packages for reasonable termination grants using the ones already given in the context of, for example voluntary lay-offs, and thus make separations after the completion of projects easier on grounds of compassion. This can be in the form of a contributory (and perhaps mandatory) Deposit Pension Scheme (DPS) or, if DPS is likely to give rise to technical/administrative problems, in the form of paying a financially sustainable fraction of the annual salary for each year of service at the time of separation. The cost to the Government of such an arrangement needs to be explicitly shown in the PPs/PCPs.

101. The above recommendations have been put forward by Government officials themselves. They have also been examined by the important parties involved - the Ministry of Finance, the Ministry of Establishment and the Planning Commission. There appears to be a consensus on the proposals among these agencies. The Government should thus be able to act on them quickly so that appointments of staff for new ADP projects, as well as unfilled positions in the ongoing projects, are made strictly on the basis of the new rules.

Table C. 1: Features of Unapproved Projects in the FY96-FY98 ADP

Indicators	FY96	FY97	FY98
Number of Unapproved Projects 1/	301	289	362
Total Project Cost			
Amount (in billion taka)	281.2	281.7	313.4
Ratio to budgeted ADP size	2.3	2.3	2.5
ADP Allocation			
Amount (in billion taka)	18.1	15.2	11.5
Percent of ADP Size	17.4	12.2	9.4
Cumulative Costs Already Incurred 2/			
Amount (in billion taka)	15.1 (end-June 1996)	29.2 (end-June 1997)	na
Percent of Total Project Cost	5.4	9.3	na
Unaided 3/			
Number of Projects (percent)	75.4	70.6	75.7
Project Cost (percent)	61.8	58.7	66.1
ADP Allocation (percent)	71.7	78.0	44.7
Cost Already Incurred (percent)	50.0	94.9	98.8
Share of Ongoing UPs in total UPs (%) 4/	46.2	61.2	60
Sectoral Incidence			
A. Project Cost	Transport (40 %) Power (17 %) Education (9 %)	Transport (40 %) Power (13.4 %) Education 13 %)	Phy. Planning (26%) Transport (26%) Education (16%) Power (10%)
B. ADP Allocation	Education (28%) Phy. Planning (14 %) Transport (13 %)	Education (30 %) Transport (21%) Phy. Planning (14%)	Phy. Planning (26%) Education (23%) Power (18%) Transport (13%)
C. Cost Incurred	Power (38%) Transport (27%) Physical Planning (23%)	Phy. Planning (54%) Transport (33 %) Agriculture (5 %)	Transport (63%) Phy. Planning (33%)

na = not available.
1/ Includes the main program and self financed investment projects shown in the original ADP.
2/ Represent cumulative costs incurred through end-June 1996 in the UPs included in the FY97 ADP and through end-June 1997 (provisional estimates) in the FY98 ADP.
3/ Does not include aided projects with unidentified donors. Percentages are based on the number of UPs, total project cost of UPs, total ADP allocation to UPs and total cost incurred in UPs respectively.
4/Percentage based on the number of projects.
Source: Compiled from FY96, FY97 and FY98 ADP.

Table C.2: Number of Positions and Annual Cost of Completed Projects Staff Recommended forTransfer to the Revenue Budget since July 1994 through December 1996

Ministry	*Number of Positions*			*Estimated Annual Wage Cost (Tk in million) 3/*	
	PP/PCP Approved 1/	*Committee Recommended 2/*	*Percent*		*Percent*
Ministry of Agriculture	2,812	2,699	16.0	187.2	20.7
Ministry of Fisheries & Livestock	1,57.3	1,519	9.0	75.7	8.4
Ministry of Industries	1,544	1,544	9.2	135.0	14.9
Ministry of LGRD 4/	1,611	1,471	8.7	71.3	7.9
Ministry of Health & Family Welfare	3,661	3,389	20.1	191.1	21.1
Ministry of Social Welfare	2,431	2,417	14.3	81.1	9.0
Others 5/	6,180	3,814	32.6	163.3	18.0
Total	19,812	16,853	100	904.7	100
Percent of Total FY97 budgeted pay and allowances				*2.1*	

1/ These are the number of positions shown as part of the recurrent cost implications in the Project Proforma and/or the Project Concept Paper.
2/ Recommended by the Standing Committee of the Finance Division.
3/ These do not take into account the pay increase to be effected from July 1, 1997 on the basis of the NPC recommendations.
4/ Stands for Local Government and Rural Development.
5/ Includes the following ministries: Science and Technology, Textile, Housing and Public Affairs, Shipping, Energy and Mineral Resources, Environment and Forest, Post and Telecommunications, Youth and Sports, Women and Children, Home Affairs, Defense, Planning, Education, and Food.
Source: Compiled from data provided by the Ministry of Finance.

ANNEX I

BANGLADESH: SUSTAINABLE BUDGET DEFICIT

One approach that is commonly used to determine the size of sustainable public sector deficit is the accounting approach to public sector solvency.[1] This approach has been applied widely[2] and, aside from allowing to determine the range of sustainable deficit under various scenarios of economic growth, inflation, real exchange rate changes, and domestic/foreign nominal interest rates, it does provide a useful framework for examining the consistency between the government's stated macroeconomic stabilization and performance objectives on the one hand and the size of public sector deficit and the composition of its financing on the other.

The obvious starting point for the sustainable deficit analysis under the accounting approach is the budget constraint faced by the public sector. The budget constraint offers a simple and tractable framework for analyzing the fiscal sustainability and consistency issues, given that it incorporates the links between the key macroeconomic variables and the budget deficit. As for the public sector, data permitting, it should ideally cover central as well as local governments, non-financial and financial SOEs plus the central bank. The broadest coverage of the public sector would give an accurate picture of the current fiscal situation and of the true dimensions of the debt servicing burden and of underlying debt dynamics. Thus, it would also show, *ceteris paribus*, the full extent of current and future public sector claims and pressures on country's real and financial resources. However, unavailability of information and measurement problems may limit the extent of consolidating the public sector.[3]

The budget constraint (Equation 1) simply states that the total public sector budget deficit (consisting of primary deficit--i.e., non-interest deficit--and total net interest payments on domestic and foreign debt) must equal the sources of financing, which include changes in the public sector's external and internal (non-monetary/interest paying) debt holdings[4] and the monetary debt (i.e., changes in the base money).

$$D^p + i\,B + i^*\,B^*E = \dot{M} + \dot{B} + E\,\dot{B}^* \quad \text{or}$$

(Eq.1) $$D^p/(P\,y) + (iB)/(P\,y) + (i^*B^*E)/(Py) = \dot{M}/(Py) + \dot{B}/(Py) + E\dot{B}^*/(Py) \quad \text{or}$$

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1 The accounting approach to the measurement of sustainable budget deficit was developed by Buiter and van Wijnbergen. For details see: Buiter, Willem H., "Measurement of the Public Sector Deficit and its Implications for Policy Evaluation and Design", *International Monetary Fund Staff Papers,* 30 (June, 1983), 306-49; Buiter, Willem H., "A Guide to Public Sector Debt and Deficits", *Economic Policy* (November, 1985), 13-79; van Wijnbergen, S., "External Debt, Inflation and the Public Sector: Towards Fiscal Policy for Sustainable Growth", *World Bank Economic Review*, 3 (3: 1989), 297-320; World Bank, *Fiscal Policy and Tax Reform in Turkey*, Report No. 6374-TU, Vol. II, July 1987; and van Wijnbergen, S., Ritu Anand, Ajay Chhibber, and Roberto Rocha, *External Debt, Fiscal Policy, and Sustainable Growth in Turkey*, Johns Hopkins University Press (Baltimore, Md.: 1992).

2 In addition to the references listed in Footnote 1, for a detailed treatment of the issue as well as for country-specific applications of the accounting approach for estimating sustainable public sector deficits, see: Easterly, W., Rodriguez, C. A. , and Klaus Schmidt-Hebbel (eds.) *Public Sector Deficits and Macroeconomic Performance*, A World Bank Publication, (1994), New York: Oxford University Press. For an application to Pakistan, see: World Bank, *Pakistan: Medium-Term Economic Policy Adjustments*, March 17, 1989, Report No. 7591-PAK, Ch. II, pp. 31-70.

3 Accordingly, any (public sector) sustainable deficit/solvency analysis based on partial coverage of the public sector should be interpreted with some care.

4 Government's borrowing from the banking system should not be considered nonmonetary borrowing if the banks finance their purchases of government debt instruments through central bank rediscounts.

$$[D^p/(P \cdot y) + (i \cdot B)/(P \cdot y) + (i^* \cdot B^* \cdot e)/(P^* \cdot y) = \dot{M}/(P \cdot y) + \dot{B}/(P \cdot y) + (\dot{B}^* \cdot e)/(P^* \cdot y)];$$

where:

D^p = primary (non-interest) deficit of the public sector in (current price) local currency units;
B = total stock of the public sector's domestic debt in local currency units;
B^*= total stock of the public sector's foreign debt, expressed in (current price) foreign currency units, say, US dollars; (note that B^* should be measured as net of "net foreign asset" holdings of the central bank);
E = nominal exchange rate (expressed, say, as takas per US dollar);
i = nominal domestic interest rate;
i^* = nominal foreign interest rate paid on external debt--in units of foreign currency;
P = GDP deflator;
y = real GDP;
P^*= foreign price index; (trade-weighted average of CPIs of the country's major trading partners could be used for this purpose);
e = real exchange rate--defined in terms of purchasing-power-parity adjusted exchange rate; and here it is equal to EP^*/P;
M = stock of the base money (i.e., the currency held by the public and the banks). A <u>dot</u> over a letter represents change in that variable per unit of time.

After some manipulations--for the explicit treatment of inflationary erosion of domestic and external public debts and for taking into account capital losses on the outstanding foreign debt that would result from a depreciation of the real exchange rate--Equation (1) could be expressed as:

Equ. (2) $$d^p = (\eta + g)\, m + (g - r)\, b + (g - r^* - c)\, b^* + \dot{m} + \dot{b} + \dot{b}^* \;;$$ where

d^p = $D^p/(P.y)$: the ratio of primary deficit to nominal GDP
b = $B/(P.y)$: the ratio of stock of nominal domestic public debt to nominal GDP
$\dot{b}$ = change in b per period of time; (it is db/dt in the continuous time context or Δb in the discrete time context).
b^*= $B^*.E/(P.y)$
$\dot{b}^*$= change in b^* per period
c = rate of change of real exchange rate--i.e., it equals $\dot{e}/e$
g = rate of growth of real GDP
η = domestic inflation rate
r = domestic real interest rate
r^*= foreign real interest rate

Equation (2) summarizes the accounting approach's measurement of sustainable primary deficit for the public sector. It shows that the ratio of the public sector's primary deficit to GDP is restricted to the sum of financing available from: (i) the inflation tax (η.m) which results from the erosion of the real value of the monetary base and the seigniorage revenue (g.m) that the government obtains by issuing currency to meet the increased demand for money associated with economic growth; (ii) the excess of real GDP growth over the real interest costs of domestic debt [(g - r).b] and of foreign debt adjusted for the capital loss resulting from the depreciation of the real exchange rate [(g - r* - c).b*]; and (iii) increases in demand for the monetary base ($\dot{m}$), domestic and foreign debt ($\dot{b}$, $\dot{b}^*$), respectively.

Each source of financing the public sector budget deficit has macroeconomic implications, with possible effects on money supply, domestic inflation and real interest rates, investment, for debt

accumulation and servicing, and the balance of payments. Excessive reliance on monetary financing[5] could fuel inflation, thereby hurting the poor, distorting relative prices, increasing uncertainty, and leading to a shift away from money and thus also shrinking the base for the inflation tax itself. Monetary financing should therefore be consistent with the macroeconomic stability objectives.

Domestic (nonmonetary) debt accumulation could crowd out private investment by pushing up domestic real interest. Accordingly, further domestic debt accumulation should be considered if the additional debt is going to be used to finance public expenditures with higher expected rates of return than those of private investment that is being displaced. In this regard, of course, the ***composition of public expenditures*** is of critical importance. When public expenditures are directed to sectors/activities with high economic growth and poverty alleviation impact, such as social sectors and infrastructure, rather than being channeled into activities where the private sector has a comparative advantage, then the economic returns (inclusive of positive externalities) are likely to be high, thus providing justification for such spending and financing of the budget deficit through nonmonetary borrowing. Public sector investment in human resource development and infrastructure will also have a complementary/crowding-in effect on private investment, thus amplifying the positive impact of public expenditures.

The preceding discussion also points to one of the shortcomings of the accounting approach in measuring sustainable deficit for the consolidated public sector, therefore necessitating some caution in the interpretation and use of results based on, e.g., Equation (2). Because the budget constraint is, by necessity, expressed in its most aggregated form, the formulation used does not leave room for taking account of the implications of non-homogeneous nature of public expenditures. Nor does it contain any flexibility for considering varying distributional and production efficiency implications of different tax regimes which create different degrees of incentive-neutrality. In short, for a given primary deficit to GDP ratio there might be significantly different compositions of public expenditures and tax regimes. In terms of Equation (2), this means that the primary deficit to GDP ratio--d^p--and real GDP growth rates are not unrelated. High impact/quality public expenditures and improved tax systems would lead to higher economic growth. This would imply that a higher primary deficit ratio may turn out to be sustainable if the underlying public expenditure program is prioritized well in terms of its economic growth effect.

There are also difficulties in assessing the degree to which a government should rely on foreign resources to finance its budget deficit. Such assessment would require an evaluation of the country's ability to service and repay its external debt[6], as well as an examination of the likely terms at which foreign borrowing would be contracted. Obviously, public sector projects that are to be financed with external borrowing should generate high enough economic rates of return to cover at least the real interest costs (plus any expected capital losses on such foreign loans that may result from likely future real exchange rate depreciation).

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5 When a recourse to the central bank borrowing leads to money printing at a rate higher than the growth in demand for money at the prevailing levels of prices.

6 When used independently, measures such as the debt service ratio (relative to export earnings plus, perhaps, remittances) or the debt to GDP ratio do not fully capture a country's potential capacity or resources that could be used to service its debt. For example, the debt service to exports ratio does not reflect all of the tradables that could become available with a real depreciation of the domestic currency. And the debt to GDP ratio could overestimate a country's ability to service its debt since GDP also includes nontradables. A proxy for a country's domestic resources that could be available for servicing external debt can be constructed by using a weighted average of the debt service ratio and the debt to GDP ratio. Such a measure was developed and used in: Cohen, Daniel, "The Management of Developing Countries' Debt: Guidelines and Applications to Brazil", *World Bank Economic Review*, Vol. 2, No. 1, (January 1988), pp.77-105; and also see World Bank, *Turkey: External Debt, Fiscal Policy and Sustainable Growth*, World Bank, Report No. 7162-TU (September 1988).

The preceding discussion could also be recast within the framework of Equation (2) by simply pointing out that the primary deficit (as a share of GDP) will be sustainable if it does not lead to ever-rising ratios of debt to GDP and money to GDP. On this, Equation (2) implies that *if the public sector is running a primary deficit that is in excess of the seigniorage and inflationary tax revenues and if the (weighted average) real interest rate on nonmonetary debt exceeds the economy's real growth rate* (a proxy for the rate of return on public expenditures), *then debt to GDP ratios will continue rising.* Of course, this can not continue forever. The unsustainability of the deficit will soon be recognized by the public, and as the government finds it increasingly difficult to sell debt instruments, a change in the policy stance and steps to cut the primary deficit will become inevitable. If, on the other hand, real economic growth exceeds the (average) real interest on public debt, then a country could run primary deficits in excess of seigniorage revenue, since the size of debt as a share of GDP would fall. The latter could happen during periods of fast growth and/or high inflation when the real interest rates fall or turn negative.

In applying the accounting approach to the issue of public sector solvency, it is generally assumed that the ratios of debt to GDP and money to GDP are constant. This implies that a given set of debt to GDP ratios are accepted as policy targets by the government and that demand for money, as a share of income, remains constant, implying a unitary income elasticity of demand for money, for given inflation and interest rates. In this restricted sense, the sustainable deficit is defined as the deficit level that could be financed without adding to the country's debt burden (i.e., enabling the maintenance of a given set of debt to GDP and money to GDP ratios) and without compromising from macroeconomic objectives such as stable and low levels of domestic inflation and interest rates.[7] When the assumption of constant debt to GDP and money to GDP ratios are incorporated, Equation (2) reduces to:

Equ. (3) $$d^p = (\eta + g).m + (g - r).b + (g - r^* - c).b^*$$

In the context of Bangladesh, a level of primary deficit that is in excess of the seigniorage revenue will not necessarily lead to unstable debt dynamics. This is due to the very high concessionality of foreign aid received by Bangladesh. The nominal interest rate on the public sector's external debt has been around 1.0-1.2 percent, implying negative real interest rate of around 1.0-1.8 percent expressed in terms of foreign goods. As for the interest rate on public (nonmonetary) domestic debt, in recent years the average nominal interest rate on the Government's debt instruments has ranged 7.0-7.5 percent.[8] So, the real interest rate on the public domestic debt has fluctuated in the 1.9-2.4 percent range. Although the latter (real) rate will be rising due to the very recent increases in the nominal interest rates paid on the savings certificates and the auctioned T-Bills, still the Government is safely far away from unstable debt dynamics.[9]

Table I below presents the results of sustainable primary deficit (SPD) calculations for Bangladesh, corresponding to different rates of real GDP growth, domestic inflation, and real exchange

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7 As alluded to it earlier, the accounting approach to the fiscal sustainability calculations does not provide information on what might be considered as optimum level of external debt burden for a country. Obviously, this will depend on many factors that do (and will) affect the country's ability to service its foreign debt and on whether the government is going to spend additional debt for activities that will help strengthen the economy's growth and export capacity.

8 These rates are based on the weighted average of nominal interest rates paid on various Government debt instruments. However, the effective nominal interest rate implied by the ratio of actual interest payments to the stock of domestic debt has fluctuated between 5.20-7.46 percent during FY93 and FY96.

9 In February 1997, the Government announced a one percentage point increase in the nominal interest rates paid on the newly issued savings certificates and that the interest rates on the auctioned T-Bills have been rising since June 1996--by about 1.65 percentage point through April 1997.

rate depreciation. Results indicate that the size of sustainable primary deficit would fluctuate between 1.6 percent and 5.3 of GDP, depending on the assumed magnitudes of the key macroeconomic variables. ***For example, in the case of 4 percent inflation, 5.5 percent real GDP growth, and 2 percent depreciation of the real exchange rate, the resulting figure for the sustainable primary deficit (SPD) is 3.3 percent of GDP***. For the same inflation and GDP growth rates, but with zero depreciation in the real exchange rate, the size of SPD would be 4.2 percent of GDP.

As it is clear from Equation (3) and shown by the calculations, increases in the real GDP growth rate expand the size of sustainable deficit, while increases in the real interest rates on domestic and foreign debt as well as in the rate of real exchange rate (RER) depreciation reduce it.

There are some important qualifications that need to be highlighted here. First, the above results exclude the augmenting effect of official grants on the size of SPD. Grants extended to the Government of Bangladesh by the donor community have averaged about $800 million annually in recent years (about 2.5 percent of GDP). If the latter magnitude is included as an additional source of deficit financing, the size SD would increase by an additional 2.5 percentage points. However, it is important to stress that official grant inflows will most likely not show an increasing trend even in current US dollar terms. And the result would be a declining ratio of grants to GDP, barring very large RER depreciations. Indeed our medium-term GDP projections indicate that if grants were to remain stable at their current (US$) levels, the ratio of grants to GDP would fall by half to about 1.25 percent of GDP by the year 2006. Thus, if the official grants are included as an additional source of deficit financing, then the size of SPD would be: in the lower range, **2.9-4.1** percent of GDP, and in the higher range, **6.6-7.5** percent of GDP, depending on the values of other key macroeconomic variables; (these magnitudes could be obtained by adding the contribution of grants--1.25 or 2.5 percent of GDP--to figures given in Table 1). *For example, under a macroeconomic scenario of 4 percent inflation, 6 percent real GDP growth, and 2 percent real depreciation, the inclusion of official grants would give SPD figures of **4.9 and 6.1 percent of GDP** for grant inflows amounting to 1.25 percent and 2.5 percent of GDP, respectively.*

Second, the real interest rate on Bangladesh's foreign public debt is currently negative (-1.3 percent in the calculations) due to a significant concessionality element. If the supply of concessional loans falls, then Bangladesh may experience either a falling external public debt to GDP ratio[10] (i.e., b^* in Equ. 3) and/or an increasing real interest cost on foreign debt (i.e., r^* in Equ. 3). In either case, the size of SPD, relative to GDP, would fall, assuming that the Government wants to avoid an increasing external debt to GDP ratio.

Finally, it needs to be noted that the results of SPD calculations presented in Table I cover only the central government accounts. Due to the unavailability of information on the consolidated public sector accounts, no attempt was made here to look at the consolidated public sector borrowing requirement (PSBR) and the relevant SPD. However, there are certainly additional public sector claims on the financing resources available to the Government. Setting aside resources for the needs of non-financial and financial SOEs will obviously reduce the size of SPD for the central Government.

In this regard, quasi-fiscal costs associated with the operations of Bangladesh's non-financial SOEs and of the banking sector constitute an important burden on the public sector's financing resources. Non-financial SOEs have been showing losses of well over 1 percent of GDP per annum due to high degree of inefficiencies and (in some cases) the imposed rigid pricing policies. Their deficits have recently approached 2 percent of GDP, with financing being met from ADP allocations,

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[10] If the Government prefers to avoid nonconcessional external borrowing.

transfers/loans from the central Government, borrowings from Nationalized Commercial Banks (NCBs), and further building up of arrears to the banks and the Government.[11] The banking sector is financially weak, with both the NCBs and domestic private commercial banks being undercapitalized, underprovisioned and burdened with significant amounts of nonperforming loans--about 32 percent of the loans.[12] Since December 1992, the Government has issued bonds worth Tk 60.7 billion to recapitalize NCBs, write off agricultural loans, and compensate NCBs for some of the loans extended to SOEs.[13]

Government's assumption of SOE liabilities and other budgetary support to SOEs and meeting the recapitalization needs of the banks will continue burdening the budget until the urgently needed reform actions in the SOE and the banking sectors are effectively implemented. If the budgetary support comes in the form of cash infusion, the impact on the central government budget will be direct and immediate, while recapitalizations through the issue of new debt instruments will create less dramatic impact on the budget through the servicing of the debt, depending on the interest rates and maturities.

The annex could be finalized by summarizing the preceding discussions with the following key observations and findings:

- *Due to very high concessionality of external debt and still relatively small size of nonmonetary domestic debt, the Government of Bangladesh is not facing a fiscal sustainability problem, at least in the medium term.*

- *Actual primary deficit--at below 5 percent of GDP-- has remained below the sustainable levels in recent years.*

- *If the recent sharp increase in the pace of domestic (nonmonetary) debt accumulation continues, with the attendant creeping increase in the real interest rate paid on the new issues of corresponding debt instruments, the size of SPD would, ceteris paribus, fall.*

- *Given the current negative real interest rate on the highly concessional external financing, the government could keep the size of SPD at a higher level by achieving better aid disbursement and utilization performance. Improvements in the implementation of the reform program, quality of the ADP, and other public expenditure programs, and projects implementation would contribute to this end. Otherwise a steady increase in reliance on domestic nonmonetary borrowing could gradually reduce the size of SPD as the real interest rate on the latter source of financing creeps upward.*

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11 For further details on the financial conditions of SOEs and their burden on the budget, see: World Bank, Bangladesh: Public Expenditure Review, Report No. 15905-BD, July 31, 1996, Appendix 3.

12 The four DFIs--two industrial (BSB, BSRS) and two agricultural (BKB, RAKUB)--have a much higher nonperforming loan ratio--over 63 percent in FY96. And these specialized banks have in turn not been paying back the subsidized credits extended by the Bangladesh Bank.

13 Also, in October 1993, Tk 10 billion in cash was given to the banks for recapitalization.

Table A1:- Bangladesh: Sustainable Primary Deficit as Share of GDP
(in percent of GDP)

Rate of Domestic Inflation (%)	I. Annual Rate of Real Exchange Rate Depreciation = 4%					
	Real GDP Growth (%)					
	4.5	5.0	5.5	6.0	6.5	7.0
3.0	1.6	2.0	2.3	2.6	2.9	3.3
3.5	1.7	2.0	2.3	2.7	3.0	3.3
4.0	1.7	2.1	2.4	2.7	3.0	3.4
4.5	1.8	2.1	2.4	2.8	3.1	3.4
5.0	1.8	2.2	2.5	2.8	3.1	3.5

Rate of Domestic Inflation (%)	II. Annual Rate of Real Exchange Rate Depreciation = 2%					
	Real GDP Growth (%)					
	4.5	5.0	5.5	6.0	6.5	7.0
3.0	2.5	2.9	3.2	3.5	3.9	4.2
3.5	2.6	2.9	3.2	3.6	3.9	4.2
4.0	2.6	3.0	3.3	3.6	3.9	4.3
4.5	2.7	3.0	3.3	3.7	4.0	4.3
5.0	2.7	3.1	3.4	3.7	4.0	4.4

Rate of Domestic Inflation (%)	III. Annual Rate of Real Exchange Rate Depreciation = 0%					
	Real GDP Growth (%)					
	4.5	5.0	5.5	6.0	6.5	7.0
3.0	3.4	3.8	4.1	4.4	4.8	5.1
3.5	3.5	3.8	4.1	4.5	4.8	5.1
4.0	3.5	3.9	4.2	4.5	4.8	5.2
4.5	3.6	3.9	4.2	4.6	4.9	5.2
5.0	3.6	4.0	4.3	4.6	4.9	5.3

Other Parameters:
$b = 0.11$; $b^* = 0.45$; $r = 0.034$; $r^* = -0.013$; $m = 0.095$

FY98 ANNUAL DEVELOPMENT PROGRAM AND THREE YEAR ROLLING INVESTMENT PROGRAM FOR FY96-98
LIST OF PROJECTS WARRANTING REEXAMINATION OF RATIONALE AND PRIORITY

	Name of Project	Approval Status	Project Cost (Tk mln)	Cumulative Spending through FY97 (Tk mln)	Allocation in FY98 (Tk mln)	Comments
1.	***AGRICULTURE***					
1.1	Seed Development Project	Approved	2175	920	405	Under this project the Seed Wing of BADC has been involved in the production of both foundation and certified seeds but it has not been able to operate efficiently and along commercial lines. Its underpricing of seeds under the project, and lack of access by the private sector to new breeder seeds, which were supplied only to BADC in the past, discouraged private sector participation. One prudent option which the Government might consider, in the context of ongoing review by the Agriculture Commission, is to phase out the project and convert the Seed Wing into an autonomous company, with representation of stakeholders on its Board, which should be allowed to operate commercially. This new entity's involvement should be limited to the production of foundation seeds, in line with the revised Seed Policy. The policy to open up access to breeder seeds by the private sector should be effectively implemented. The involvement of the private sector in the production of certified seeds should continue.
1.2	Program for Expansion of Certified Seed	Unapproved	196	0	0.5	This project warrants reexamination for the reasons stated for the project listed under 1.1 above, particularly given that the private sector is actively involved in the production of certified seeds. Possible underpricing of certified seeds under this project could adversely affect incentives for private sector producers.
1.3	Production of Fine Rice in the Barind Area	Approved	17	6	5	Development of niche market products like fine rice is a business activity which should be left to the private sector.
1.4	Construction of New Food Godown at Strategic Places for Strengthening Food Security	Unapproved	100	0	5	Construction of 5000 MT of LSD storage capacity in 10 thanas is envisaged under this proposed project. This should be reexamined in the context of the large excess public foodgrain storage capacity which has remained underutilized, and in view of the rationalization of GOB's foodgrain distribution. It does not seem prudent to expand capacity in thanas where some storage capacity already exists. For the selected thanas which are in deficit areas and where no storage capacity exists, and depending on storage capacity in adjoining thanas, the need for

	Name of Project	Approval Status	Project Cost (Tk mln)	Cumulative Spending through FY97 (Tk mln)	Allocation in FY98 (Tk mln)	Comments
						construction could be reexamined. For the future, if there is a capacity gap, the private sector should undertake the required investment in storage construction.
1.5	Balancing, Modernization, Renovation and Expansion (BMRE) of Flour and Animal Feed Mills at Postagola	Unapproved	220	0	0.5	Public sector involvement in the production and selling of flour and animal feed can hardly be justified. This is a business activity which should be left to the private sector. The mill should have been privatized many years ago, leaving the BMRE decisions to the new private owner. This mill should be privatized soon and the project dropped.
1.6	Construction of a Concrete Silo with Ancillary Facilities at Mongla Port	Unapproved	825	0	0.6	The main justification for the project put forward by the Food Ministry for the project is that the proposed silo would make it possible to transfer the grains from the lighterage vessels directly into the proposed silo and thus lead to savings in handling cost and pilferage losses due to manual handling. The viability of the project is based primarily on these expected savings. While this could be a plausible justification, the main factor affecting the viability of the project seems to be linked to the uncertainty about the viability of the present location of the Mongla port, due to the heavy silting and the expensive dredging that has been necessary. This project should therefore be reexamined.
1.7	Teesta Barrage	Approved	9850	9673	206	This project has claimed a large share of the water sector investment budget for many years, the cumulative spending being about Taka 10 billion so far. In view of the considerable investment by the private sector in minor irrigation, based on ground water, in the command area of the Teesta project, additional investment under the project should be limited to the minimum necessary to realize any possible net benefits (taking into account the cost of land lost by canals) of the sunk cost.
2.	***INDUSTRY***					
2.1	BMRE of Chhatak Cement Factory (Phase II)	Revised unapproved	1624	1	250	After the recent completion of Phase I BMR, this second phase has been initiated. In line with the stated Industrial Policy, this plant should have been privatized much earlier, like the Chittagong Cement Clinker plant, for instance, in which case this BMRE investment decision could have been taken by the private owner. This plant has been recently identified for privatization in FY98. Under the circumstances, rather than the public sector spending more money and taking the risk of a possible wrong decision, it would be prudent to leave the BMRE decision to the new private sector owner.
2.2	Shahjalal Fertilizer	Approved	10627	2	3	In line with GOB's Industrial Policy and policy of privatization, the

	Name of Project	Approval Status	Project Cost (Tk mln)	Cumulative Spending through FY97 (Tk mln)	Allocation in FY98 (Tk mln)	Comments
	Company Limited					public sector should not undertake new investment in manufacturing. If there is a need for greater domestic capacity, investment in fertilizer production by the private sector, including FDI, should be promoted effectively by removing the distortions in the incentive regime, notably the administered underpricing of urea, much below the import parity price, and the controls on urea exports.
2.3	Di-Ammonium Phosphate (DAP) Plant at Chittagong Urea Factory Limited (CUFL)	Unapproved	3074	0	0.5	The CUFL plant has been rightly identified for privatization in FY98. If DAP production at CUFL is a technically sound and economically viable proposal, this investment proposal would be considered by the new private owner. At the same time, existing market distortions in the fertilizer sector would need to be removed in order to attract private investment. The investment decision is best left to the future owner.
2.4	BMRE of Karnaphuli Paper Mills	Unapproved	3478	0	0.5	The plant should be privatized and the BMRE decision left to the future private owner.
2.5	Urea Fertilizer Factory in Northern/Southern Part of the Country	Not known	17000	0	0	This project has been included in the TYRIP for FY96-98 but does not yet appear in the FY98 ADP. Quite apart from the large size of the proposed investment, GOB should not, as a matter of sound economic policy, be involved in new investment in manufacturing. If additional capacity is warranted in the fertilizer sub-sector, GOB should focus on effectively opening up investment to the private sector by addressing the distortions in the incentive regime, and leaving the investment decisions to the private sector. GOB should therefore play a facilitating role and avoid direct investment.
2.6	Installation of Paper Machine in Sylhet Pulp and Paper Mill	Unapproved	850	0	0	This plant has been identified for privatization in FY98. Under the circumstances, rather than the public sector spending more money and taking the risk of a possible wrong decision, it would be prudent to leave the BMRE decision to the future private sector owner.
2.7	BMRE of Jute Based Pulp Production in North Bengal Paper Mill	PCP Approved	99	0	16	This plant has been identified for privatization in FY98. Hence rather than the public sector spending more and taking the risk of a possible wrong decision, it would be prudent to leave the BMRE decision to the future private sector owner.
2.8	BMRE of Jute Based Pulp Production in Sylhet Pulp and Paper Mill	PCP Approved	48	14	10	This plant has been identified for privatization in FY98. Hence rather than the public sector spending more money and taking the risk of a possible wrong decision, it would be prudent to leave the BMRE decision to the future private sector owner. Given that some of the work has already been carried out, the scope of the BMRE should be limited to the minimum necessary to make the plant ready for privatization.
2.9	BMRE of Jute Based Pulp Production in	PCP Approved	99	5	26	Like the paper mills listed above (2.6 and 2.7) , this plant should also be targeted for privatization in FY98, and the BMRE decision should be left

	Name of Project	Approval Status	Project Cost (Tk mln)	Cumulative Spending through FY97 (Tk mln)	Allocation in FY98 (Tk mln)	Comments
	Khulna Newsprint Mill					to the future owners.
2.10	1500 TCD Pabna Sugar Mill	Approved	838	642	40	This project was included in the FY97 ADP and has apparently been completed. There was no rationale for a new public sector investment in sugar manufacturing since this is a business activity which should be carried out by the private sector. Like the other 9 sugar mills targeted for privatization in FY98, this new mill should also be included in the program.
2.11	BMRE of Carew and Company Sugar Mills	Not known	335	0	0	This project was included in the TYRIP for FY96-98 and has also been formally recommended for inclusion in the FY98 ADP. This plant has also been included in the list of SOEs targeted for privatization in FY98. Under the circumstances, the rationale for initiating BMRE of this plant appears questionable. As planned, this plant should be privatized and the BMRE decision left to the future owner.
2.12	Dhaka EPZ Extension	Not known	599	0	0	This project was included in the TYRIP but does not yet appear in the FY98 ADP. In the context of the recent enactment of the Private EPZ Act, GOB should focus on improving the conditions for attracting FDI into investment in private EPZs rather than getting the public sector directly involved in setting up such EPZs. Any new public sector investment in EPZs could send wrong signals to potential investors of private EPZs about GOB's intentions.
2.13	Gazipur EPZ (Phase I)	Unapproved	666	158	220	This proposed new public sector investment in EPZs warrants reexamination for the reasons stated for the project listed under 2.12 above.
2.14	Mongla EPZ (Phase I)	Unapproved	1259	0	17	This proposed new public sector investment in EPZs warrants reexamination for the reasons stated for the project listed under 2.12 above.
2.15	North Bengal EPZ (Phase I)	Unapproved	1070	0	0.5	This proposed new public sector investment in EPZs warrants reexamination for the reasons stated for the project listed under 2.12 above.
2.16	District-Based Industrial Estates for Development of Small and Cottage Industries (Revised)	Revised Unapproved	827	310	37	While the BSCIC has been involved for many years in setting up industrial estates, this activity should now be left to the private sector. The experience of BSCIC in setting up such estates has been quite mixed. The capacity of many estates has remained seriously underutilized for many years but the unused plots have not been reallotted to other entrepreneurs. In addition, the provision of BSCIC estate plots at subsidized prices, considerably below the market rates, is neither necessary nor desirable due to possible disincentives for private sector involvement. The private sector is already involved in land acquisition and real estate development and there is no reason why they

	Name of Project	Approval Status	Project Cost (Tk mln)	Cumulative Spending through FY97 (Tk mln)	Allocation in FY98 (Tk mln)	Comments
						could not develop such estates with the cooperation of relevant public agencies if this is a viable investment. BSCIC's investment in this activity should be phased out and GOB should instead focus on promoting private sector participation. First, acquisition of land by the private sector should be facilitated by addressing factors which would minimize the incidence of land disputes and lead to quick and efficient resolution of such disputes. Second, access to utilities and infrastructure facilities by potential private developers should be facilitated by reorienting public sector agencies providing such services, and, more importantly, by promoting active private sector provision of such services and facilities.
2.17	Maizdi Industrial Estate	Not known	46	0	0	This project was included in the FY96 ADP, then dropped in the FY97 ADP. It again reappeared in the TYRIP but does not yet appear in the FY98 ADP. This should not be undertaken in the future for the reasons stated for the project listed under 2.16 above.
2.18	BMR of Gulfra Habib Jute Mill	Unapproved	38	0	5	Jute mills have been slated for privatization for many years, and this mill should have been sold and the BMR decisions left to the future owners. It does not seem prudent to go ahead with this investment.
2.19	Installation of New Spindles in 10 BTMC Mills	Approved	180	154	26	While 16 textiles mills have been recently identified for privatization in FY98, these 10 mills have apparently not been included in that list. Much of the investment under the project seems to have been completed. Given that the textiles mills sub-sector has been slated for privatization, in line with GOB's Industrial Policy, it would be prudent to initiate privatization of these mills soon.
2.20	High-Voltage Cable and Conductor Manufacturing Plant	Approved	269	0	40	Public sector involvement in this new investment in manufacturing is not in line with GOB's stated policies and appropriate role. This project should therefore be left to the private sector.
2.21	Construction of Dhaka World Trade Centre	Not known	5376	0	0	This project was included in past ADPs and dropped subsequently. This project has been included in the TYRIP, showing commencement of implementation in FY98, but the project does not yet appear in the FY98 ADP. Quite apart from the large cost of this proposed "prestige" project, there does not seem to be any rationale for the Government's involvement in this business activity. This investment proposal should be left to the private sector.

	Name of Project	Approval Status	Project Cost (Tk mln)	Cumulative Spending through FY97 (Tk mln)	Allocation in FY98 (Tk mln)	Comments
3.	***POWER AND MINERAL RESOURCES***					
3.1	300 MW Coal Based Thermal Power Plant at Barapukuria	PCP Approved	15434	10	240	This coal-based thermal power plant is much more costly than equivalent gas-based plants (as the comparison with the power plant listed under 3.2 below, for instance, illustrates). Quite apart from this question about the cost effectiveness of this large project, the involvement of the public sector in this investment should be reexamined, particularly in the context of the Private Power Generation Policy (PPGP). The Government should evaluate options, including re-sizing or postponing of the plant, and determine the least cost option. In this exercise, possible revisions to estimates of gas reserves should also be considered in the light of recent findings and initiatives in gas exploration. If after such analysis a coal-based plant is justified, the project should be offered in the first instance to IPPs under the PPGP. This would give the right message about the Government's commitment to involve IPPs under the PPGP wherever possible.
3.2	60 MW Shahzibazar Gas Turbine Power Station	Approved	1417	10	170	This project should be offered in the first instance to IPPs under the PPGP.
3.3	71 MW Baghabari Gas Turbine (2nd Unit)	Not known	2616	0	0	This project has been included in the TYRIP but does not yet appear in the FY98 ADP. The project should be offered in the first instance to IPPs under the PPGP.
3.4	Sylhet 100 MW Gas Turbine	Not known	2915	0	0	The project has been included in the TYRIP and has been formally recommended for inclusion in the FY98 ADP, following project approval later in the year. The project should be offered in the first instance to IPPs under the PPGP.
3.5	Second East West Power Interconnector (Ashuganj-Bogra 230 KV Line)	Unapproved	4955	0	0.1	This project has been included in the TYRIP but does not yet appear in the FY98 ADP. This investment should be reexamined in the context of the most recent power system master plan, which recommends postponing this investment in favor of advancing a gas pipeline to the west. Possibilities of gas finds in the south west also favor further delaying of the project. While other alternatives are more promising in the short-term, a detailed study of the transmission system development is required to determine when this line might be needed.
3.6	Ruppur Atomic Energy	Revised Unapproved	11311	76	2	This project has been continuously included in the ADP for many years, leading to annual recurrent costs that could have been avoided. This seems a very unlikely project in the present context and the project should be formally dropped so that wasteful recurrent expenditures could

	Name of Project	Approval Status	Project Cost (Tk mln)	Cumulative Spending through FY97 (Tk mln)	Allocation in FY98 (Tk mln)	Comments
						be avoided henceforth.
3.7	Joypurhat Limestone Mine and Cement Complex	Approved	9080	Not Available	Not Available	The project was included in the FY97 ADP and TYRIP but does not yet appear in the FY98 ADP. GOB should not be investing in this project. If it is a viable venture, the private sector might show interest in exploration and extraction under a suitable mining contract.
4.0	***TRANSPORT***					
4.1	Public Priority Roads Project	Approved	6245	2616	300	The identification of these roads has apparently not been based on feasibility assessments or a prioritized investment plan. This project includes 40 roads, which are based on ad hoc decisions from time to time and appear to be largely politically mandated. It would be prudent to include roads based on a prioritized plan, which would have much greater growth and employment impact.
4.2	Thana Connecting Road Project	Unapproved	60000	17000	2200	This is a very large project which includes 444 thana connecting roads, which are "A" category feeder roads. The massive size of the project raises a concern about the budgetary sustainability of the project financing as well as the future maintenance costs. In addition, a serious concern is that the choice of the roads has not been generally based on feasibility studies or a prioritized investment plans, thus raising questions about economic rates of return. In addition, the annual allocations have been only about 4% of the total project cost, leading to thin spreading of funding over the 444 roads. At this rate, this will mean that only small segments of the roads will be constructed every year and the completion of the roads will take many years. Consequently, project benefits will be largely deferred far into the future. A more advisable approach would be to cover a manageable number of well prioritized roads, which would lead to much greater growth and employment impact. This massive project should be reexamined and a new prioritized program should be formulated. The Road Prioritization Plan for Feeder Road A currently being prepared for the IDA-financed RRMP-III project should serve as a useful basis for drawing up such a plan.
4.3	Public Priority Road and Bridge Project (Phase II)	Unapproved	6730	827	250	The identification of these roads has apparently not been based on feasibility assessments or a prioritized investment plan. This project includes 51 roads, which are based on ad hoc decisions from time to time and appear to be largely politically mandated. It would be highly recommended that roads based on a prioritized plan be included so as to enhance their growth and employment impact.
4.4	Mohakhali, Maghbazar	Approved	1878	Not known	Not known.	This project was included in the FY97 ADP and TYRIP but does not yet

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	and Jatrabari-Sayedabad Flyover Construction)					appear in the FY98 ADP. This investment should be considered in the context of a comprehensive assessment under the Dhaka Urban Transport Project being prepared with IDA assistance.
4.5	Dhaka Eastern Bypass Road	Unapproved	2652	0	50	This investment should be considered in the context of a comprehensive assessment under the Dhaka Urban Transport Project being prepared with IDA assistance. Also, if the investment is found viable, possibilities for private sector participation should be actively explored.
4.6	Construction of a Three-Star Hotel of International Standard at Zia International Airport	Unapproved	1000	Not available	Not Available	This project was included in the FY97 ADP and TYRIP but does not yet appear in the FY98 ADP. There seems no justification for the Government's involvement in this business activity, which should be left to the private sector. Some new investments in hotel are currently being initiated in Dhaka by the private sector.
4.7	Procurement/Construction of 4 Additional Roll-on-Roll-Off Ferries	Approved	998	Not known	Not known	This project was included in the TYRIP and has been formally recommended for inclusion in the FY98 ADP following project approval later in the year. This proposal needs to be questioned in the context of the expected completion of ongoing Jamuna Bridge Project next year, following which a number of ferries currently operating on the Aricha-Nagarbari route will be released for use on other routes, including the Aricha-Daulatdia route. Is the proposed procurement meant to deal with the traffic load prior to the commissioning of the Jamuna bridge? Even so, given the large number of ferries to be freed up from the Aricha-Nagarbari route, is the procurement justified for the interim period? For the future, BIWTC's involvement in ferry service should be phased out in favor of the private sector since this is a commercial activity. A DANIDA-sponsored Inland Water Transport Sector Policy and Strategy Study has recently emphasized the need to focus on gradual rolling back of the state from the provision of services which can be efficiently provided by the private sector. The Government should address the constraints to private sector involvement in this sub-sector, including ferry services.
4.8	Acquisition of 2 Roll-on-Roll-Off Ferries	Approved	380	0	15	This project should be questioned for the reasons stated for the project listed under 4.7 above.
4.9	Procurement of Passenger Sea Truck for Coastal Areas.	Unapproved	50	0	0.4	This investment warrants reexamination. There seems little justification for expanding the involvement of the public sector in passenger carrying since this is a business activity which should be handled by the private sector. A DANIDA-sponsored sector strategy study has recently emphasized the need to roll back the state's involvement from the provision of those services which can be provided efficiently by the private sector. Given the active involvement of the private sector in

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						passenger transportation, BIWTC should withdraw from this activity.
4.10	Procurement of 2 New Passenger Vessels by BIWTC for the Chittagong-Barisal Route	Unapproved	659	Not Available	Not Available	This project has been included in the TYRIP and formally recommended for inclusion in the FY98 ADP following project approval later in the year. This project should be questioned for the same considerations as those stated for the project listed under 4.9 above.
5.0	***PHYSICAL PLANNING AND WATER SUPPLY***					
5.1	Construction of 2000 Residential Flats for Government Employees in Dhaka City	Approved	1517	1140	220	This appears questionable on both efficiency and equity grounds. It is a much more cost effective and less burdensome option to pay a housing allowance rather than involving the Government in the construction of housing and their recurrent maintenance and repairs during the entire life of these buildings. This means sizable capital costs of construction as well as a setup and recurrent costs for maintenance, which can all be avoided by a cash compensation, currently paid in the form of a house rent allowance. If the house rent allowance is considered inadequate for meeting rental costs, this should be addressed in the context of an overall assessment and revision of the compensation package, rather than opting for an expensive and inefficient solution for a small minority group. In addition, it cannot be justified on equity grounds since a small proportion of Government employees have access to public housing. Incentives needed to attract and retain competent and skilled civil servants should be reflected in the salaries rather than taking the form of inefficient, inequitable and costly in-kind benefits
5.2	Construction of 100 Residential Flats for Senior Government Officials in Dhaka City	Unapproved	250	10	30	This appears to be of questionable priority for the considerations stated for the project listed under 5.1 above.
5.3	Construction of 1000 Residential Flats for Government Officers and Staff in Dhaka City	Approved	843	Not Available	0	This project was included in the FY97 ADP and seems to have been largely completed. Nonetheless, it should be noted that it is questionable for the reasons stated for the project listed under 5.1 above.
5.4	New National Secretariat at Sher-e-Bangla Nagar	Unapproved	14000	0	5	Quite apart from the huge cost involved in the proposed project, its rationale should be questioned in the context of the need for rightsizing the Government, including the line Ministries. A more prudent option which the Government might consider is to upgrade the facilities in the existing Secretariat, if warranted by the volume of business.
5.5	Construction of 180	Unapproved	128	0	10	The case for involving the Government in a special and complicated

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	Flats in Shamoli for Government Employees on a hire-purchase basis.					arrangement for building and selling flats to a small minority group, when all households in the country are relying on formal and informal sources of finance and carrying out their own construction, seems questionable, especially given the need to streamline the activities of the Government.
5.6	Development of 100 Acres of Land for Construction of Residential Houses in Greater Dhaka	Unapproved	486	147	28	RAJUK has been playing an active role in land development for many years. Ideally, however, land development is an activity which should be left to the private sector, and the concern is that RAJUK'S direct involvement in land development is likely to have undermined the private sector role. The role of RAJUK needs to be reviewed and revised to distinguish between three distinct functions : (i) town planning; (ii) regulation of city development in the context of master plans and building codes; and (iii) housing schemes and site development which should be largely in the private sector. The public sector should avoid its direct involvement in land development and instead focus on developing efficient land markets and improving conditions for a more active participation by the private sector. The Government should focus on facilitating acquisition of land by the private sector by addressing the factors which would help minimize the incidence of land disputes and lead to quick and efficient resolution of such disputes. Some of the relevant measures are : streamlining of the system of land records and reform of the relevant laws and judicial process for resolution of land disputes..
5.7	Construction of Government Offices and Residential Buildings in 44 District Headquarters	Unapproved	11303	6714	150	The housing component of the project warrants reexamination for the considerations stated for the project listed under 5.1 above.
5.8	Residential Building of Judicial Officers in Dhaka, Khulna, Barisal, Rajshahi and Chittagong	PCP Approved	216	215	0.8	This housing project warrants reexamination for the considerations stated for the project listed under 5.1 above.
5.9	Construction of Housing in Uttara for Employees of Sadharan Bima Corporation	Unapproved	54	0	20	This housing project warrants reexamination for the considerations stated for the project listed under 5.1 above.
5.10	Multi-storied Housing for Slum Dwellers of	Unapproved	2647	0	5	Given the very large number of poor urban dwellers in Dhaka, this project needs to be reexamined in the context of a comprehensive

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	Dhaka					approach for helping the urban poor through the most cost effective, sustainable and equitable forms of assistance. This proposed project needs to be reconsidered, especially in the context of the experience in other countries, including the role of the private sector and NGOs, over the past two decades. Government construction of public housing is an outdated notion and is generally financially infeasible as well as socially unsound. A much more prudent option is to facilitate self-help housing, particularly in the development of sites and services and squatter upgrading. Whatever the income level, house building should be essentially a private sector activity.
5.11	Purbachal Model Town	Not known	13249	0	0	This project was included in the TYRIP but does not yet appear in the FY98 ADP. This is a large project proposed to be executed by RAJUK. While RAJUK has been playing an active role in land development and township development, there is a need to assess whether the public and private sectors have been able to play their appropriate roles. Ideally the private sector should be very actively involved in land development and the concern is that RAJUK'S direct involvement in this area is likely to have undermined the private sector role. The role of RAJUK needs to be reviewed and revised to distinguish between three distinct functions : (i) town planning; (ii) regulation of city development in the context of master plans and building codes; and (iii) housing schemes and site development which should be largely in the private sector. The public sector should avoid its direct involvement in land development. The Government should instead focus on addressing constraints to more active private participation, particularly by promoting the development of efficiently functioning land and housing markets. Acquisition of land by the private sector should be facilitated by addressing factors which would minimize the incidence of land disputes and lead to quick and efficient resolution of such disputes. This will require, among other measures, streamlining of the system of land records and relevant laws and the judicial system for resolution of land disputes.
5.12	Construction of a Low-Cost Hotel at Cox's Bazar	Unapproved	22	0	10	This business activity should have been left to the private sector.

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6.0	***EDUCATION***					
6.1	Food-for-Education Program	Approved	3750	3300	3350	The FFE program is an in-kind income transfer benefiting the relatively poorer families of about 13 percent of primary school students. It is therefore basically a poverty alleviation program, rather than a program aimed at addressing the priority objectives of the primary education sub-sector, including quality of education. The program is now claiming a rather high share (43 percent) of the ADP primary education budget, which needs to be questioned in the context of the resource needs for addressing the sectoral objectives. A recent review of the FFE program carried out by the BIDS has concluded that use of resources under the program has been neither efficient nor equitable. It has been estimated that the cost of transferring Taka 1 of income under the program varies from Taka 1.12 to as high as Taka 1.51. The actual cost of income transfer has been higher since this excludes the costs borne by the school administration, in terms of teachers' time and logistical support, as well as the implicit cost of public procurement at a price higher than the market price. Some 26 percent of the beneficiaries have been outside the target group defined under the project. Whilst daily attendance appears to have improved as a result of the program, overall efficiency as measured by the rate of dropouts and repeaters has not improved much. In view of these considerations, the spending on primary education needs to be prioritized by taking the FFE program out of the education program and providing equivalent funding to focus directly on some of the priority investment needs in the sub-sector.
6.2	Renovation and Development of Selected Non-Government High Schools	Approved	2895	2137	450	Budgetary grants for renovation and repair should not be provided in isolation from the budgetary grant for salary subvention, and without linkage to any performance indicator. First, institutions benefiting from subvention support should generally be required to demonstrate local commitment to the institution by mobilizing resources for renovation, maintenance and development. Second, grants for renovation should be linked to well-defined performance indicators, and should in principle be provided only on a matching grant basis. The identification of educational institutions to be covered should be carried out on the basis of rational and transparent criteria which should take into account the above considerations.
6.3	Development of	Approved	1128	838	116	These grants should be reexamined in the context of the considerations

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	Selected 350 Private Colleges					suggested for the project listed under 6.2 above.
6.4	Development and Renovation of Secondary Schools (Government and Non-Government)	Revised Unapproved	5928	3897	513	These grants should be reexamined in the context of the considerations suggested for the project listed under 6.2 above.
6.5	Establishment of Home Economics College at Chittagong	Approved	81	33	40	Public involvement in building institutions for catering to such specialized subjects seems to be a low priority. If demand for such training justifies an institution, this should be set up with private initiative and community involvement.
6.6	Development of Home Economics College at Rajshahi	Approved	80	42	5	The reservation is the same as that for the project listed under 6.5 above.
6.7	Introduction of Computer Science Course in Selected Colleges and Teacher Training	Approved	267	19	10	This is relatively costly and a low priority for public sector involvement, given the large backlog of basic needs in the education sector which have not yet been addressed. Private sector institutions are already playing a very active role in providing computer training, and their network has expanded rapidly. The project therefore warrants reexamination.
6.8	Reconstruction and Expansion of Non-Government Secondary Schools (4000)	Not known	6000	0	0	The project has been included in the TYRIP but does not yet appear in the FY98 ADP. These grants should be reexamined in the context of the considerations suggested for the project listed under 6.2 above.
6.9	Reconstruction and Expansion of Non-Government Colleges (600)	Not known	1500	0	0	The project has been included in the TYRIP but does not yet appear in the FY98 ADP. These grants should be reexamined in the context of the considerations suggested for the project listed under 6.2 above.
6.10	Construction of Hostels for Girls of Government Schools and Colleges	Not known	1800	0	0	The project has been included in the TYRIP but does not yet appear in the FY98 ADP. This project is of questionable rationale and priority on both equity and cost effectiveness grounds. The equity aspect is questionable since a very small minority of students benefit from publicly-sponsored hostels. The capital cost of building hostels and the recurrent cost of repair and maintenance is a burdensome budgetary obligation which cannot be justified since it will not contribute to any of the priority sectoral needs.
6.11	Diversification and Expansion of Mid-Level Technical Education and	Not known	10949	0	0	This project has been included in the TYRIP but not yet in the FY98 ADP. The experience so far with publicly-sponsored vocational and technical training programs has been disappointing in terms of efficiency and returns, cost effectiveness and enhancing job prospects. They have

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	Modernization of Existing Polytechnic Institutes Including Mohila Polytechnic					lacked flexibility to meet changing demands for training or admitting clienteles with lower educational qualifications, and have had little linkage with skill requirements in the labor market and private sector employers. Consequently, trainees of public programs have faired poorly in the labor market, compared to those trained in private institutes or receiving on-the-job training. While public interventions could help promote technical and vocational education, the form of such intervention in the future should be based on a careful rethinking of the vocational and technical education strategy, taking into account the appropriate role of the Government and the potential for active private sector and NGO participation, and the latter's comparative advantage. The proposed investment should therefore be deferred pending such a comprehensive assessment.
6.12	Establishment of 12 Universities of Science and Technology in Old District Headquarters	Unapproved	1526	0	10	This project needs to be reexamined in the context of the projected demand for engineering graduates, the current underemployment of engineers, management considerations, the possibilities for setting up private universities, and the demands on Government's budgetary resources from priority areas of education -- the primary and secondary sub-sectors.
6.13	Establishment of English Language Training Institute	Approved	255	0	83	This appears to be a low priority area for public sector involvement. Such training is already being provided with private initiative, by NGOs and foreign institutions. If additional capacity is justified by demand, this should be undertaken by the private institutions which are already involved.
6.14	Introduction of Business Management Course in Non-Govt. Educational Institutions at the HSC Level	Unapproved	132	0	20	The rationale for limiting Government support for introduction of the course in only non-Government institutes is not clear. If a new course is being developed it should be equally accessible by Government and non-Government institutes.
6.15	Establishment of a Girl's Cadet College at Feni	Unapproved	332	0.1	0.5	The reservation is that new construction of such capital-intensive educational institutions with very highly subsidized education is not justified on either efficiency or equity grounds.
6.16	Provision of Computer Service in Secondary and Higher Secondary Stages for Existing Cadet Colleges	Not known	25	0	0	Given the availability of computer training facilities in the private sector, such capital intensive investment in public educational institutions does not seem justified on either efficiency or equity grounds.
6.17	Setting up of Government Residential	Unapproved	1000	Not available	Not available	The reservation is that new construction of such capital-intensive educational institutions with residential facilities and providing highly

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	High Schools					subsidized services is not justified on either cost effectiveness or equity grounds. The equity aspect is questionable since a very small minority of students benefit from publicly-sponsored residential accommodation. The capital cost of building residential schools and the recurrent cost of repair and maintenance of such building is a burdensome budgetary obligation which cannot be justified since it will not contribute to any of the priority sectoral needs.
7.	***HEALTH***					
7.1	Establishment of 5 Medical Colleges at Dinajpur, Bogra, Faridpur, Khulna, and Comilla	Approved	1797	950	250	The Government has had problems in managing the older 8 medical colleges for a variety of factors, particularly lack of effective management, competent teachers, teaching facilities and logistics, thus leading to a deterioration of teaching standards and quality of the medical graduates. The decision to open 5 new medical colleges, in Bogra, Comilla, Khulna, Faridpur and Dinajpur is likely to have compounded these problems further. A very large number of doctors have been underemployed or unemployed and the quality of their training has also been mixed. In this situation, the proliferation of medical colleges in the public sector and the consequent deterioration of their management and quality of medical graduates has not contributed to the health sector objectives. In addition, there are now about 6 medical colleges in the private sector. In this context, the focus should have been on managing the existing public sector medical colleges efficiently and with greater autonomy, improving their capacity utilization further, improving training standards and producing high quality doctors.
7.2	Establishment of a National Centre for Control of Rheumatic and Heart Disease at Dhaka	Approved	89	41	16	While the project work has advanced considerably, it should nonetheless be noted that the setting up of a Dhaka-based institute for rheumatic disease control is a low priority. The provision of rheumatic control services, both preventive and curative, at the district and thana level would have been of much higher priority.
7.3	Construction of a 200 Bed Hospital at Mirpur	Unapproved	287	14	15	While this tertiary level health facility could serve the relatively poorer sections, the project should be considered in the context of the availability of health services provided by NGOs and other private clinics in Dhaka. Given the serious problems of management of publicly-run hospitals, adding new public hospitals will not improve the delivery of services. A prudent alternative is to hand over the management of public hospitals to private autonomous foundations and NGOs, and provide budgetary support, linked to performance and with

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						adequate accountability. The Ministry of Health and Family Welfare (MOHFW) has indicated that it has decided not to pursue this project at this stage.
7.4	Development of National Institute of Mental Health & Research and Establishment of a 100 Bed Hospital	Approved	242	102	20	The rationale and priority of this project is questionable. Given that the main mental hospital of the country is located in Pabna, it would have been prudent to expand the number of beds in the Pabna Mental Hospital and to set up the national Institute in Pabna, attached to the Pabna Mental Hospital, possibly in affiliation with Rajshahi University. While a provision has been kept under this project to improve the existing facilities at Pabna Mental Hospital and to increase its bed capacity, it would have been prudent to set up the Institute in Pabna.
7.5	Establishment of National Institute of Kidney Diseases and Urology at Dhaka	Approved	539	109	50	The establishment of a Dhaka-based specialized institute for kidney diseases in the public sector is of questionable priority. If the setting up of such an institute is warranted, it should be set up as a private foundation, with initial Government support if necessary. Such an approach would be much less burdensome from a budgetary point of view. More importantly, the experience is that private foundations with accountable management are run much better than Government institutes. The MOHFW has indicated that a provision has been kept under this project for transferring this institute after project completion to a Trust with accountable management. The MOHFW should ensure that this provision is implemented.
7.6	Conversion of IPGMR into a Centre of Excellence	Approved	221	44	10	This project is not consistent with the priority identified in the Health and Population Sector Strategy (HPSS), and its priority in the context of the country's health situation and needs is quite questionable. The main component of the project is construction of 200 hospital cabins to be used by VIPs and affluent sections of the community, and this component accounts for over 80% of the project cost. There is a small component in the project for outdoor care, which is not consistent with IPGMR's appropriate role, which should be limited to provide services to only referred patients. The private sector is already involved actively in setting up facilities with high service standards demanded by affluent sections, and there seems no rationale for such investment in the public sector, as indicated in the HPSS. For the future, reform of the public hospitals and institutions will be critical for any improvement in the delivery of services. Public hospitals should ideally be converted into autonomous hospitals, in collaboration with private institutions and NGOs, with appropriate representation of stakeholders in their management. In order to improve the financial sustainability of the new

	Name of Project	Approval Status	Project Cost (Tk mln)	Cumulative Spending through FY97 (Tk mln)	Allocation in FY98 (Tk mln)	Comments
						entities, a reasonable part of the curative care cost should be recovered through user charges, and budgetary grants linked to performance indicators could be provided to support their operations. A good example of a well-functioning private institution in this regard is the BIRDEM, which has been receiving budgetary support. With regard to the proposal for converting this into an autonomous hospital, the MOHFW has indicated that the Government will take appropriate steps in this regard after reviewing the findings and recommendations of the Pilot Project on Hospital Autonomy, which will be initiated soon.
7.7	Establishment of a National Eye Science Institute and Hospital at a New Site	Unapproved	327	10	13	The establishment of a specialized Dhaka-based eye hospital and institute in the public sector is of questionable priority. If the setting up of such an institute is warranted, it should be set up as a private foundation, with initial Government support if necessary. Such an approach would be much less burdensome from a budgetary point of view. In addition, the experience is that private foundations with accountable management are run much better than Government institutes, while the experience of management has been very disappointing. With regard to the proposal for handing over the management of the hospital to a Trust or Foundation, the MOHFW has indicated the possibility of the Government's acceptance of the proposal.
7.8	Bangladesh Institute of Health Sciences	Unapproved	1550	0	10	This is an ambitious and costly project (costing Taka 1.55 billion) of the Bangladesh Diabetic Society which runs the BIRDEM. The Government's contribution to financing is proposed to be as high as 75 percent of the project cost. The plan is to set up a large teaching institution with facilities for under- and post-graduate medical/health/dental/nursing education, all provided by the same institute. The project raises many questions and warrants reexamination. First, what is the urgency and priority of another private institute for higher medical and related education with heavy dependence on government funding when many new medical colleges have been set up in the private sector without public support? What is the priority of the proposed GOB support when adequate resources are not available for improving the quality of medical education in the existing public institutions? Second, rather than spending money on construction, which accounts for 68% of project cost, why can't GOB transfer the management of one of the public medical college and hospital to the Diabetic Society, in line with the HPSS, with budgetary support and full autonomy under a contractual arrangement? Third, if this proposed institute is a priority project for the Diabetic Society, why is it not

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						exploring possibilities of borrowing from domestic banks or from foreign sources? It may be noted that IFC, for instance, is considering providing loan financing to a local private hospital. The MOHFW has indicated that after a review it has decided not to pursue the project at this stage.
7.9	Establishment of Dhaka Dental College Hospital at Mirpur	Unapproved	783	0	18	The project involves the relocation of the Dhaka Dental College Hospital to a more spacious building. Since this is the only Government Dental Hospital in the country and since an improved hospital would facilitate the strengthening of the Dhaka Dental College, which is attached to the hospital, there should be no objection to GOB financing of the project. However, given the experience with the management of other government hospitals, it would be desirable to have an understanding at the beginning that GOB would not be involved in the management of the hospital. Ideally, the arrangement after project completion should be to make this an autonomous institution, under a management contract with private autonomous foundations or NGOs, with adequate stakeholder representation, with full autonomy and possible budgetary support. If the proposal is adopted, the foundation or NGO group to be chosen should be made accountable for efficient management and quality of service delivery. The MOHFW has indicated that, as in the case of the Institute of Kidney Diseases and Urology, the transfer of this institute to an autonomous body is possible.
7.10	Expansion of 23 Thana Health Complexes from 31 Bed to 50 Bed Hospital	Unapproved	463	0	5	The investment proposal to expand capacity and upgrade the Thana Health Complexes (THCs) needs review in the context of the existing underutilization of capacity of these facilities, with bed occupancy rates of only about 50%. The MOHFW has indicated that after a recent review it has been decided that the number of beds in the THCs would not be expanded. Instead, the project would be replaced by a project for the functional improvement of 25 THCs.
7.11	Expansion of Khulna Medical College 250 Bed Hospital into 500 Bed Hospital	Unapproved	350	0	5	A 250-bed hospital is adequate for a teaching hospital (Khulna Medical College being attached to it). Expansion of this tertiary-level facility into a 500-bed hospital is not a priority in view of the large funding gap for the provision of the essential services package (ESP) at the grass roots level, which has been identified in the HPSS as the highest priority.
7.12	250 Bed Special Hospital in Khalishpur, Khulna	Unapproved	500	0	3	The rationale and priority of this tertiary facility appears questionable, particularly given that there is already a 250-bed public hospital in Khulna, and given the role that the private sector can play in the provision of these services.
7.13	Expansion of Faridpur Medical College 250	Unapproved	331	0	1	A 250-bed hospital is adequate for a teaching hospital (Faridpur Medical College being attached to it). Expansion of a tertiary-level facility into a

	Name of Project	Approval Status	Project Cost (Tk mln)	Cumulative Spending through FY97 (Tk mln)	Allocation in FY98 (Tk mln)	Comments
	Bed Hospital into 500 Bed Hospital					500-bed hospital is not a priority in view of the large funding gap for the provision of the essential services package (ESP) at the grass roots level, which has been identified in the HPSS as the highest priority.
7.14	Expansion of Comilla Medical College 250 Bed Hospital into 500 Bed Hospital	Unapproved	331	0	5	Expansion of a tertiary-level facility into a 500-bed hospital is not a priority in view of the large funding gap for the provision of the essential services package (ESP) at the grass roots level, which has been identified in the HPSS as the highest priority.
7.15	National Asthma Centre	Unapproved	100	0	0.5	The rationale and priority for this Dhaka-based institute for asthma seems questionable for the same reasons as those stated for the project listed under 7.5 above. The priority should be to decentralize the facilities, focusing on preventive care.
7.16	Establishment of 250 Bed Hospital at Gazipur	Approved	176	10	25	In order to avoid possible underutilization of the proposed expanded capacity in the future, the investment proposal needs realistic reexamination on the basis of actual capacity utilization of this hospital achieved in the past.
7.17	Establishment of 250 Bed Hospital at Jamalpur	Approved	118	10	24	In order to avoid possible underutilization of the proposed expanded capacity in the future, the investment proposal warrants review on the basis of actual capacity utilization of this hospital achieved in the past.

ANNEX III

PART-A: Effect of Completed ADP Projects Staff on the Revenue Budget

I. Existence of unabsorbed staff from completed development projects leads to underestimation of the Pay and Allowances item in the Revenue Budget

The pay and allowance estimate shown in the revenue budget includes payments made against positions created under the revenue budget. Payments made against positions that have not yet been transferred to the revenue budget -- such as payments to staff of completed development projects -- are, therefore, excluded from this estimate. Consequently, the "Pay and Allowance" item understates the wage/salary element of the level of the Government's employee compensation costs. This is true for both the original and revised budget estimates of "Pay and Allowances". The extent of underestimation appear to be growing over time due to growth in the size of completed projects staff.

The magnitude of under-estimation is illustrated below:

	(in billion taka)		
	FY97 Budget	**FY97 Revised Budget**	**FY98 Budget**
A. Pay and allowances explicitly shown	*43.38*	*43.92*	*44.67*
B. Wage cost of completed project staff	*1.10*	*0.90*	*1.80*
C. Total pay and allowances	*44.48*	*44.82*	*46.47*
D. Underestimation as percent of pay and allowances explicitly shown	***2.53***	***2.05***	***4.03***

Source: Based on FY98 Budget Summary Statements and the FY97 Supplementary Budget

The extent of under-estimation in the revised budget is smaller because the cost of positions actually transferred during the year is debited to pay and allowances and the parliamentary authorization for this is obtained after-the-fact via the Supplementary Budget. The cost of positions not yet transferred is lumped in the "Contingency" item in the revenue budget. This is one reason why the revised budget estimate of "Contingencies" is usually higher than the original budget estimates.

II. The completed project staff accounted for 76.5 percent of the increase in the Government's FY97 wage bill, as shown below:

Changes	**Tk in billion**	**Percent**
Total increase in payment to employees 1/	*1.436*	*100*
Positions transfered to revenue budget	*0.193*	
Positions waiting to be transfered	*0.905*	
Total cost of completed project staff	*1.098*	*76.5*
Other factors (increments, new hirings)	0.338	23.5

1/ This is the difference between the revised budget estimate inclusive of cost of completed projects staff and the original budget estimate of Pay and Allowances.

Source: Based on FY98 Budget Summary Statements and FY97 Supplementary Budget

PART-B

Table - 1: Number of Unapproved Projects in FY96 - FY98 Annual Development Program

Sector	FY96 ADP		FY97 ADP		FY98 ADP	
	OG	N	OG	N	OG	N
Agriculture	11	27	23	16	9	32
Rural Dev. & Institutions	2	9	2	9	1	6
Water Resources	12	9	9	8	0	13
Industries	11	3	8	8	8	13
Power	6	5	4	5	4	8
Oil, Gas and Natural Resources	0	1	0	3	1	7
Transport	15	18	24	14	11	9
Communication	2	3	3	2	0	2
Physical Planning,Water Supply & Housing	30	17	37	11	32	27
Education & Religious Affairs	9	23	17	12	16	16
Sports	8	7	4	5	16	15
Health	9	5	2	3	6	16
Family Welfare	1	2	2	4	3	1
Mass Media	5	4	5	0	8	9
Social Welfare, Women Affairs & Youth	4	15	12	7	11	18
Public Administration	5	1	6	1	3	13
Science & Technology	7	8	15	4	13	11
Labour & Manpower	2	5	4	0	2	1
Grand Total	**139**	**162**	**177**	**112**	**144**	**217**

Note:
1. OG = On Going, N = New
2. The total number of UPs in FY98 in this table is less than the number shown in text table 1, because of one unapproved Block Allocatio which can not be classified either as on going or new, since it is not really a project.
Source: FY96 - FY98 ADP

Table - 2: Unapproved Projects in FY96 - FY98 Annual Development Program

(Taka in Million)

Sector	Project Cost			Allocation		
	FY96 ADP	FY97 ADP	FY98 ADP	FY96 ADP	FY97 ADP	FY98 ADP
Agriculture	13017.0	12289.9	17765.4	1185.2	1292.7	344.9
Rural Dev. & Institutions	17292.4	3943.2	2438.1	1342.7	822.2	276.1
Water Resources	7470.1	7956.8	8336.1	498.7	490.0	294.0
Industries	832.7	6841.0	13759.7	108.2	438.4	373.4
Power	47578.1	37869.4	31475.6	1222.4	351.1	2039.0
Oil Gas & Natural Resources	256.1	1012.4	8580.5	135.0	93.0	1153.4
Transport	111244.0	113789.0	80568.9	2397.0	3232.9	1503.0
Communication	3788.4	5836.1	210.0	652.0	219.4	10.0
Physical Planning,Water Supply & Housing	29115.4	37959.4	68832.9	2477.9	2134.2	1706.8
Education & Religious Affairs	25142.9	36282.1	48774.5	5062.3	4603.8	2643.5
Sports & Culture	1792.0	1085.4	6008.4	408.8	50.0	159.0
Health	8081.7	3529.5	9524.0	697.7	56.0	182.5
Family Welfare	459.4	1450.8	1266.5	174.0	208.1	126.8
Mass Media	3150.0	909.9	2285.4	241.6	187.8	135.4
Social Welfare, Women Affairs & Youth	5757.3	2928.0	6526.3	836.8	346.5	389.3
Public Administration	887.4	1577.3	3006.9	28.2	311.5	102.0
Science & Technology	3405.9	5264.6	3936.9	406.3	335.7	76.3
Labour & Manpower	1976.6	1160.6	143.2	262.8	71.0	12.0
Grand Total	**281247.4**	**281685.4**	**313439.4**	**18137.6**	**15244.3**	**11527.4**
Percent of budgeted ADP				**17.4**	**12.2**	**9.2**

Source: FY96 - FY98 ADP

Table - 3: List of High Cost Unapproved Projects in FY98 ADP

(Taka in million)

	Sector	Project cost Total	% of Total UPs Cost (Cum.) a/
Thana Connecting Road	Transport	60000.0	19.1
Construction of National Secretariat in Sher-e-Bangla Nagar	Physical Planning	14000.0	23.6
Yousufgong new town (Purbachal) development	Physical Planning	13249.3	27.8
Construction of district govt. office & housing in 44 new district	Physical Planning	11303.2	31.4
Development of selected public & private secondary schools	Education & Religious Aff.	8270.0	34.1
Public priority road and bridge (2nd phase)	Transport	6730.3	36.2
Primary education development in Chittagong, Sylhet & Barishal (ph.-2)	Education & Religious Aff.	6077.5	38.2
Extension and intensification of distribution system	Power	5601.1	40.0
Extension and intensification of 12 PBS system	Power	5271.0	41.6
Area based rural electrification (5th phase)	Power	4504.0	43.1
Expansion of Banalata Commercial Area	Physical Planning	4445.0	44.5
Pakshi bridge over Padma	Transport	4101.3	45.8
Greater Chittagong power distribution	Power	3699.9	47.0
Modernization of existing 20 poli. ins. and 13 new including Tungipara polytechnic	Education & Religious Aff.	3680.0	48.2
Development of selected public & private colleges	Education & Religious Aff.	3600.0	49.3
Narayangong-Narshindhi flood control and irrigation project	Water Resources	3505.6	50.4
Karnaphuli Paper Mill BMRE project	Industry	3478.0	51.5
Development of selected public and private madrasa	Education & Religious Aff.	3450.0	52.6
Forestry Sector Project	Agriculture	3279.2	53.7
Book distribution for primary schools in Dhaka, Rajshahi & Khulna	Education & Religious Aff.	3250.6	54.7
Primary school development	Education & Religious Aff.	3100.0	55.7
Jamuna bridge access road	Transport	3100.0	56.7
Di-Ammonium Phosphate project	Industry	3074.4	57.7
Primary education development through intensive district approach	Education & Religious Aff.	3050.0	58.6
Gas supply to Western zone via Jamuna bridge	Oil, Gas & Natural Resources	3029.0	59.6
Power distribution in 18 cities (2nd phase)	Power	2987.2	60.6
Rashidpur-Ashugong gas line	Oil, Gas & Natural Resources	2940.0	61.5
Satellite town DND area of Dhaka City	Physical Planning	2770.4	62.4
Dhaka eastern bypass	Transport	2652.3	63.2
Rehabilitation of Dhaka city's slum dwellers in a multistoried building in govt. land	Physical Planning	2646.7	64.1
Power distribution East-West inter connector (3rd phase)	Power	2495.0	64.9
Sanitation, health development and water supply in rural areas	Physical Planning	2174.7	65.6
Urban primary health care	Health	2000.0	66.2
Construction of independence monument in Suhrawardi Uddayan	Sports & Culture	2000.0	66.8
Establishment of a education complex in Mujibnagar	Education & Religious Aff.	2000.0	67.5
Primary school development in Dhaka, Chittagong, Khulna (ph-2)	Education & Religious Aff.	2000.0	68.1
ADB assisted participatory livestock development project	Agriculture	1614.1	68.6
Bangladesh Japan friendship cultural center	Sports & Culture	1580.0	69.1
Environmental disaster and resource survey procedures	Science and Technology	1566.9	69.6
Power distribution in nine cities	Power	1550.1	70.1
Multisectoral program for preventing violence against women	Social Welfare	1550.0	70.6
Bangladesh institute of health sciences	Health	1549.7	71.1
Est. of one science & technology University in each of the 12 old district	Education & Religious Aff.	1526.4	71.6
Urban poverty alleviation project	Physical Planning	1512.0	72.1
Village development project: Barishal district	Rural Development	1509.7	72.6
Cons. of residential area for low and middle income people along Dhaka-Mawa road	Physical Planning	1503.0	73.1
Rural sanitation project	Physical Planning	1459.2	73.5
Small scale flood control dredging and irrigation project	Water Resources	1456.2	74.0
DESA distribution line in PBS areas	Power	1441.1	74.4
Construction of 12 district prisons	Physical Planning	1402.0	74.9
Mymensing, Jamalpur and Sherpur small holder development project	Agriculture	1400.0	75.3
Stipend for higher secondary female student	Education & Religious Aff.	1400.0	75.8
Establishment of soil laboratory	Agriculture	1269.8	76.2
Mongla EPZ	Industry	1259.3	76.6
Fish cultivation initiative development project by national package program	Agriculture	1224.0	77.0
Ghorashal power plant BMRE	Power	1178.8	77.4
Rural training project (ph. 2)	Social Welfare	1160.0	77.7
Training of private registered primary school teachers	Education & Religious Aff.	1154.5	78.1
General illiteracy eradication program	Education & Religious Aff.	1130.0	78.5
Oil and Gas exploration and valuation development project	Oil, Gas & Natural Resources	1077.2	78.8
North-Bangal EPZ	Industry	1069.5	79.1
Road construction in Bhanga, Vatiapara, Gopalgong in Khulna	Transport	1026.4	79.5
Community nutrition program	Health	1011.4	79.8
Joint power production	Power	1000.0	80.1
Total		251097.1	
Others	Various	62342.3	100.0
Grand Total		**313439.375**	

a/ Cum. represents cumulative percentage of total project cost

Source: FY98 ADP

Table - 4: Sectoral Distribution of Cost Incurred in Unapproved Projects in FY96 - FY98 ADP

(Taka in million)

Sector	Cost Incurred Through June 30					
	FY96 ADP	Percentage (%)	FY97 ADP	Percentage (%)	FY98 ADP	Percentage (%)
Agriculture	20.5	0.2	738.3	4.9	25.0	0.1
Rural Dev. & Institutions	150	1.3	11.5	0.1	47.3	0.2
Water Resources	80.0	0.7	176.4	1.2	0.0	0.0
Industries	139.0	1.2	149.3	1.0	377.8	1.3
Power	4246.2	38.0	100.7	0.7	280.7	1.0
Oil, Gas and Natural Resources	105.0	0.9	0.0	0.0	5.0	0.0
Transport	3027.7	27.1	5020.3	33.3	18205.9	62.8
Communication	11	0.1	5.0	0.0	0.0	0.0
Physical Planning,Water Supply & Housing	2616.2	23.4	8198.1	54.4	9715.3	33.5
Education & Religious Affairs	422.2	3.8	334.3	2.2	166.0	0.6
Sports	128.3	1.1	3.0	0.0	44.5	0.2
Health	59.4	0.5	0.0	0.0	24.1	0.1
Family Welfare	0	0.0	85.0	0.6	15.0	0.1
Mass Media	85	0.8	3.0	0.0	51.3	0.2
Social Welfare, Women Affairs & Youth	50.6	0.5	22.5	0.1	22.3	0.1
Public Administration	15	0.1	0.0	0.0	17.0	0.1
Science & Technology	6.2	0.1	218.1	1.4	6.5	0.0
Labour & Manpower	25.2	0.2	0.0	0.0	0.0	0.0
Grand Total	**11187.5**	**100.0**	**15065.5**	**100.0**	**29003.7**	**100.0**

Source: FY96 - FY98 ADP

Table - 5: List of Projects in FY98 ADP in Which Substantial Portion of Costs Have Already Been Sunk

(Taka in Million)

	Sector	Total Project cost	Cumulative Expen. Through June 30,1997	Exp. inc. as% of project cost
1. Construction of Kamlapur, Saidabad connecting road	Physical Planning	504.9	344.9	68.3
2. 156 meter gauge and 560 broad gauge locomotive and emergency overhauling	Transport	200.0	130.0	65.0
3. Construction of district government office & housing in 44 new district	Physical Planning	11303.2	6714.3	59.4
4. Diploma course for make-up	Industry	6.9	4.0	58.0
5. Playground for female & male players in selected district and Thana HQ	Sports & Culture	43.0	20.0	46.5
6. Bangladesh Railway flood rehabilitation	Transport	259.9	120.0	46.2
7. Expansion of terminal at ZIA	Transport	200.0	82.4	41.2
8. Jaldhaka and Hatibandha village development project	Rural Development	133.0	47.3	35.6
9. Construction of 2nd block for education bhaban	Education	99.8	31.0	31.1
10. Developing 1000 acre of land in greater Dhaka	Physical Planning	486.0	146.7	30.2
11. Establishment of Sylhet divisional HQ	Physical Planning	33.3	10.0	30.0
12. Bangladesh film Archive revaluation project	Mass Communication	68.3	20.0	29.3
13. Stadium in Moulovibazar district HQ	Education	35.0	10.0	28.6
14. Thana Connecting Road	Transport	60000.0	16999.5	28.3
15. Small credit program for weavers	Industry	754.6	200.2	26.5
16. Gazipur EPZ	Industry	158.1	666.1	23.7
17. Zainul Abidin Art gallery and museum at Mymensing	Education	8.5	2.0	23.5
18. Establishment of National Youth Center (ph.1)	Social Welfare	44.9	10.3	22.9
19. Bangladesh Heart Research Institute	Social Welfare	60.0	12.0	20.0
20. Extension of Pabna DC's collectorate building	Physical Planning	52.2	10.0	19.1
21. Interim project for improving water supply	Physical Planning	322.5	60.0	18.6
22. Yousufgong new town (Purbachal) development	Physical Planning	13249.3	2150.0	16.2
23. Poverty alleviation by self-employment through livestock development	Agriculture	155.7	25.0	16.1
24. Est. of public school & colleges in Rajendrapur, Mymensingh & Sylhet cantonment for girls	Education	416.9	60.0	14.4
25. Design of 57 investigation center type plan for police	Physical Planning	678.3	95.0	14.0
26. BMRE of FDC	Mass Communication	260.0	30.0	11.5
27. Marketing of Handloom Products	Industry	20.0	2.0	10.0
28. Dhanmondi lake development project	Physical Planning	100.0	10.0	10.0
Grand Total	**Various**	**89654.2**	**28012.6**	**31.2**

Source: FY98 ADP

ANNEX IV

MAINTENANCE OF PUBLIC STRUCTURES AND EQUIPMENT
Preliminary Issues and Questions for a Fuller Study

As is true elsewhere, the problem of maintenance in Bangladesh reflects the inherent costs and difficulties of organizing this activity well. These costs operate to different degrees in the maintenance of structures and of equipment. Furthermore, they operate to different degrees in different sectors. This note provides a preliminary assessment of the principal issues that might be considered in a fuller study of the subject. It is based on site visits and interviews. To reflect the diversity of the maintenance problem in Bangladesh, information for this note was gathered on school buildings, health facilities, health equipment, rural roads, road-building equipment, earthen water control works, and jute mills. Much of this note uses the example of **rural school maintenance** to illustrate the general principles that might be explored by a fuller study. The maintenance of health equipment is also briefly considered below to contrast the range of issues that need to be addressed.

How well is maintenance funded?

Several interviewees felt the maintenance of rural schools is now proceeding in a way they consider close to satisfactory, a situation that is unusual in Bangladesh. Interviewees agreed that funding for the maintenance of rural schools was close (although not equal) to levels adequate to achieve standards that they felt were desirable. This situation represents a change from the recent past when funding levels were viewed as far from adequate. It also contrasts sharply with the situation in some other public activities. As compared to rural schools, the maintenance of health equipment was generally viewed as troublesome, something that seems to reflect inherent differences between the two sectors. For example, the maintenance of structures in the health sector is generally viewed to be grossly underfunded. At present, maintenance in the health sector is based on a one-time allocation with, it was felt, no provision for a regular cycle of maintenance in the future. Another example of inadequate funding was maintenance of the main roads under the care of the Roads and Highways Department.

How is maintenance organized?

Not only is the funding for maintenance of rural schools viewed as adequate, so too is the organization of this maintenance; consequently, observers reported that the maintenance was actually being carried out. A field (sub-assistant) engineer works in conjunction with the school management committee at the thana level to assess the needs for maintenance on an annual cycle. Application for funds is then made to the district level. Once these are authorized, specifications are drawn up and put out for competitive bid by private contractors. On completion the field engineer and the committee monitor the work to ensure that it meets specification. This simple system operates in a context that promotes its success. Rural schools are simple structures, much simpler than structures elsewhere such as in the health sector, highways, or earthen works for water control. This simplicity makes for relatively easy assessment of maintenance needs, specification of tenders, and supervision of work. In particular, simplicity facilitates the participation of laymen such as the school management committee.

What is the role of beneficiary participation in maintenance?

An important factor favoring success in school maintenance is that the people who enjoy the bulk of benefits are clearly defined and spatially concentrated, namely the students and their parents. This factor

makes it feasible for the beneficiaries to participate in a school management committee. On the other hand, it is true that even for these schools some of the social benefits that are additional to the private ones are enjoyed by a number of ill-defined classes of beneficiaries. An example is if the motivation for public funding of education is a general benefit to all citizens of living in a more educated society, a benefit that is beyond the individual concerns of the people who are being educated.

For other investments, the beneficiaries tend not to be similarly concentrated, for example for highways or health facilities in their important public-health attributes. Indeed, in the case of earthen water works, the breaching of these works illustrates exactly the opposite dynamic; those most proximate to the investment actually see a benefit from breaching the water works to allow inundation of their own plots.

How can maintenance be better anticipated and planned for?

Despite the apparent success in the maintenance of rural schools, the situation is not entirely satisfactory. Perhaps most importantly, the initial step in the maintenance cycle is not sufficiently anticipatory; it involves drawing up a work program for the coming year. For the purposes of systematic budgeting, however, it is desirable that there be some method of *forecasting maintenance requirements* over a longer horizon than the annual budgeting cycle. For instance, it should be possible to establish a relationship between the age of an investment, its past maintenance and its future maintenance, in effect a cohort-based analysis. If, for instance, there has been a rapid expansion of investments there will be a corresponding expansion in maintenance as the investments age.

Field inspection does not allow the anticipation of this sort of bunching, although it has the advantage of reporting actual conditions and is robust to mistaken assumptions about a maintenance schedule. Both field and cohort methods are desirable, but apparently even the simplest cohort-based method is not used in Bangladesh. For one thing, with the exception of the local roads maintained by LGED, none of the other sectors produced an example of *centrally maintained inventories of investments* and their status that could form the basis for a cohort analysis. This conclusion holds for such diverse investments as earthen works for water control, hospital facilities, hospital equipment and road construction equipment.

Another important principle of maintenance is that decisions on the *initial specification of investments affect the costs and ease of maintaining them* as they age. Almost always there are choices about the initial robustness of investments and their vulnerability to neglect. An extreme example arises in the context of earthen works for water control, where as already mentioned local farmers or others may breach them intentionally to flood fields or fish ponds, leading to a maintenance problem. This problem, however, could have been mitigated by providing sluice gates which would allow flooding without compromising water control. Other examples include the specification of heavy duty components or the stocking of spares at the time of initial purchase. By contrast, rural schools are simple structures, and while in principle it should be possible to find examples of specification choices that affect subsequent maintenance even in this sector, the issue is not prominent.

What is the role of standardization in maintenance?

Attention to standardization is an important example of decisions at the time of investment that affect subsequent maintenance. Standardization arises much more for equipment than for structures. In the case of equipment it is important that a number of machines share the same pool of spare parts so that spare parts turn over rapidly to minimize the cost of the inventory. In this way, it is less costly to keep a stock of

spares that minimizes the threat of downtime. But to achieve an efficient stocking of spare parts, a minimum number of machines must be compatible. There are also important advantages in training technicians to specialize rather than having to be jacks of all trades (or in this case, models).

Interviewees expressed concern about past failure to standardize in the cases of hospital equipment and road maintenance machinery. Standardization of structures where possible should also have the potential for economies in allowing for the working out of design defects that lead to maintenance problems and in familiarizing maintenance staff and supervisors with maintenance problems. The simple nature of rural schools tends to make such issues of secondary importance.

Failure to standardize in Bangladesh is widely seen as arising from the policies of bilateral donors who specify equipment from their own national suppliers. The resulting hodgepodge of imported equipment becomes difficult to maintain. In some sectors, such as the health sector, these problems are compounded by the past use of barter agreements which has left behind equipment from the former Soviet bloc. For all these reasons, maintenance of hospital equipment seems to be severely handicapped by a lack of standardization.

What are the safety costs of poor maintenance?

The *maintenance question is entangled with the question of safety*, either of workers or consumers. To this extent, costs and benefits of maintenance are not measurable directly in financial terms, although there are economic methods that could be applied to value different levels of safety. Here again, however, there is an important distinction between the situation at the time the investment is specified and the situation after the investment is made.

For a particular choice of investment, inadequate maintenance often leads to dangerous situations, either for workers or consumers. Badly maintained roads or earthen works for water control or medical equipment all have consequences for safety. In many instances, it is not just a question of something that either works to specification or is entirely unusable; in between these extremes is a range of increasingly dangerous operation. To this extent, one of the benefits of maintenance is the reduction of these dangers; maintenance and safety are complementary goals.

By contrast, when the investment is initially specified, the goals of maintenance and safety are often in conflict. Many features of an investment that will later require maintenance are designed for safety reasons. For instance, in major pieces of medical equipment such as x-rays and anesthesia machines only the absolutely very top of the machines sold in Bangladesh will even be offered for sale in OECD member countries. What the lower cost models sold in Bangladesh often lack are safety components. But it is exactly these safety components that require maintenance to ensure operation over the life of the equipment.

Maintenance of medical equipment: a constraining example

While the organization of maintenance for schools is relatively straightforward (because of the nature of maintenance in the sector) and relatively successful, the situation has been very different in the case of medical equipment in the public sector. The process of approval for repairs is time consuming and troublesome. At least part of the reason is that health equipment is complex and so all sorts of considerations arise leading to a reluctance to decentralize authority. Too much centralization or centralization that is done incorrectly, however, leads to the current problems.

Too little centralization may lead to decisions being made by people who make them so infrequently as to be unable to assess costs. Decentralized decision makers may also be ill-positioned to judge whether equipment should be maintained or scrapped to keep the stock of equipment relatively standardized, thereby lowering its cost of maintenance. Safety considerations are of central importance but are difficult to quantify. The patients and potential patients, the ultimate beneficiaries of the hospital system, cannot easily participate in the oversight of complex medical equipment the way beneficiaries can for rural schools.

The authorization and doing of maintenance for health equipment need to take less time than is currently the case in Bangladesh. Options for equipment users to go outside the government workshops seem desirable as there is no reason why maintenance should be exclusively a government activity and the government workshops cannot not now deliver these services in an expeditious manner. But full-scale decentralization of the maintenance decision to equipment users may also be problematical for reasons discussed above.

The need to dovetail maintenance considerations in planning investments

There are important implications for maintenance that must be considered at the time investments are specified. These need to studied in some detail along the lines of some of the questions outlined above. *Initial robustness and standardization* are particular examples. Inattention to these requirements of good maintenance, especially standardization, by donors is a source of problems. The *interaction between maintenance and safety* needs attention. *Beneficiary supervision* can work when maintenance is simple and beneficiaries are concentrated and identifiable. Medium-term budgeting for maintenance means a centralized inventory of investments and the time profile of the maintenance requirements.

STATISTICAL APPENDIX

STATISTICAL APPENDIX

Table-1: Bangladesh - Social Indicators

Demographics:		
Population (Million) 1/	1991	111.5
	1997	124.0
Natural Growth Rate (percent) 2/	1990	1.9
	1996	1.7
Crude Birth Rate (per 000)	1991	31.6
	1996	25.6
Crude Death Rate (per 000)	1991	11.2
	1996	8.1
Labor Force:		
Labor Force Size (million) 3/	1991	51.2
	1996	56.0
Growth Rate (percent) 3/	1991-1996	2.4
Underemployment Rate (percent) 5/	1991	42.8
	1996	34.6
Health: 10/		
Population per Physician	1991	5,285
	1996	4,866
Population per Hospital Bed	1991	3,231
	1996	3,229
Life Expectancy	1991	56.1
	1996	59.5
Human Development:		
Poverty: Headcount Index 4/	1988/89	47.8
	1991/92	47.5
Human Development Index 6/	1991	0.38
	1995	0.43
Literacy Rate (7 years and over) 7/	1991	32.4
	1994	42.1
Primary School Enrolment Ratio 11/	1991	75.6
	1995	92.0
Women:		
Labor Force (million) 3/	1991	20.1
	1996	21.3
Labor Force Growth Rate 3/	1991-1996	1.5
Occupation 3/		
Percent in agri., forestry, fisheries	1991	88.1
	1996	77.0
Underemployment Rate (percent) 3/	1991	85.3
	1996	70.7
Life Expectancy 8/	1991	55.7
	1995	58.1
Literacy Rate (percent) 9/	1991	19.5
	1996	24.8
Gender-Related Development Index 6/	1991	0.33
	1996	0.38
Primary School Enrollment Ratio 11/		
Male	1991	81.2
	1995	97.8
Female	1991	69.8
	1995	85.8

1/ Source: Bangladesh Bureau of Statistics (BBS), Population Census 1991. and Ministry of Finance, Bangladesh Economic Survey 199
2/ Source: The World Bank, Demographic Projections for Bangladesh - September 3, 1996. Net rate of increase in population is lower th the natural growth rate because of migration. Data on migration from Bangladesh are highly unreliable, thus making the estimate of the n growth unreliable as well.
3/ Source: BBS, Report on Labour Force Survey in Bangladesh, 1990 and 1996.
4/ Source: BBS, Report on Household Expenditure Survey 1991-92, November 1995. Note that the Head Count Index (HCI) has some s methodological weaknesses which makes intertemporal comparison of HCI inappropriate. Alternative measures of poverty such as the Cost of Basic Needs, using the same HES data as above, indicate higher levels of poverty and a very different poverty trend. The b line, however, is that the poverty level in Bangladesh is extremely high and this is independent of poverty measurement methods. For mo details see Quentin T. Wodon, A Profile of Poverty in Bangladesh: 1983-1992, Report No. IDP-169, The World Bank, October 1996.
5/ Defined as those working less than 35 hours during the reference week.
6/ The Human Development Index (HDI) combines indicators of national income, life expectancy and educational attainment to give a composite measure of human progress. Source: UNDP, Human Development Report, 1992 and 1996 issues.
7/ Source: BBS, 1995 Statistical Yearbook of Bangladesh, page 532 and Annual Report of Sample Vital Registration System 1993 and 19 October 1995, page xiii.
8/ Source: BBS, 1995 Statistical Yearbook of Bangladesh, page 41.
9/ Source: BBS, Statistical Bulletin Bangladesh, February '97, page x and Ministry of Finance, Bangladesh Economic Survey 1997, June
10/ Source: BBS, 1995 Statistical Yearbook of Bangladesh, and Ministry of Finance, Bangladesh Economic Survey 1997, June 1997.
11/ Source: Primary & Mass Education Division, Bangladesh Secretariat, Dhaka.

Table 2: MACROECONOMIC INDICATORS, FY90-FY97
(Based on the BBS' 1984-85 National Accounts Series)

	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97 (PE)
				(In Percentage)				
GDP growth rate:	6.6	3.4	4.2	4.5	4.2	4.4	5.3	5.7
GNP Per Capita (in $) a/	208	213	213	214	230	253	270	276
				(Percent of GDP)				
Savings:								
Domestic Saving	2.7	4.2	6.0	7.6	9.1	8.3	7.2	9.7
National Saving	5.8	7.4	9.7	11.7	13.8	13.1	11.9	14.8
Investment:								
Gross Investment	12.8	11.5	12.1	14.3	15.4	16.6	17.0	17.4
Public	6.4	5.7	5.5	6.4	7.6	7.2	6.3	6.5
Private	6.4	5.8	6.6	7.9	7.8	9.4	10.7	10.9
Budget:								
Total Revenue	9.3	9.6	10.9	12.0	12.2	12.1	11.5	11.7
Tax Revenue	7.8	7.8	8.8	9.6	9.3	9.6	9.2	9.5
Total Expenditure	17.2	16.8	16.8	17.8	18.1	18.9	17.1	17.0
Current Expenditure b/	8.8	8.7	8.3	8.9	8.9	8.8	8.7	8.9
Overall Budget Deficit c/	-7.9	-7.2	-5.9	-5.9	-6.0	-6.8	-5.7	-5.3
Balance of Payments:								
Exports d/	6.8	7.3	8.4	9.8	9.8	11.9	12.2	13.5
Imports e/	16.9	15.0	14.8	16.8	16.3	20.0	21.6	21.5
Current Account Balance	-7.0	-4.2	-2.4	-2.6	-1.6	-3.5	-5.1	-2.6
				(In Percentage)				
Debt Service Ratio f/	13.7	12.5	11.5	10.2	11.5	10.0	9.8	8.5
External Debt g/								
(million US $)	12,757	13,470	13,898	14,619	16,223	16,370	17,070	na
Rate of Inflation h/	9.3	8.9	5.1	1.3	1.8	5.2	4.1	3.9
Memorandum Items:								
BB Gross Reserves:								
(million US $)	585	966	1,709	2,227	2,852	3,070	2,039	1,719
(in months of imports)	1.9	3.3	5.8	6.6	8.2	6.3	3.6	2.9
Exchange Rate (TK/US $)	32.9	35.7	38.2	39.2	40.0	40.2	40.9	42.7
Real Effective Exchange Rate (1990=100) i/								
End of Period		93.8	91.6	91.7	86.9	86.1	85.6	88.9
Period Average		98.2	92.3	91.5	90.8	85.9	85.7	89.3

PE = Provisional estimates

a/ Workers' remittances are included in net factor income. Also, per capita GNP is calculated using the same year's period average exchange rate.

b/ Excludes food subsidies.

c/ Defined as the difference between expenditure/GDP and revenue/GDP ratios, further adjusted for a residual amount to reflect the difference between the fiscal accounts and estimates of total financing of the Government

d/ Merchandise exports only.

e/ Merchandise imports only.

f/ Represents the ratio of debt service to total foreign exchange earnings from export of goods and non-factor services, plus workers remittances. Debt service includes interest on public M&LT debt, amortization of public M&LT debt, total IMF transactions (net) and IMF service charges.

g/ World Bank, Global Development Finance 1997, Volume - 2, Country Tables, March 1997, P.76.

h/ Based on Dhaka Middle Class Consumers Price Index (CPI, 1973-74=100).

i/ IMF, Information Notice System. An increase in the index indicates real appreciation.

'Sources: Bangladesh Bureau of Statistics (BBS) ; Twenty Years of National Accounting of Bangladesh 1971-1992, Export Promotion Bureau (EPB); Bangladesh Bank (BB); Ministry of Finance, IMF.

Table 3: ACTUAL INCOME AND EXPENDITURE OF THE CENTRAL GOVERNMENT

(In billion taka)

	FY87	FY88	FY89	FY90	FY91	FY92	FY93	FY94	FY 95	FY96	FY97(E)	FY98(B)
Total Revenue	48.0	53.3	60.0	68.9	80.0	98.9	113.6	125.3	141.8	150.3	163.4	196.2
Tax	38.8	42.6	48.9	57.3	65.2	79.5	91.2	96.3	111.9	120.1	132.7	161.5
Non-tax	9.2	10.7	11.1	11.6	14.8	19.4	22.4	29.0	29.9	30.2	30.7	34.7
Total expenditure	-93.0	-95.9	-107.3	-127.0	-139.9	-152.4	-169.2	-186.8	-221.5	-222.8	-238.2	-277.1
Current expenditure a/	-41.6	-48.2	-56.7	-64.7	-72.3	-75.6	-84.6	-91.2	-103.1	-113.1	-125.4	-145.5
Food account surplus	-0.1	-5.6	-3.9	-8.8	-7.4	-5.8	-6.5	4.5	-7.0	-5.0	-0.6	-0.5
Annual Development Program (ADP)	-46.3	-38.0	-42.2	-47.2	-52.0	-57.0	-67.5	-87.1	-100.9	-96.1	-105.0	-120.7
Other capital expenditure and net lending b/	-5.0	-4.1	-5.2	-5.2	-5.3	-5.4	-8.5	-12.5	-12.0	-8.6	-7.2	-10.4
Residual d/			0.7	-1.1	-2.9	-8.6	-2.2	-0.5	1.4	-2.0	0.0	0.0
Overall budget deficit	-45.0	-42.6	-47.3	-58.1	-59.9	-53.5	-55.6	-61.5	-79.7	-74.5	-74.8	-80.9
Net foreign financing c/	40.4	41.4	46.7	48.6	51.9	44.1	52.9	50.4	57.5	46.1	48.1	53.4
Project aid	29.6	25.0	27.2	35.5	35.2	36.4	39.6	38.9	49.7	44.0	47.6	53.2
Commodity aid	11.1	14.1	15.5	13.5	16.3	6.4	17.2	18.2	13.4	9.4	6.9	7.6
Food aid	6.9	7.6	7.3	6.2	9.7	8.8	4.7	4.8	5.5	5.6	5.5	5.5
Commercial food borrowing	-2.9	0.1	1.3	-0.8	-0.5	-0.8	-0.7	-0.4	0.0	0.0	0.0	0.0
Others											2.4	1.9
Debt amortization	-4.4	-5.4	-4.6	-5.8	-8.8	-6.7	-7.8	-11.0	-11.0	-12.9	-14.3	-14.8
Net domestic financing	4.7	1.2	0.7	9.5	8.0	9.3	2.7	11.1	22.2	28.4	26.7	26.4
Banking system	3.4	-0.7	-2.5	6.5	1.7	-2.9	-10.3	-5.4	5.2	15.6	18.5	7.4
Other domestic	1.3	1.9	3.1	1.9	3.5	9.2	13.0	16.4	17.0	12.8	6.6	19.0
						(Annual percentage change)						
Total Revenue	13.5	11.0	12.6	14.8	16.1	23.6	14.9	10.3	13.2	6.0	8.7	20.1
Total expenditure	20.1	3.1	11.9	18.3	10.2	8.9	11.0	10.4	18.6	0.6	6.9	16.3
Current expenditure a/	18.9	15.9	17.7	14.1	11.7	4.6	11.9	5.6	16.2	7.3	10.5	21.7
ADP	26.8	-18.0	11.1	11.8	10.2	9.6	18.4	29.0	15.9	-4.7	9.3	15.0
						(As percent of GDP)						
Total revenue	8.9	8.9	9.1	9.3	9.6	10.9	12.0	12.2	12.1	11.5	11.7	12.7
Tax revenue	7.2	7.1	7.4	7.8	7.8	8.8	9.6	9.3	9.6	9.2	9.5	10.5
Non-tax revenue	1.7	1.8	1.7	1.6	1.8	2.1	2.4	2.8	2.6	2.3	2.2	2.3
Total expenditure	17.3	16.1	16.3	17.2	16.8	16.8	17.8	18.1	18.9	17.1	17.0	18.0
Current expenditure a/	7.7	8.1	8.6	8.8	8.7	8.3	8.9	8.9	8.8	8.7	8.9	9.4
ADP	8.6	6.4	6.4	6.4	6.2	6.3	7.1	8.4	8.6	7.4	7.5	7.8
Overall budget deficit	8.4	7.1	7.2	7.9	7.2	5.9	5.9	6.0	6.8	5.7	5.3	5.2
Net foreign financing	7.5	6.9	7.1	6.6	6.2	4.9	5.6	4.9	4.9	3.5	3.4	3.5
Net domestic financing	0.9	0.2	0.1	1.3	1.0	1.0	0.3	1.1	1.9	2.2	1.9	1.7
Banking system	0.6	-0.1	-0.4	0.9	0.2	-0.3	-1.1	-0.5	0.4	1.2	1.3	0.5
Other domestic	0.2	0.3	0.5	0.3	0.4	1.0	1.4	1.6	1.5	1.0	0.5	1.2
GDP Mkt. Prices	**539**	**597**	**660**	**738**	**834**	**907**	**948**	**1,030**	**1,170**	**1,302**	**1,403**	**1,542 P/**

a/ Excludes food subsidies, which are included under the food account deficit.

b/ Comprises non-ADP project expenditure, the Food for Work program, miscellaneous investment (non-development) and net loan and advances. A major part of gross lending by Government is included within the ADP.

c/ Including foreign grants.

d/ Represents the difference between the balance of revenue and expenditure from the fiscal accounts and total financing estimates of the central Government.

Note: E= Estimated outcome; B = Budget; P = Projected.

Source: Ministry of Finance, IMF and BBS.

Table 4: Current Budget - Revised Budget Estimates

(In billion taka)

	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
REVENUE												
Tax Revenue	32.4	37.9	43.1	48.3	57.1	63.1	76.6	89.3	97.6	109.8	120.8	139.1
Production, consumption and distribution taxes	27.1	31.6	35.1	39.5	46.1	50.9	61.7	69.6	77.3	90.8	101.2	117.3
(Custom duties)	13.4	15.5	16.2	18.2	21.7	23.3	28.2	28.4	30.7	36.7	38.5	42.5
(Sales taxes)	4.6	5.5	5.3	5.4	5.3	8.2	0.0	0.0	0.0	0.0	0.0	0.0
(Excise duties)	7.7	9.0	11.7	14.0	17.0	17.1	13.6	3.2	1.8	1.8	1.8	2.1
(Value Added tax)	0.0	0.0	0.0	0.0	0.0	0.0	16.8	25.0	27.8	32.8	37.9	44.4
(Stamp taxes)	1.3	1.4	1.7	1.7	1.8	1.9	2.5	3.1	3.6	4.2	4.8	5.3
(Motor vehicle taxes)	0.1	0.2	0.2	0.2	0.4	0.4	0.4	0.5	0.6	0.9	1.1	1.3
(Supplementary tax)	0.0	0.0	0.0	0.0	0.0	0.0	0.2	9.5	12.9	14.5	17.1	21.7
Taxes on income	4.6	5.5	6.6	7.5	8.8	10.7	13.0	17.2	17.4	15.6	15.8	17.4
Land revenue tax /a	0.5	0.6	0.9	0.9	1.1	0.6	0.9	1.0	1.2	1.5	1.7	1.9
Other taxes and duties /b	0.2	0.3	0.5	0.5	1.1	1.0	1.1	1.5	1.8	1.9	2.1	2.6
Non-tax revenue	8.3	9.3	8.4	9.9	5.3	9.1	12.4	14.7	25.2	32.3	34.3	32.4
Nationalized sector	3.6	3.5	2.2	2.6	1.8	4.4	7.0	7.9	8.3	8.8	7.5	7.4
(Industries)	0.9	0.9	0.8	0.7	0.5	2.8	3.8	3.6	4.2	2.3	2.2	2.2
(Banks)	2.8	2.6	1.4	1.9	1.3	1.6	3.2	4.3	4.2	6.5	5.3	5.2
(Other public sector /c)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest receipts	2.3	2.0	2.3	2.2	3.5	3.0	3.0	3.5	3.5	4.8	4.5	5.3
Registration fees	0.4	0.7	0.6	0.6	0.7	0.7	0.8	1.0	1.2	1.3	1.5	1.7
Forest	0.5	0.5	0.5	0.6	0.2	0.3	0.3	0.4	0.4	-	-	-
Railways	-0.5	-1.0	-1.5	-1.5	-1.4	-1.5	-1.3	-1.0	-1.0	-0.9	-1.6	-0.9
Post Office & T&T (net)	0.0	0.1	0.4	0.8	0.5	2.2	2.5	3.0	4.3	6.1	6.2	6.0
Other /d	2.0	3.6	4.0	4.6	-	-	-	-	8.4	12.3	16.2	12.9
Total Current Revenue	40.7	47.2	51.5	58.2	62.4	72.2	89.0	104.0	122.8	142.1	155.1	171.5
EXPENDITURES												
General Services	13.7	17.2	20.0	22.4	25.9	25.8	29.4	35.5	38.4	43.4	47.5	51.0
- General administration	4.0	5.7	6.9	6.9	8.3	9.1	10.8	12.6	13.8	17.8	19.6	20.5
- Justice and police	3.5	3.0	3.5	3.8	4.5	4.5	5.1	7.4	7.8	6.1	6.5	7.2
- Defense	6.0	8.3	9.3	11.4	12.8	11.8	13.0	14.9	16.3	18.9	20.7	22.7
- Scientific departments	0.2	0.2	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.6
Social Services	9.2	14.1	17.1	20.8	20.8	22.4	23.9	28.3	30.4	34.4	38.0	40.4
- Education	6.0	7.5	8.2	9.5	10.9	11.8	13.8	16.7	17.6	20.1	21.5	23.0
- Health & population planning	1.1	2.8	3.1	3.2	3.7	3.9	4.3	5.2	6.1	6.9	7.3	7.7
- Social welfare	2.1	3.9	5.8	8.1	6.2	6.7	5.8	6.4	6.7	7.4	9.2	9.7
Economic Services	2.5	3.0	3.6	4.1	4.6	4.9	5.7	6.7	7.7	8.4	10.3	9.7
- Agriculture	1.0	1.7	2.0	2.3	2.6	2.8	3.0	3.5	3.9	4.5	5.7	5.3
- Manufacturing & construction	0.6	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4
- Transport & communication	0.6	0.6	0.9	1.0	1.1	1.2	1.7	2.1	2.4	2.5	3.0	2.8
- Others	0.3	0.5	0.5	0.6	0.6	0.7	0.7	0.9	1.0	1.0	1.2	1.2
Debt Service	4.3	4.5	5.9	7.3	6.6	8.5	11.1	10.3	10.7	12.1	17.4	17.6
- Domestic						4.2	6.3	5.5	5.2	6.1	10.4	10.8
- External						4.4	4.7	4.8	5.5	6.0	7.0	6.8
Food Subsidy /e	1.4	0.5	0.0	6.3	6.3	3.7	3.4	1.5	1.5	2.7	3.0	3.5
Other Subsidy /e	0.0	0.2	0.7	0.8	3.1	4.0	2.5	1.3	0.9	1.8	1.6	3.0
Contingency	3.2	0.0	0.1	0.0	0.0	3.7	3.1	1.5	1.9	0.2	0.4	0.3
Total Current Expenditures f/	34.2	39.6	47.3	61.7	67.4	73.1	79.0	85.1	91.5	103.0	118.1	125.4

a/ Tax levied on land holdings. It was virtually abolished in FY74 together with the imposition of the Agriculture income tax but reinstated in 1976/77.

b/ Includes electricity duties, estate duty on agricultural land, taxes on immovable property, gift taxes, capital gains tax, toll taxes, betterment tax on commercial establishments and other levies.

c/ Includes receipts from nationalized insurance, other industrial operations and disinvestment of industrial units.

d/ Receipts of various government departments, especially under general administration, social economic agriculture and other services etc.

e/ There has been a change in the definition of subsidy, especially during FY93. FY93 figures therefore, are not fully comparable to the previous years' figures.

f/ Government's budgetary definition. This is different from the definition used in Table 3, which is based on IMF definition.

Source: Ministry of Finance.

Table-5: Annual Development Program - Size and Sectoral Allocation

(In billion taka)

Sector	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97 Revised	FY98 Budget
Agriculture	3.3	3.1	4.2	3.7	5.2	5.4	4.5	6.4	6.2
Rural Development	1.8	2.2	3.2	3.7	4.8	6.8	6.8	10.3	9.9
Water Resources	9.8	6.8	5.4	6.2	5.7	6.5	5.6	10.6	10.6
Industry	4.3	1.0	1.2	0.7	1.6	1.3	1.5	1.9	1.5
Energy:	10.0	7.5	10.6	14.8	15.4	17.7	17.7	18.9	20.1
Power	6.5	3.7	7.4	10.1	12.1	15.3	13.7	14.1	14.7
Oil, Gas & NR	3.5	3.8	3.2	4.8	3.2	2.4	4.1	4.9	5.4
Infrastructure:	12.1	9.7	13.2	13.5	24.0	28.8	27.4	32.4	34.2
Transport	7.6	6.3	8.4	9.7	15.4	19.5	19.9	23.3	22.7
of which Jamuna bridge				0.1	4.4	4.2	10.0		
Communications	1.7	1.1	1.6	1.5	5.4	4.5	2.9	2.2	2.8
Physical Planning	2.9	2.3	3.1	2.4	3.2	4.8	4.6	6.8	8.7
Social Sectors:	5.7	6.6	7.3	10.5	16.5	24.1	20.9	28.5	29.8
Education	2.3	1.7	3.0	5.3	9.2	14.7	13.0	15.8	16.9
Health	1.0	1.4	1.4	2.1	2.8	3.7	2.8	5.8	5.9
Family Planning	2.2	3.1	2.7	2.8	4.1	4.7	4.1	4.9	5.4
Social Welfare	0.3	0.3	0.3	0.3	0.4	1.0	0.9	1.9	1.7
Local Government 1/	3.5	1.6	3.2	5.5	6.9	4.3	5.2	5.0	5.1
Others 2/	1.6	25.7	17.9	11.6	10.3	8.0	10.5	3.0	10.4
Total ADP	**51.9**	**64.1**	**66.2**	**70.2**	**90.4**	**103.0**	**100.2**	**117.0**	**128.0**
Food For Work (FFW) 3/									5.5
ADP net of FFW 3/									122.5
Self Financing	4.7	12.1	9.2	2.7	3.3	2.2	4.1	1.6	1.8
ADP excluding self financing	**47.2**	**52.0**	**57.0**	**67.5**	**87.1**	**100.9**	**96.0**	**115.5**	**120.7**

1/ Local Government includes block allocation for District Councils, District and Thana infrastructure, development assistance to Thana and Union Parishad, development assistance to Municipal Corporations and Pourashavas, and local government bodies in Chittagong Hill-Tracts.

2/ Include ADP spending on Science and Technology Research, Sports and Culture, Mass Media, Labour and Manpower Self Financing Program, Dhaka City Flood Protection, CD/VAT, Canal Digging and Unallocated Bloc.

3/ A portion of Food For Work (FFW) is included in the FY98 budget, but not in previous years. This makes intertemporal comparison of FY98 ADP size difficult. Thus in order to compare FY98 ADP size with previous years the portion of FFW included in the ADP is netted out.

Source: IMED

Table-6: Annual Development Program - Sectoral Shares

(Percent)

Sector	FY90	FY91	FY92	FY93	FY94	FY95	FY96	FY97	FY98(B)3/
Agriculture	6.3	4.8	6.4	5.3	5.8	5.3	4.5	5.5	5.1
Rural Development	3.4	3.5	4.8	5.2	5.3	6.6	6.8	8.8	8.1
Water Resources	18.8	10.6	8.1	8.8	6.3	6.3	5.6	9.0	8.7
Industry	8.2	1.5	1.8	1.0	1.7	1.3	1.5	1.6	1.2
Energy:	19.2	11.6	16.1	21.1	17.0	17.2	17.7	16.2	16.4
Power	12.4	5.7	11.2	14.3	13.4	14.8	13.6	12.0	12.0
Oil, Gas & NR	6.8	5.9	4.9	6.8	3.6	2.4	4.1	4.2	4.4
Infrastructure:	23.3	15.2	19.9	19.2	26.5	28.0	27.4	27.7	27.9
Transport	14.6	9.8	12.6	13.8	17.1	18.9	19.9	19.9	18.5
of which Jamuna bridge				0.2	4.9	4.1	10.0		
Communications	3.2	1.8	2.5	2.1	5.9	4.4	2.9	1.9	2.3
Physical Planning	5.5	3.6	4.8	3.4	3.5	4.7	4.6	5.8	7.1
Social Sectors:	11.0	10.2	11.1	14.9	18.3	23.3	20.8	24.4	24.4
Education	4.3	2.7	4.5	7.5	10.2	14.2	13.0	13.5	13.8
Health	1.9	2.2	2.1	2.9	3.1	3.6	2.8	5.0	4.8
Family Planning	4.2	4.8	4.1	4.0	4.5	4.6	4.1	4.2	4.4
Social Welfare	0.5	0.5	0.4	0.4	0.5	1.0	0.9	1.6	1.4
Local Government 1/	6.8	2.5	4.8	7.9	7.7	4.2	5.2	4.3	4.1
Others 2/	3.0	40.1	27.0	16.5	11.4	7.8	10.5	2.6	8.6
Total ADP	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

1/ Local Government includes block allocation for District Councils, District and Thana infrastructure, development assistance to Thana and Union Parishad, development assistance to Municipal Corporations and Pourashavas, and local government bodies in Chittagong Hill-Tracts.

2/ Include ADP spending on Science and Technology Research, Sports and Culture, Mass Media, Labour and Manpower Self Financing Program, Dhaka City Flood Protection, CD/VAT, Canal Digging and Unallocated Bloc.

3/ In computing sectoral shares the ADP size net of FFW has been used.

B = Budget estimates.

Source: Based on Table-5.

Table-7: Bangladesh: Consolidated Accounts of Non-financial Public Enterprises, 1990/91 - 1996/97

(In billions of taka)

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96 R	1996/97 B
Operating revenue 1/	105.2	123.5	144.6	143.5	156.1	173.0	188.9
Of which: Subsidies	0.2						
Operating expenditure	97.0	117.0	138.9	132.4	152.1	171.1	183.7
Wages and salaries	11.8	12.9	15.2	14.6	14.6	16.0	17.0
Purchase of good and services	74.4	92.5	111.4	102.9	119.2	140.9	150
Depreciation	10.8	11.6	12.3	14.9	18.3	14.2	16.7
Operating Surplus	8.2	6.5	5.7	11.1	4.0	1.9	5.2
Nonoperating income	1.0	-2.3	-2.3	1.0	-0.2	2.8	1.4
Interest	10.8	11.0	12.1	7.7	7.9	7.9	8.8
Income before taxes	-1.6	-6.8	-8.7	4.4	-4.1	-3.2	-2.2
Profit distributions	2.6	3.6	4.1	4.9	2.2	2.6	2.9
Dividends	2.5	3.5	4.0	4.9	2.0	2.4	2.7
Profit sharing	0.1	0.1	0.1		0.2	0.2	0.2
Income tax	3.9	5.3	4.9	5.5	2.0	1.9	1.7
After tax retained income	-8.1	-15.7	-17.7	-6.0	-8.3	-7.7	-6.8
Gross savings 2/	2.7	-4.1	-5.4	8.9	10.0	6.5	9.9
Fixed capital formation (gross)	41.3	31.8	27.6	22.9	24.3	34.3	36.4
Financing	38.6	35.9	33.0	14.0	14.3	27.8	26.5
Net cash borrowing	11.1	18.3	7.1	4.9	1.2	0.0	-1.8
Drawings	17.8	27.4	18.7	15.9	14.7	14.5	18.6
Repayments	-6.7	-9.1	-11.6	-11.0	-13.5	-14.5	-20.4
Equity	4.6	4.1	6.3	9.1	9.1	11.8	8.5
Assumed short term credit 3/	22.9	13.5	19.6	0.0	4.0	16.0	19.8
Memorandum items:							
Total Assets	418.3	497.7	528.3	602.8	631.0	668.0	705.9
Equity	98.5	128.5	117.6	197.8	212.4	216.7	218.3
Debt	319.8	369.2	410.7	405.0	418.6	451.3	487.6
Employment (thousands)	321.9	313.3	292.5	269.0	256.9	255.7	256.9
Profitability (in percent)							
Operating surplus/optg. revenue	7.8	5.3	3.9	7.7	2.6	1.1	2.8
Operating surplus/assets	2.0	1.3	1.1	1.8	0.6	0.3	0.7
Interest due to central Govt. 4/			10.8				
Interest arrears to central Govt. 5/			8.3				

R = Revised budget estimates; B = Budget estimates

1/ Does not include changes in inventories.

2/ Defined as after-tax retained income plus depreciation.

3/ Includes arrears to Government and changes in domestic bank debt (including arrears).

4/ Based on budgetary documents of the Ministry of Finance under budgetary heading 24 which is the interest component of Debt Service Liabilities owed by the non-financial SOEs to the Govt.

5/ Estimated as interest obligations of autonomous bodies under budgetary heading 24 minus the estimated realized interest receipts reflected in Ministry of Finance budget documents.

Sources: Ministry of Finance.

Table 8: Profit Performance of State-Owned Enterprises 1/

(In Million taka)

Corporations 2/	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/'95	1995/96	1996/97 Revised	1997/'98 Budget
Manufacturing:													
BSEC	-85	-49	-62	-78	-365	-861	-1078	-1292	-903	-650	-645	-694	-442
BSFIC	-336	-315	-125	-237	170	-121	-722	-862	-150	78	-378	-679	-644
BCIC	105	-86	198	374	455	-343	-554	206	255	-754	-1214	-2305	238
BTMC	-566	-245	-354	-22	-188	-584	-434	-1355	-1539	-1142	-1344	-1248	-882
BJMC	-1583	-420	-1431	-1882	-3709	-2473	-3175	-5233	-640	-314	-962	-1005	-480
BFIDC	28	10	-16	17	-39	-62	-142	-132	-113	12	301	124	130
Subtotal	**-2438**	**-1105**	**-1789**	**-1828**	**-3675**	**-4444**	**-6105**	**-8668**	**-3091**	**-2770**	**-4241**	**-5807**	**-2079**
Utilities:													
BPC	1044	1410	840	1236	387	2488	3512	3800	4600	1017	757	-4481	-4940
BOGMC	-27	-155	100	-159	-265	288	510	709	986	1170	1436	1088	1052
BSC	-117	-101	37	-244	-245	-527	-542	-172	-158	-129	-149	57	110
BIMAN	-57	-352	-266	33	117	-249	348	679	714	719	496	408	925
PDB	-285	172	-89	-363	-3375	-2802	-7482	-4262	-3892	-6469	-765	-3196	-1085
Subtotal	**558**	**975**	**623**	**503**	**-3381**	**-802**	**-3654**	**754**	**2250**	**-3692**	**1775**	**-6125**	**-3938**
Other:													
BRTC	-174	-183	-214	-235	-259	-246	-221	-241	-113	-88	-54	-49	-23
DWASA	-10	20	14	19	16	-4	5	11	36	-20	-67	14	28
CWASA	-2	6	-2	-31	-63	-64	-57	-38	-27	-26	-33	-43	-30
MPA	74	118	216	191	197	193	230	220	154	203	204	123	129
CPA	207	366	431	392	468	508	486	441	484	640	924	491	467
BJC	-1623	-118	-1841	-1477	-1324	-142	-1675	-2038	-75	-63	-19	-18	-16
BFDC	-27	-1	-18	-26	-11	-20	-9	-11	-1	-9	9	-27	-7
TCB	24	47	41	45	34	7	22	-94	179	16	-14	23	43
BFFWT	-5	-11	-28	20	24	35	5	-8	1	22	48	68	112
DESA	0	0	0	0	0	0	-853	-988	-1851	-1985	-1392	-1574	-1622
BADC	-439	-525	78	152	133	78	-105	-112	-129	-118	-134	-234	-227
BFDC (FILM)	2	2	2	2	1	-20	-16	10	17	25	22	10	12
BIWTC	-45	-55	-53	-73	-37	-37	-69	-30	-25	-7	17	100	109
EPZA	-10	-8	1	3	-12	-2	-1	23	29	52	90	72	48
BSCIC	0	0	0	0	1	1	-6	-41	-34	-7	-19	-31	-34
CDA	-4	28	42	89	53	49	20	19	31	39	38	17	52
RAJUK	92	134	110	126	79	75	138	143	200	191	164	47	50
KDA	2	4	-1	15	11	13	7	6	20	68	42	26	17
BIWTA	-52	-48	-5	-1	-21	-31	1	-6	-51	-166	-215	-9	-15.9
REB	0	-3	-26	-35	31	79	84	175	166	223	239	192	218
BPRC	16	-5	13	13	13	10	9	19	113	24	8	36	57
BSB	-2	-2	0	-1	-1	-2	-2	-2	-14	-1	-14	-14	-14
BHB	9	2	0	0	0	-4	-3	0	2	3	-2	0	0
Subtotal	**-1968**	**-234**	**-1239**	**-813**	**-668**	**477**	**-2011**	**-2543**	**-888**	**-984**	**-159**	**-779**	**-650**
Total Net Profit 2/	-3847	-365	-2405	-2138	-7725	-4769	-11770	-10457	-1729	-7446	-2624	-12710	-6667
Total excluding Petroleum (BPC)	-4891	-1775	-3245	-3374	-8112	-7257	-15282	-14257	-6329	-8463	-3381	-8229	-1727
Memo items:													
Grand Total of Net Profit 3/	na	na	na	na	na	na	na	na	-1111	-6405	-1893	-11838	-4958
Grand Total, excl. BPC	na	na	na	na	na	na	na	na	-5711	-7422	-2650	-7357	-17
Gross Losses 4/	na	na	na	na	na	na	na	na	9700	11949	7419	15604	9670
Gross Losses in $									242	297	181	365	218

na = not available.

1/ Profit after tax.

2/ This table includes 34 out of the 39 non-financial corporations. Note also that this table does not include the financial profit/loss of Head Office of the corporations.

3/ Total of all the 39 corporations.

4/ Total losses of the losing corporations.

Source: Monitoring Cell, Autonomous Bodies Wing, Ministry of Finance.

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