Economic Intelligence Bangladesh

A Research Initiative Of TBS & DataSense™ Decisions Made Easy

5th ISSUE

10 Immediate Measures to Save Bangladesh's Economy

Almost two months since the interim government took office, a number of reform commissions have been formed to find ways to heal long-felt economic woes. In this issue, Economic Intelligence Bangladesh outlines 10 key areas that demand immediate attention, including controlling government expenditure, tackling corruption, and reforming the banking sector. We also explore a range of issues, such as government revenue strategies and disaster management reform. We then provide recommendations on each issue to secure Bangladesh's economic future.

CONTENTS

Page

Government Expenditure Control 1

Rebuilding Forex Reserves 5

Checking Corruption and Money Laundering 10

Inflation Control 16

Banking Sector Reform 21

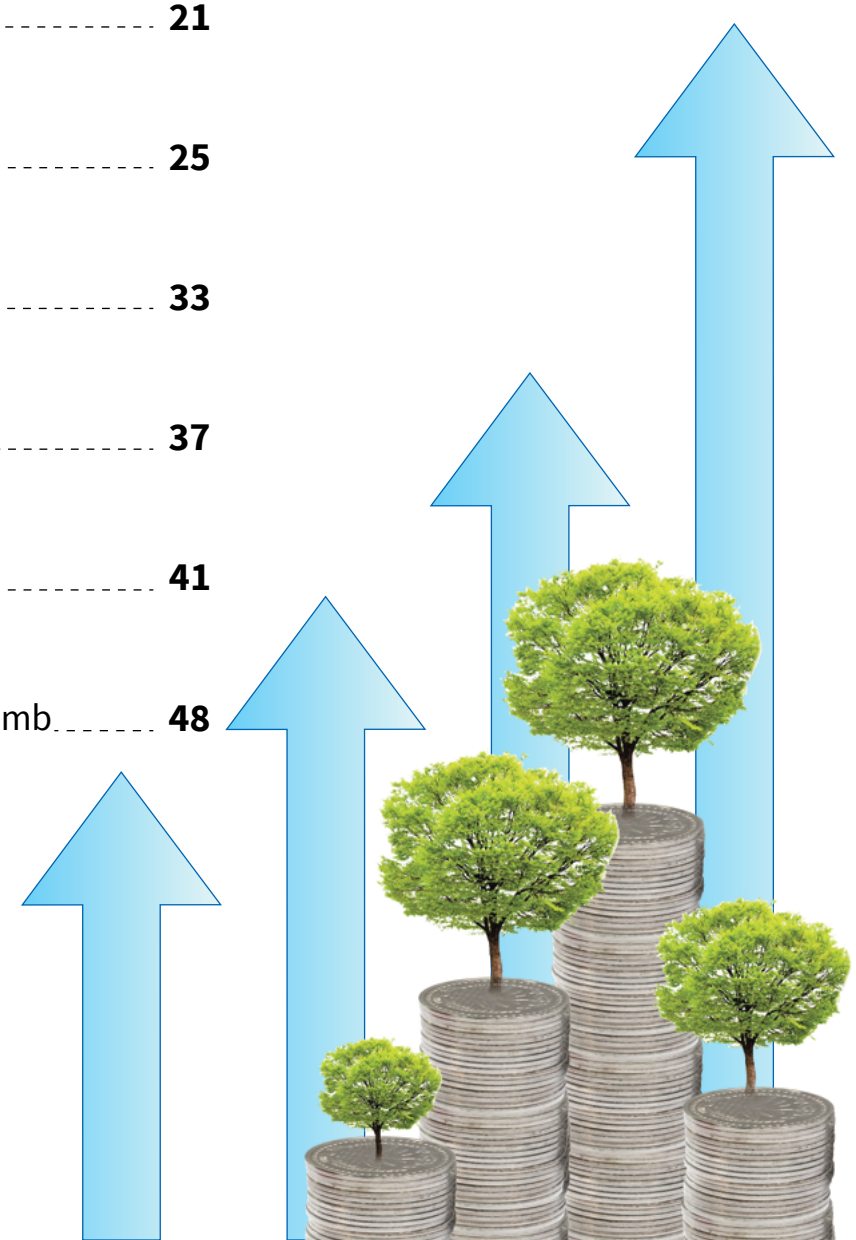
Government Revenue: Addressing Emerging Concerns 25

Revisiting Disaster Management Framework 33

Reforming Right To Information Framework 37

Lowering Gas and Electricity Prices 41

Prioritizing Employment: Strategy for Disposal of a Ticking Timebomb 48

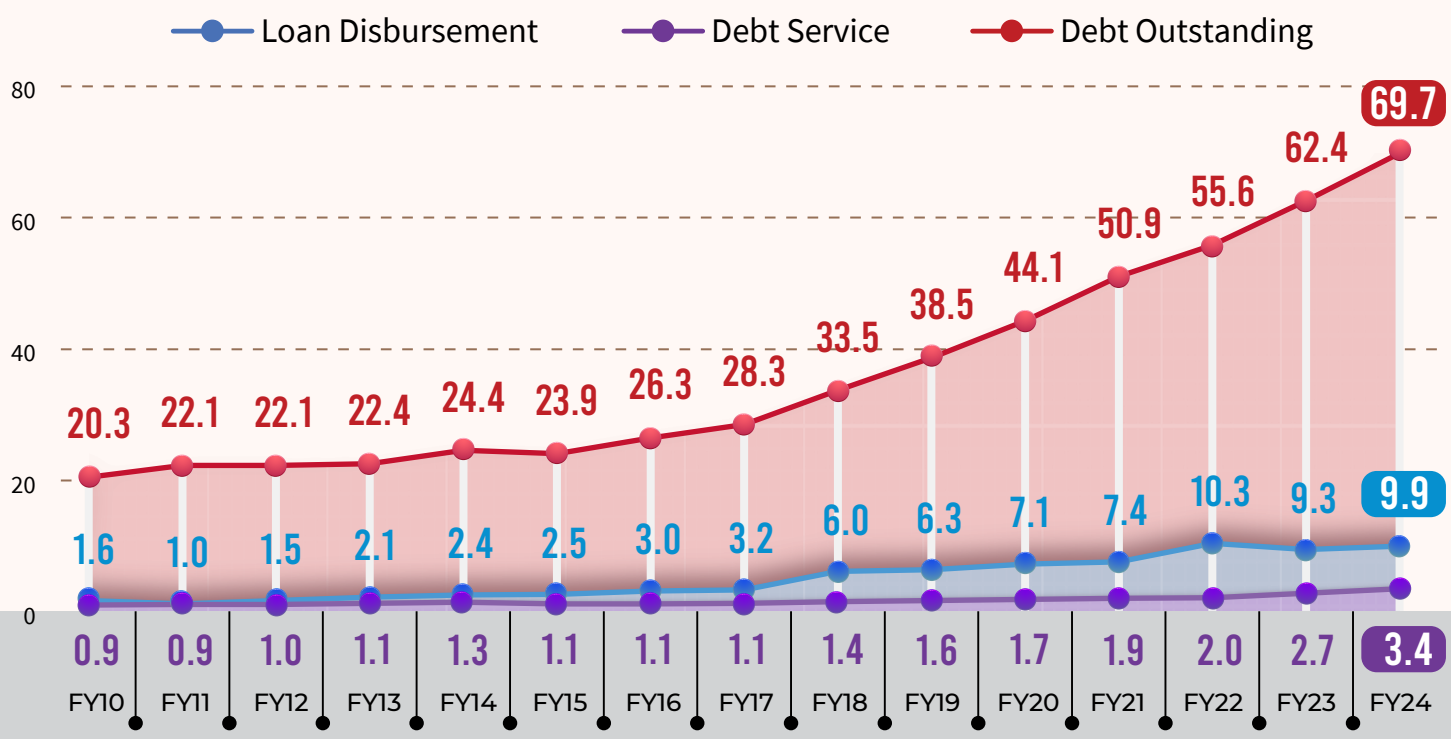


GOVERNMENT EXPENDITURE CONTROL

M. SAMIN SAJID NAHR

BANGLADESH'S EXTERNAL DEBT PROFILE IN LAST 15 YEARS

Figures in billion USD



Source: ERD

WHAT LED TO THE CRISIS?

Hasina era sees *skyrocketing foreign debt, repayments*

Bangladesh's foreign debt repayment soared by **283.42% in last 15 years** from FY10 to FY24.

The government's outstanding foreign debt rose more than doubles from **$20.3 billion** in FY10 to **$69.7 billion** in the last fiscal year.

The rise in debt liabilities is attributed to the *increase in foreign loan disbursements* mostly for mega projects such as *Ruppur Nuclear Power Plant, Metro Rail MRT-6, Padma Rail Link, Karnaphuli Tunnel, Dhaka Airport's Third Terminal*.

Rising debt is driven by *low revenue generation* (8.17% of GDP), sharp depreciation of the Bangladesh Taka increasing debt servicing costs, inflated public investment project costs, project delays causing *early debt repayment, rising borrowing costs, and underutilised loans straining the balance of payments (BOP)*.

Rising debt has significant economic implications, with debt servicing projected to surpass *100% of revenue and grants by 2024*, according to the IMF.

Lacking a revenue surplus, the government has had to borrow more to repay the principal on foreign and external loans, increasing from **Tk5,755 crore** in FY22 to **Tk25,584 crore** in FY23.

Currently, there are **1,326 ongoing projects** under the Annual Development Programme with about 1,200 still awaiting approval.

Foreign aid in ADP continues to grow to **Tk1.01 lakh crore** for FY25, around **36% of the total ADP budget**.

Delays in timely completion of six major transport infrastructure projects *(Dohazari-Cox's Bazar rail line, Padma Bridge, Khulna-Mongla rail line, Dhaka-Tongi-Joydebpur railway expansion, Bus Rapid Transit, Karnaphuli tunnel)* have caused economic losses of an estimated **Tk1.12 lakh crore.**

On the revenue side, Bangladesh recently reached a milestone registering one crore Taxpayer Identification Numbers (TINs), yet nearly **59% of these individuals did not file tax returns** in the previous fiscal year of 2023-24.

Sources: Ministry of Finance, Planning Commission, NBR

WHAT SHOULD BE DONE NOW?

Trimming National Budget Outlay and Revenue Upscaling

PRIORTISE REVENUE GENERATING PROJECTS:

Revise ongoing projects with the highest economic and social returns.

Reduce/stop funding for less impactful projects in the short-run.

Focus public investment on projects with high revenue potential or cost reduction benefits.

REVENUE STREAMLINE

Focus on finding more non-NBR revenue sources.

Rather than raising taxes, ensure all TIN holders are paying tax

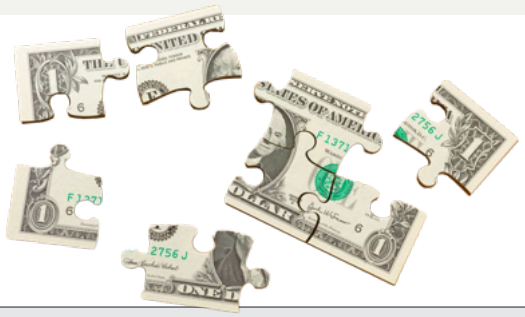
Establishment of Automatic Tax Collection via Personal Bank Accounts

CUTTING EXPENDITURE:

Reduce unnecessary government spending on non-priority programs

Allocate more resources for debt servicing and essential projects.

Revise investments in subsidiaries to ensure the funds are being properly allocated.



Urgent Debt Restructuring

NEGOTIATING FOR DEBT RESTRUCTURING:

For extended repayment periods and lower interest rates.

CALL FOR A DEBT MANAGEMENT COMMISSION

To better manage foreign loans and ensure efficient fund use.

NEGOTIATING DEBT-FOR-NATURE SWAPS

Aid Bangladesh by addressing urgent environmental needs while easing its debt burden.

Strengthening Project Oversight:

FOCUS ON ECONOMIC GAINS:

Thoroughly assess the near-term economic viability of proposed projects, including expected returns, risks, and environmental impacts.

IMPLEMENT REGULAR AUDITS:

To check inefficiencies and wasteful spending in public projects

ESTABLISH PERFORMANCE METRICS:

To monitor progress and identify underperforming components in each project

Ensuring Effective Tender Mechanism:

IMPLEMENTING STRONG BIDDING GOVERNANCE:

To achieve better terms and cost effectiveness through competitive biddings

---

To stop awarding contracts based on favours rather than merit.

DIVERSIFY ALTERNATIVE FINANCING:

Consider exploring alternative financing options beyond traditional contracts with established providers.

REVIEWING CONTRACT MANAGEMENT:

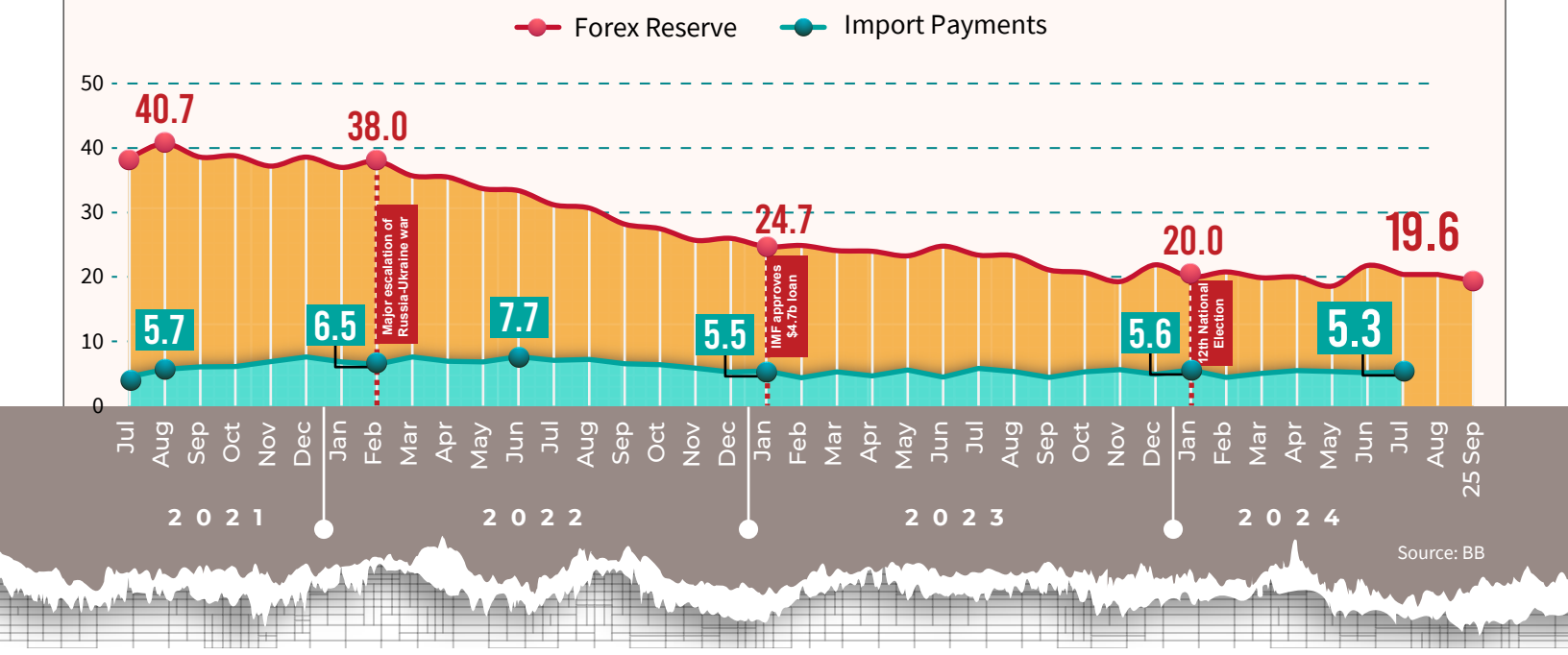
Establish a dynamic contract management to prevent delays and cost overruns.

REBUILDING FOREX RESERVES

NADEEM RAZZAQUE ROMMO

FLOW OF BANGLADESH'S GROSS FOREX RESERVE VS IMPORT PAYMENTS

Figures in billion USD, Reserve values as per IMF's BPM6 Manual



Source: BB

WHAT LED TO THE CRISIS?

Amid the coronavirus restrictions, *import payments, international travels, and outflow of foreign currency for other purposes fell drastically*, and at the same time, inflow of remittance increased, **taking the reserves to a record $48b** ($40.7b as per BPM6) in August 2021.

However, *reserves have been falling since Sep 2021* as import payments started to rise and the economy reopened, despite a series of government initiatives to reverse the trend.

In 2022, the forex market became more volatile as *supply chain disruptions and high shipping costs* elevated commodity prices globally amid the **Russia-Ukraine war**.

According to bankers, *mismanagement in the forex market, frequent policy changes by the central bank, and the gap between the official and unofficial exchange rate* are also to blame.

Some international credit rating agencies, including Fitch, put Bangladesh on a *negative outlook* last year because of the depleting reserves and volatile forex market.

Since Jul 13 2023, Bangladesh Bank began publishing foreign currency reserves as per the *International Monetary Fund's BPM6 manual* to ensure that the country's dollar stockpile is reported accurately.

This move comes as part of the conditions agreed with the IMF for the **$4.7b loan programme**.

In FY24, a mere **$3.36b** of foreign debt was serviced against the outstanding figure of **$69.66b**

As of July this year, Bangladesh's foreign exchange reserves stand at **$20.49 billion**.

Sources: ERD, BB

WHAT SHOULD BE DONE NOW?

Reviewing Bangladesh's existing Monetary Policy

IMPLEMENTATION OF CONTRACTIONARY MONETARY POLICY:

Increase policy rate further to make domestic inter-bank borrowing costlier

Reduce money supply to curb inflation

Ensuring Uninterrupted and Legal Remittance Inflow

FORMALIZE REMITTANCE CHANNELS:

Encourage and simplify the use of formal channels (e.g., banks, money transfer services)

Reduce transaction costs and fees

ELIMINATE HUNDI:

Crack down on illegal money transfer systems

Implement tools to monitor/recognise Hundi transfers

Creating an attractive business environment for Foreign Investors

IMPROVE INVESTMENT CLIMATE:

Simplify regulatory procedures and reduce bureaucratic hurdles (i.e. dollar bonds)

Provide tax incentives and infrastructure support

TARGET SPECIFIC SECTORS:

Focus on sectors with high FDI potential (e.g., manufacturing, energy, technology)

Encourage offshore banking deposits from non-resident Bangladeshis

Increasing Gains from Exports, Skilled Manpower abroad

DIVERSIFY EXPORT MARKETS:

Explore new markets beyond traditional ones (e.g., Europe, US)

Focus on high-value products and services

IMPROVE EXPORT INFRASTRUCTURE:

Invest in transportation, logistics, and quality control

Provide export incentives and subsidies

PROMOTE EXPORT-ORIENTED INDUSTRIES:

Support sectors with high export potential (e.g., textiles, pharmaceuticals, IT)

PROMOTE VOCATIONAL TRAINING TO INCREASED SKILLED MANPOWER EXPORT

Strategic Utilisation of Foreign Aid

NEGOTIATE FAVORABLE TERMS:

Secure concessional loans and grants with low-interest rates and long repayment periods

Ensure that aid is aligned with Bangladesh's development priorities

MAXIMIZE AID EFFECTIVENESS:

Strengthen project management and accountability

Promote local ownership and participation

CHECKING CORRUPTION AND MONEY LAUNDERING IN BANGLADESH

MUNZELEEN SARWAR & ANANYA RAIHAN

FACTORS THAT LED TO THE MONEY LAUNDERING AND HUNDI CRISIS IN BANGLADESH

ILLICIT FINANCIAL FLOWS

Key money laundering methods include hundi, over-invoicing, under-invoicing, and trade mis-invoicing. Transparency International Bangladesh (TIB) has reported that approximately BDT 264 Billion **(USD 3.1 billion)** is illegally sent out of Bangladesh each year.

Bangladesh has signed several **Mutual Legal Assistance Treaties (MLATs)**, but it still lacks agreements with key money laundering destinations such as Canada and Switzerland.

Bangladeshi deposits in Swiss banks fell from BDT 7.29 billion to BDT 2.34 billion in 2023, a **65% drop**. The Finance Salehuddin Ahmed suspects this **decline** is due to depositors moving funds elsewhere amid **tighter Swiss regulations** on illicit income.

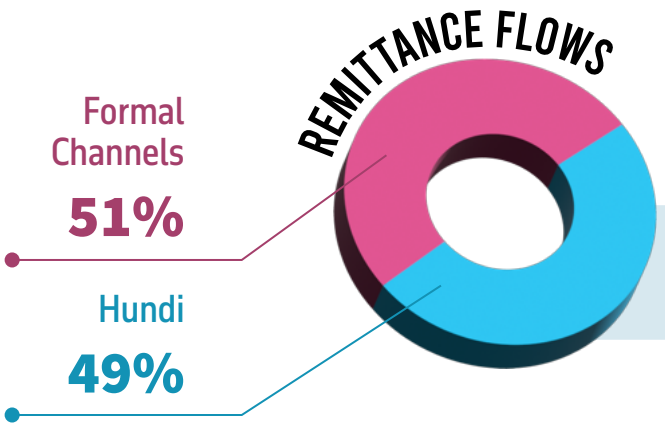
MONEY LAUNDERING: REGULATORY & INSTITUTIONAL WEAKNESSES

Money laundering in Bangladesh is often facilitated by **trade misinvoicing**, where the value of imports and exports is falsified to move money illegally across borders. Bangladesh lost **USD 8.27 billion** annually to trade misinvoicing.The GFI predicts this could exceed **USD 14 billion annually** by 2030.

Over six years, 33 garment factories and buying houses laundered at least **BDT 8.21 billion** using **fake shipping documents**. These fraudsters employed under-invoicing and incorrect shipping codes to misrepresent exports as "samples" and drastically **understate prices**, sometimes by up to ten times. The laundered funds were sent to 25 countries, primarily to the UAE, Malaysia, and Singapore.

CID has flagged **Beximco Group** who laundered **USD 135 million** by exporting goods through 18 companies without repatriating the export value, labeling it as **"trade-based money laundering."** In the last three years, Beximco allegedly embezzled around BDT 200 billion through fraud and forgery.

HUNDI'S VULNERABILITY



Of the total amount sent from abroad by migrant workers, **49%** comes in the form of hundi.
Source

Hundi operates on **cash-based transactions**, lacks record-keeping, and thrives outside regulations.

Despite being informal, hundi is well-organized and **widely used** by migrant workers, especially in the Middle East and Southeast Asia, due to easier terms and better rates compared to formal channels. The reliance on hundi is driven by **high transaction costs** and **complexities** associated with formal remittance processes, causing Bangladesh to lose valuable foreign currency amid a forex crisis.

Dr. Selim Raihan stated that while incentives may temporarily boost remittance inflows, they are not a long-term solution. To increase remittances, Bangladesh needs to **eliminate or create incentives to use the hundi system less**, which is closely linked to money laundering. Controlling money smuggling is crucial, as hundi operators will consistently **offer better rates** than banks.

COST INFLATION IN PROJECTS

The interim government plans to review **13 major projects** from the previous administration, totaling **BDT 526.48 billion**. Ongoing and new projects will be **reassessed**, particularly those with significant cost increases, such as the Matarbari Port Development and rail-cum-road bridge over the Karnaphuli River.

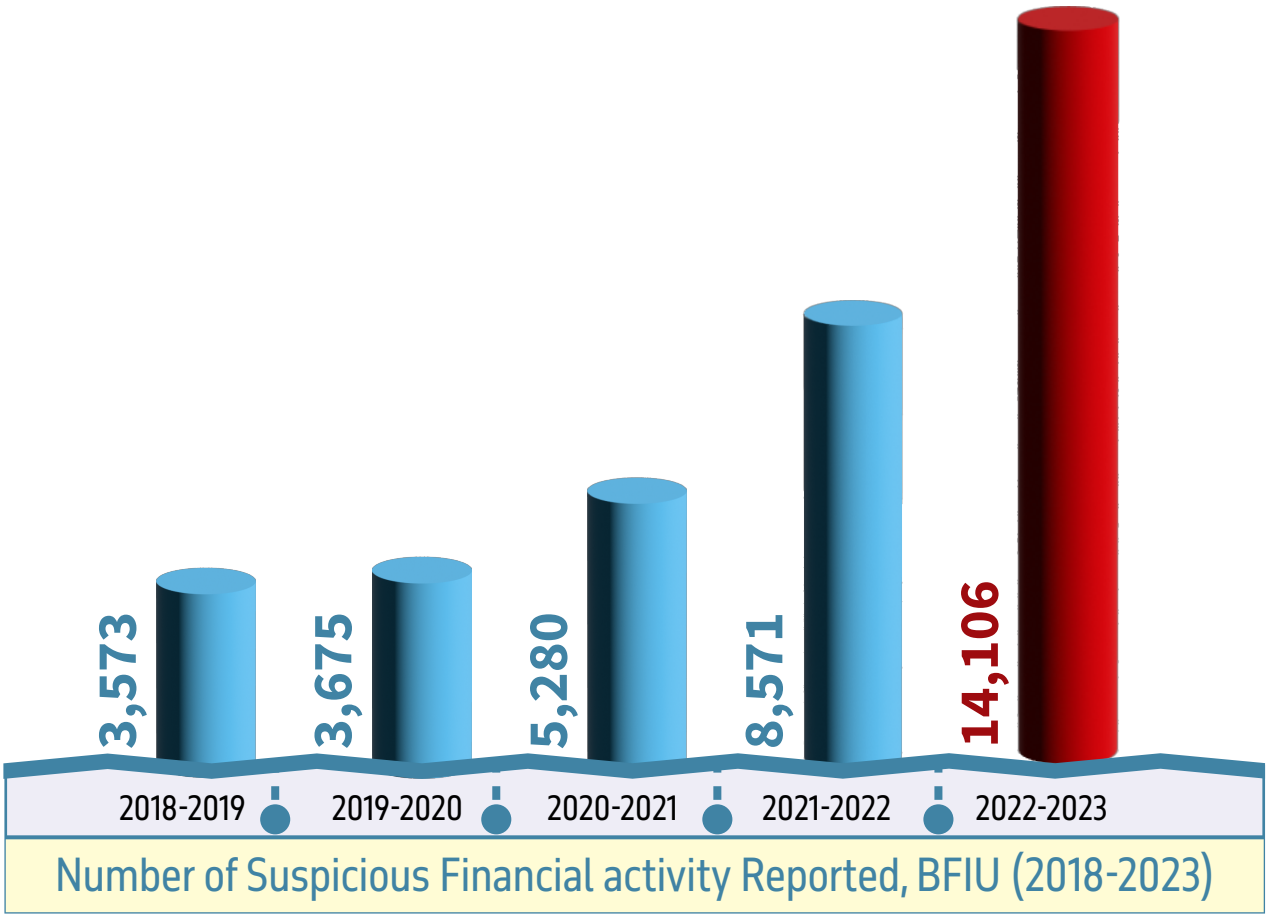
The **Banshkhali Power Plant**, a coal-fired project developed by **S. Alam Group** has been criticized for its environmental and social impacts. With an investment of **USD 2.6 billion** (BDT 280 billion), it represents the largest single private investment in Bangladesh's energy sector. However, S. Alam Group is also alleged to have laundered **BDT 1.13 trillion**, raising concerns about the project's financial and ethical implications.

LOAN ACCOUNTABILITY CRISIS

Loans from banks and financial institutions have been linked to money laundering, with instances of funds intended for legitimate purposes being **diverted** for illicit activities.

Rehman Sobhan, Chairperson of CPD highlighted the connection between money laundering and **default loans** in Bangladesh. He noted that money laundering often involves **diverting a portion of a loan** for illicit purposes, which exacerbates the issue of defaulted loans. Successful businesses may also default on loans, while struggling ones find it even harder to **repay**. Bank owners are believed to have borrowed from their own banks, with **political influence** pervading the sector. Total discipline in the banking and financial sector was destroyed, where involvement of the past Governor is also alleged.

NUMBERS ON CORRUPTION



Number of Suspicious Financial activity Reported, BFIU (2018-2023)

65%
increase in suspicious transactions in FY23, with ***90%*** of them recorded in banks, 900 in money transmitters, and 121 in non-bank financial institutions.

BFIU sent ***1,002 intelligence reports*** to law enforcement after reviewing ***24,977 suspicious transactions*** related to money laundering from 2017-2023.

121 money laundering cases were filed by various investigative agencies in between 2017 to 2022.

USD 61.6 billion
was smuggled out of Bangladesh from 2005 to 2014.

MINIMIZING CORRUPTION, A PRIORITY

The new government is prioritizing **anti-corruption efforts**, believing the wealth increase among former ruling party politicians resulted from corrupt practices. Their bank accounts are being frozen due to suspicions of corruption, money laundering, and **smuggling funds** abroad.

BDT 922.61 billion

was embezzled in ***24 major banking scams***, between 2008-2023,

This amount is equivalent to ***12%*** of Bangladesh's national budget for FY24.

LEGAL ACTION AGAINST MONEY LAUNDERING

The **Money Laundering Prevention Act, 2012**, was necessary given Bangladesh's situation but remains inadequate due to **legal loopholes** and potential **abuse of power** by the Bangladesh Financial Intelligence Unit (BFIU). To effectively combat money laundering, the Act needs **revisions** to address these issues and ensure precise, reliable enforcement. Recovering laundered money is complex and requires **international cooperation**, robust legal frameworks, and strong anti-money laundering measures.

Dr. Debapriya Bhattacharya, Distinguished Fellow at the Centre for Policy Dialogue (CPD), emphasized that to address money laundering, legal action must first be taken in the **host country**. Once a decree is obtained, it must be presented in the destination country to **freeze and sell assets bought with laundered money**. He also noted the importance of solid documentation and the challenge of ***identifying*** such assets.

Finance Adviser, Dr. Salehuddin Ahmed urged officials to prevent the generation of **black money**, warning that its **circulation disrupts fair competition** and discourages honest businesses.

Bangladesh Bank Governor, Ahsan H. Mansur affirmed ongoing efforts to **recover** laundered money.

WHAT SHOULD BE DONE NOW?

INCREASE AND FORMALIZE REMITTANCES

Increase remittances from countries with high numbers of migrant workers, like Saudi Arabia, Bangladesh should allow all banks and fintech companies to operate branches or offer **digital banking services** there, making it easier for expatriates to use formal channels.

Replicate the modality of services in the formal sector, which is being used by the hundi operators. For example, collecting money from home at the country of destination, **delivery of remittance money** at the door-steps of the recipient instantly. Providing care to the workers at destination countries and families of the workers in Bangladesh. The essence is, the hundi operators are very *efficient* in providing holistic care to migrant workers and their families. To ensure this, provide incentives to formal channels.

Continue **supporting banks** in attracting remittances through initiatives like **e-account opening, outreach programs, and value-added services**. Improving remittance services by **standardizing processes** is also crucial. Fostering international collaboration with governments and organizations can help address **challenges** such as *high transaction costs* and *currency exchange fluctuations*.

Promote **smart apps** to simplify remittance transfers, *facilitate issuing ID cards* to expatriates, and **enhance transparency in government operations** to build trust and encourage the use of formal remittance channels.

Maintain partnerships with operators like Western Union and MoneyGram for **reliable remittance services** and promote the use of advanced technologies like **API connectivity** to expedite and *simplify transfers* for expatriates.

Empower overseas missions with resources to **assist** and create **awareness** for account opening.

Consider **regulating Hundi operators** to integrate them into the formal financial system and *increase fiscal revenue*.

INCENTIVIZE FORMAL REMITTANCES

Offer attractive investment options to encourage expatriates to use formal channels instead of Hundi. It seems that the cash incentives do not work.

Creating **tax-free savings** and investment options with *attractive returns* (12%-14%), guaranteed by the government or a strong institution.

TACKLE MONEY LAUNDERING

Strengthen the BFIU to curb illicit outflows and prevent laundered funds from destabilizing the interim government.

Enforce the Money Laundering Prevention Act and implement comprehensive anti-money laundering (AML) measures as well as strong **KYC (know-your-customer) procedures** across the financial system, *conducting regular audits* to ensure effectiveness.

Increase the **autonomy** of the Anti-Corruption Commission and ensure **transparency** in *public procurement*.

Enhance international cooperation by signing **Mutual Legal Assistance Treaties (MLATs)** with key countries and *strengthen partnerships* with international organizations like the **Financial Action Task Force (FATF)**.

Show strong government commitment to fighting money laundering by working with **local and international experts** to craft effective strategies. Ensure these measures are **rigorous** enough to *prevent future administrations* from bypassing the laws or engaging in corruption.

CPD stated that **72,543 NPL** cases, involving **BDT 178.277 billion**, are pending in the Money Loan Court. To **reduce this backlog**, *more judges should be appointed* under the Financial Loan Court Act 2003 and Bankruptcy Act 1997 for *quicker resolution of loan default cases*.

BFIU should **monitor trade invoices** by *comparing declared values* with global market prices and **industry benchmarks**, using databases like **UN COMTRADE**. This would help detect and prevent trade manipulation, ultimately *combating* trade-based money laundering.

Collaborate with the National Board of Revenue (NBR) to *match trade invoices with tax returns*, identifying inconsistencies in declared income and trade figures.

Develop a **real-time central database** for *tracking trade invoice data*, allowing BFIU and customs to flag under invoicing or over invoicing and investigate suspicious traders efficiently.

CLEAN ECONOMIC RECOVERY THROUGH CRIME COMBAT

Strengthen Public-Private Partnerships to enhance collaboration between law enforcement, financial institutions, and civil society to identify and *seize criminal assets more effectively*.

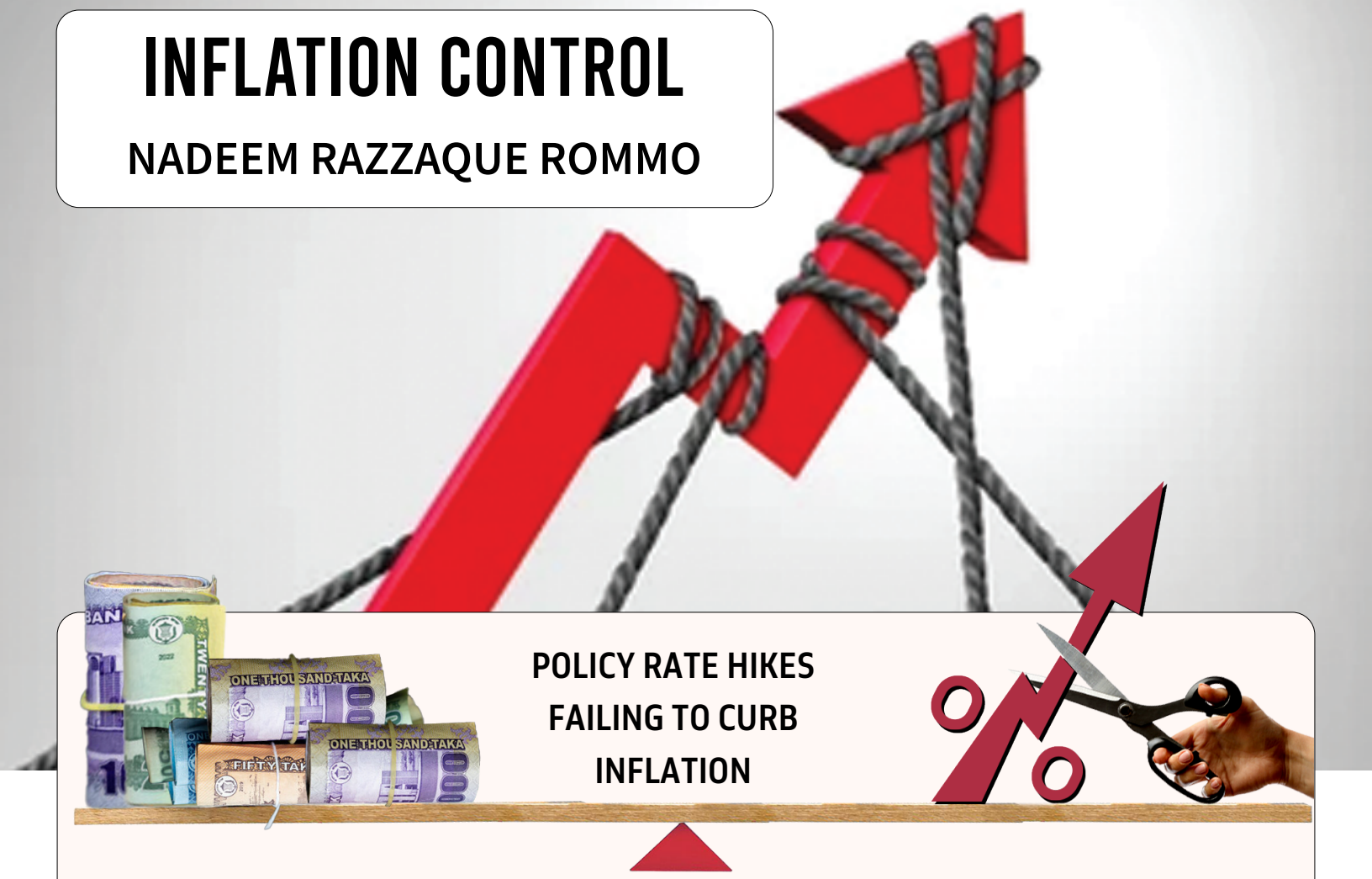
Expand legal and technical frameworks to **foster intelligence sharing** and align incentives to reduce financial crime.

PROTECT AND INCENTIVIZE THE WHISTLEBLOWER

Whistleblower protection and incentive may also work to detect money laundering and corruption at an *early stage*.

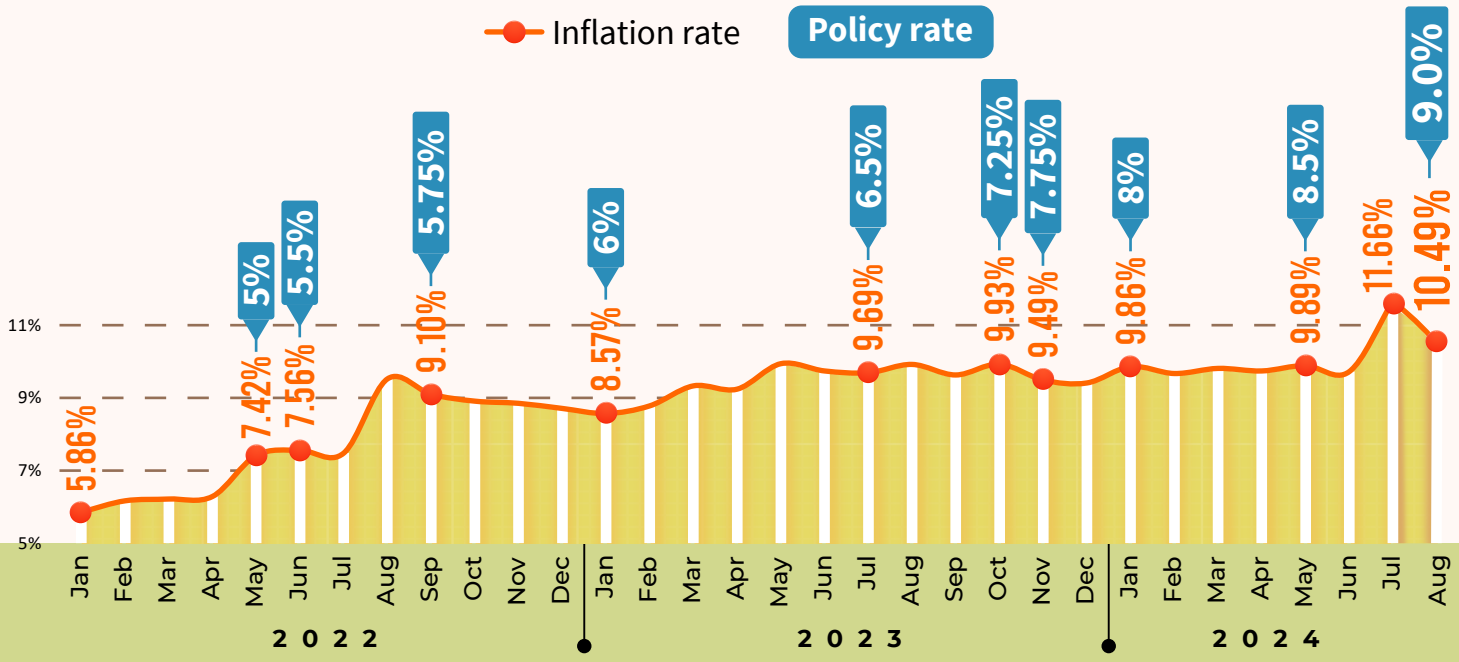
INFLATION CONTROL

NADEEM RAZZAQUE ROMMO



POLICY RATE HIKES FAILING TO CURB INFLATION

Bangladesh's persistently high inflation remains above 9% since Mar 2023



Sources: BBS, BB

WHAT LED TO THE CRISIS?

Combined effects of **supply shortages from Covid-19** and the **Ukraine War**, and pent-up demand pressures from the anti-Covid stimulus packages in USA and Europe created large global inflationary pressures in 2022

Bangladesh's inflation rate climbed from *5.9%* in Jan 2022 to **9.5% in Aug 2022**.

Continued prevalence of the controversial "6/9" interest rate cap whereby the lending rate was capped at 9% when global economies hiked rates to tame inflation

Inflation climbed to a **13-year high at 9.73% in FY24**, higher than govt's revised target of 7.5% (initial target was 6.5%)

Budget deficit for the FY25 was kept at 4.6% despite high inflation and suggestions from economists. To meet its expenditures, the previous government continued to *borrow from commercial banks alongside BB as overdraft*, further contributing to inflation

Prevalence of *imperfect market mechanism, the dominance of a limited number of importers, sellers, and producers of essential food items*

Extortion by organised groups, *including local goons*, often belonging to the political party in power, and *members of law enforcement agencies* collecting money from vehicles carrying products from various districts to the marketplace

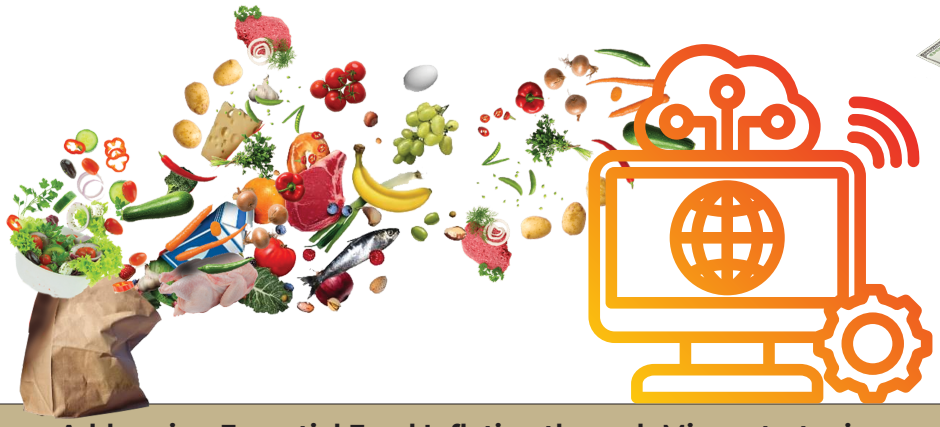
Creation of artificial shortage of certain commodities by syndicates increase the market prices of commodities

The past govt set inflation target at **6.5% for FY25**, followed by 6% for FY26 and 5.5% for FY27

The rate was **11.66% in July 2024** compared to *9.69% in July 2023*.

Sources: BBS, BB, Ministry of Finance

WHAT SHOULD BE DONE NOW?



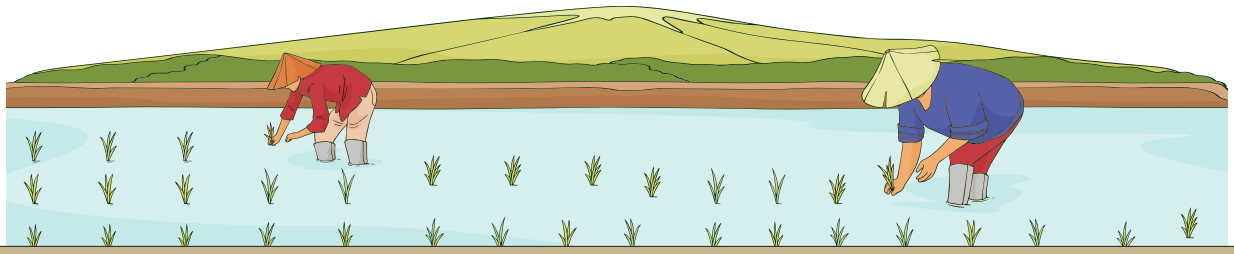
Addressing Essential Food Inflation through Micro-strategies

NEUTRALIZING MARKET CARTELS AND EXTORTIONISM:

Establish a competitive market economy by breaking up the "business syndicate" and enforcing laws to safeguard consumer interests and anti-competitive behaviour

Break syndicates and collusive practices by major market players in essential items like rice, flour, lentils, onions, and edible oil

Curb conglomerates practicing monopolistic pricing through cartels with an anti-trust approach, and promotion of small and mid-size importers and producers as partial solutions



Promoting 3Fs: “Fridays for Farmers”

CALL FOR GOVERNMENT AND PRIVATE INTERVENTION TO FACILITATE FARMERS’ GATHERINGS:

Avoiding middle-man costs and ensure fair price

Transportation support for farmers from remote-areas to town/city centres for trade

Implement the revitalised farmer’s market system alongside the improved and corruption-free structure of middle-men

Strengthening Regulatory Oversight

ENHANCING THE ROLE OF BANGLADESH COMPETITION COMMISSION (BCC):

BCC should supervise commodity pricing by developing a comprehensive database on prices from farm to market, including forecasts for agricultural products and seasonal items.

Close surveillance is required to maintain control over pricing during artificially created shortages, check market manipulation and monopolies

CONSUMER RIGHTS PROTECTION

Ensure valid and timely food production, consumption and input data

SET ACCURATE PRODUCTION TARGETS | FACILITATE INPUT IN ADVANCE | ENSURE REQUIRED AMOUNT OF SUPPLY

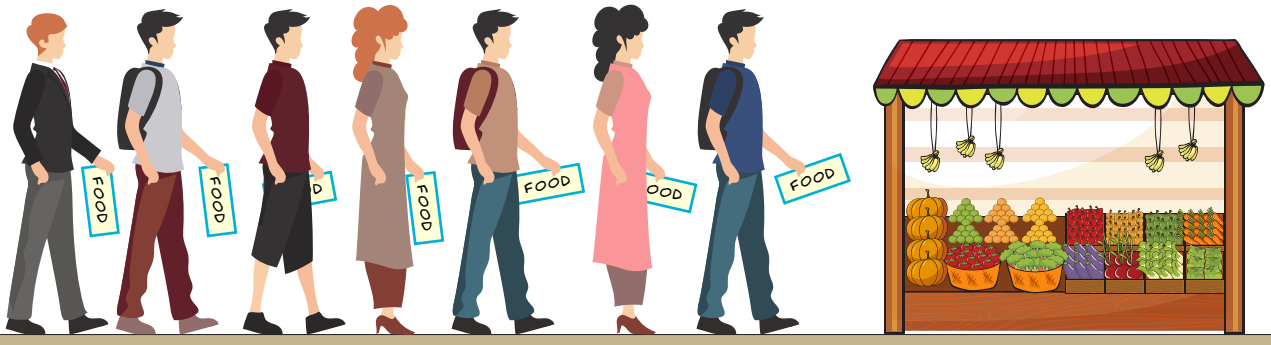
Updating the Calculation Method for Consumer Price Index (CPI)

THE BANGLADESH BUREAU OF STATISTICS (BBS) SHOULD USE THE LATEST HOUSEHOLD INCOME AND EXPENDITURE SURVEY (2022) AS FOOD HABITS AND OTHER NON-FOOD ACTIVITIES HAVE LIKELY CHANGED SINCE THE 2016 EDITION.

CHANGES IN FOOD HABITS AND URBAN LIFESTYLES SHOULD BE CONSIDERED WHEN CALCULATING THE CPI.

Revisit Minimum Wage Structure

GOVT MUST REVISIT MINIMUM WAGE STRUCTURES FOR ALL SECTORS EXCEPT RMG AND TANNERY TO IMPROVE PEOPLE'S PURCHASING POWER AND EASE THE BURDEN OF HIGH PRICES.



Ensuring Price Support Programme to the Right People

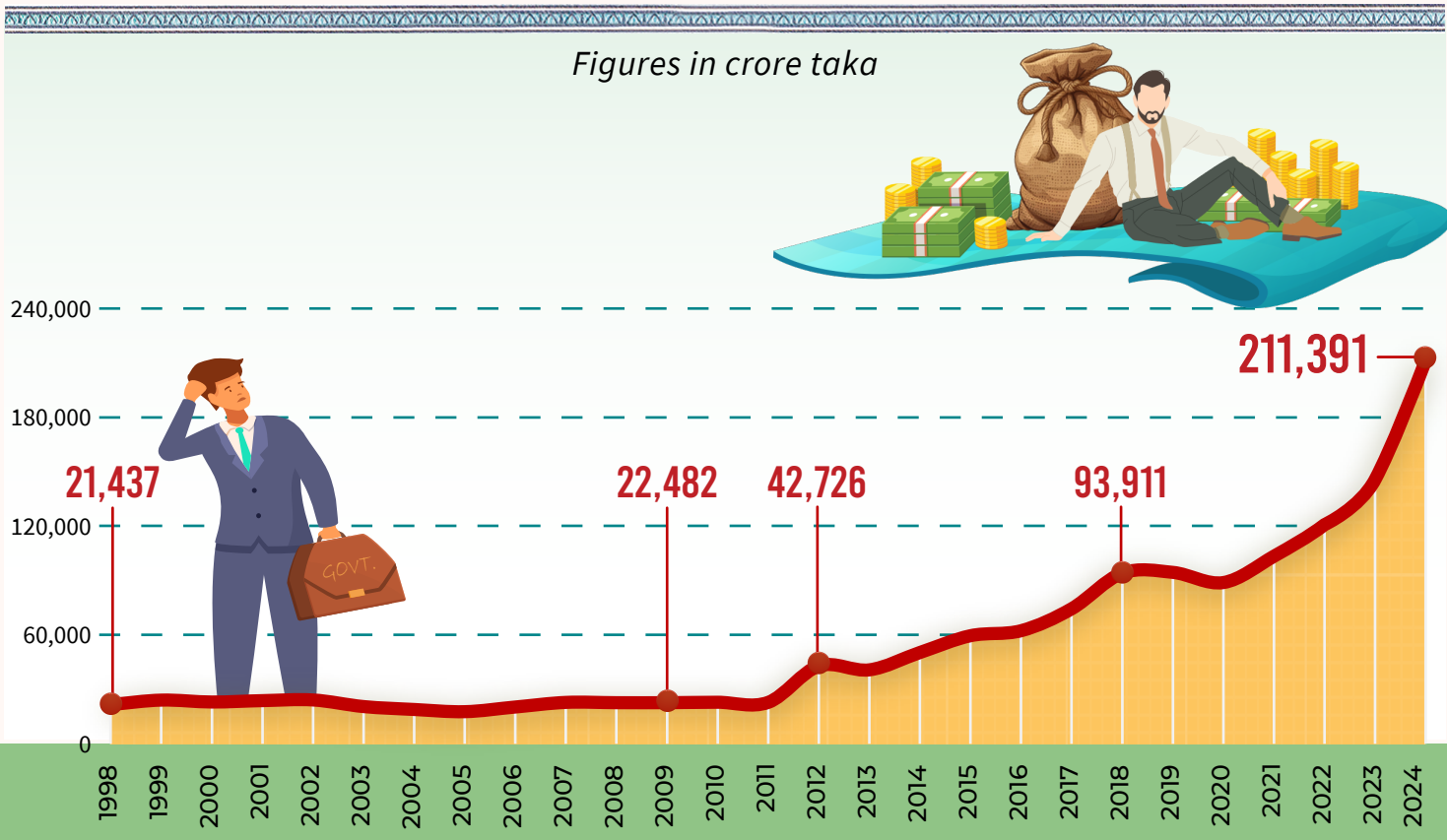
OMS (OPEN MARKET SALES) | FOOD AID CARD | DROP POLITICALLY-FAVOURED RECIPIENTS

BANKING SECTOR REFORM

NADEEM RAZZAQUE ROMMO
& M. SAMIN SAJID NAHR

TREND OF NON-PERFORMING LOANS IN BANGLADESH

Figures in crore taka



Source: BB

WHAT LED TO THE CRISIS?

INSTITUTIONAL ISSUES:

- Bank directors appointed based on *political and family connections*, with board tenure increased to 12 years in 2023
- Loans often sanctioned on *links to corridors of power* and rescheduled despite poor repayment records, with low recovery rates *(33% for first-time and 30% for third-time rescheduled loans from 2011–2014)*
- Loans written off *to reduce tax burden and clean bank balance sheets*
- Weak *internal controls and compliance risk management*
- Some banks unable to comply with *BASEL III*, with *11 banks failing to meet requirements in 2021*

REGULATORY SHORTCOMINGS:

- Lack of Bangladesh Bank independence due to *dual regulation by the Financial Institutions Division (FID) and Central Bank*
- Flexibility extended to loan defaulters by the Central Bank
- Bank licenses arbitrarily given to *crony capitalists*
- *Recapitalization of banks* by the government
- Few bank oligarchs exercise *quasi-monopolistic power*
- Influence of bank-related *lobbyist groups/association*

LEGAL ISSUES:

- Amendments to the Banking Company Act *favour vested interests*
- Weaknesses in the *Financial Loan Court Act and Bankruptcy Act*
- *Delays in judicial processes* and backlog of loan cases
- *Insufficient judges* for loan cases and lenient legal stance on willful defaulters

DATA AND INFORMATION ISSUES:

- Limited access to *timely, disaggregated, and reliable data*
- Concerns over *data quality and lack of transparency* in decision-making
- Failure to detect *false information, forged documents, and fake companies* used to obtain loans

DURING 2008-2023, TK92,261CR (EQUIVALENT TO 12% OF THE NATIONAL BUDGET OF FY24 OR 2% OF THE GDP OF FY23) WAS EMBEZZLED IN 24 MAJOR BANKING SCAMS AS REPORTED IN THE MEDIA. POST-HASINA REGIME'S PRELIMINARY INVESTIGATIONS TELL MUCH MORE.

Total volume of NPL in 2009: *Tk22,481cr*. In Jun 2024: **Tk211,391cr**

S ALAM GROUP OWNED AROUND 82% STAKES IN ISLAMI BANK. THE BANK'S TOTAL LOAN DISBURSEMENT STANDS AT AROUND TK 1.75 LAKH CRORE, WITH S ALAM GROUP TAKING MORE THAN HALF, OR OVER TK87,500CR.

Sources: CPD

ACTIONS TAKEN/PLANNED SO FAR:

Interim Government to form a *Banking Commission* to undertake reforms, a task force to monitor the health of banks

BB to *increase policy rate up to 10%* in coming months

BB decided to *rescue struggling banks*, including some Shariah-based banks formerly controlled by the S Alam Group

Lifted the LC margin on all types of imports except for some luxury products manufactured in Bangladesh

Gradually *hiked cash withdrawal limit to Tk 5 lakh*

BB decided to *stop injecting public fund* in ailing banks

BB *assures security of deposits*, urges not to worry

WHAT SHOULD BE DONE NOW?

Uphold Independence of Bangladesh Bank

AUTONOMY SHOULD BE UPHELD IN LINE WITH THE BANGLADESH BANK AMENDMENT BILL 2003

FINANCIAL INSTITUTIONS DIVISION (FID) OF THE MINISTRY OF FINANCE (MOF) SHOULD BE CLOSED

Central bank should reveal individuals/entities linked to NPL

APPOINT FIRM ADMINISTRATORS TO OVERSEE THE OPERATION OF TROUBLED BANKS THAT CANNOT COMPLY WITH BASEL III REQUIREMENTS

Bank Mergers/Acquisition/Liquidation

SUCH STEPS SHOULD PROCEED ONLY AFTER PROPER AUDITING OF WEAK BANKS TO DETERMINE THEIR REAL BALANCE SHEETS

No more licenses for new banks without a pragmatic assessment of the need for the economy

ENSURE THAT BANKS ARE FREE FROM FAMILY GRIP

Majority of members should be independent directors without close ties to the family or business management

Such members must have operational or management experience

Ensure timely data

BANKS SHOULD REPORT LOANS OVER TK 50 LAKH TO CIB

Establish a dedicated online platform where this information can be easily accessed and analyzed by regulators

Strictly enforce single-borrowing limit

Mandate rigorous due diligence procedures for all loan applications

INCLUDE THOROUGH FINANCIAL ANALYSIS, CREDITWORTHINESS ASSESSMENTS, AND BACKGROUND CHECKS

FORM LOAN APPROVAL COMMITTEES COMPOSED OF INDEPENDENT MEMBERS WITH NO VESTED INTERESTS

ENSURE CREDIBLE VALUATION AND VERIFICATION OF MORTGAGED ASSETS

Provide accessible channels for reporting suspicious lending activities:

PLATFORMS SUCH AS MOBILE APPS, WEBSITES, AND EMAIL

BB SHOULD CREATE PROGRAMS TO INCENTIVISE AND PROTECT WHISTLEBLOWERS TO ENCOURAGE REPORTING OF ILLICIT MONEY TRANSFERS

Tracking Hundi Business/Trade-related Money Laundering

THOROUGH CHECKING OF INPUT DOCUMENTS AND VERIFY PRICES QUOTED

EXTRA CAUTION IN RELEASING COST INCENTIVES

GOVERNMENT REVENUE: ADDRESSING EMERGING CONCERNS

ANANYA RAIHAN & MUNZELEEN SARWAR

Diagnosis of the Current State

a. Systemic

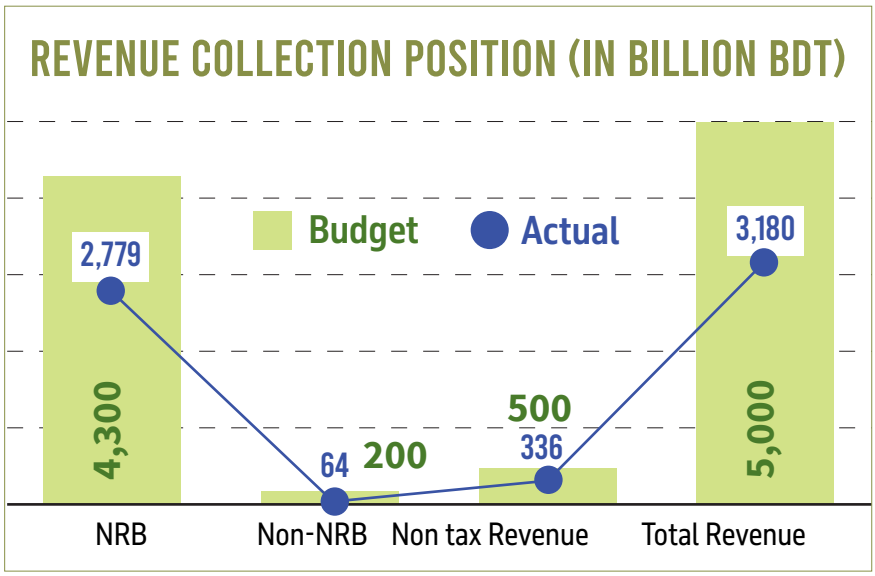
i. Low revenue collection (Tax-GDP ratio for FY 2023-24 is projected to be 10 percent) leading towards **borrowing** (domestic and foreign)
ii. Lack of strategy and efforts for expanding tax net
iii. Lack of interest of citizens to come under tax net
iv. Over-dependence on **indirect tax**, creating a burden on poor citizens.
v. Deficit budgeting, due to inadequate resource mobilization.
vi. Inappropriate income tax structure both for individuals and businesses.
vii. Inappropriate import duty leads to **high production cost** and price of essential products.

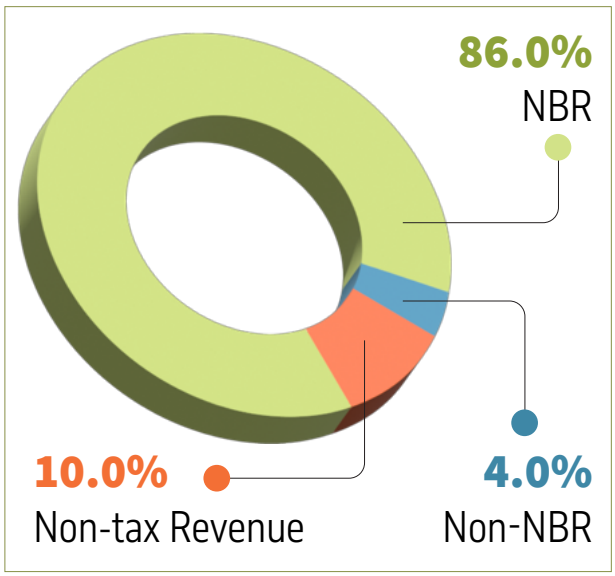
b. Misgovernance

viii. Tax evasion for **unreasonable cost of doing business** (rent-seeking), corrupt practices (nexus between taxpayers and NBR), harassment of small businesses and individuals with unreasonable assessment (rent-seeking)
viii. Leakage of hard-earned revenue in unnecessary projects, leading to increasing burden of sovereign debt
viii. Leakage of revenue through **inflated project cost** (corruption).
viii. Money laundering by **over-invoicing, under-invoicing, mis-invoicing, and hundi**.

SHARE OF SOURCES OF REVENUE GENERATION:

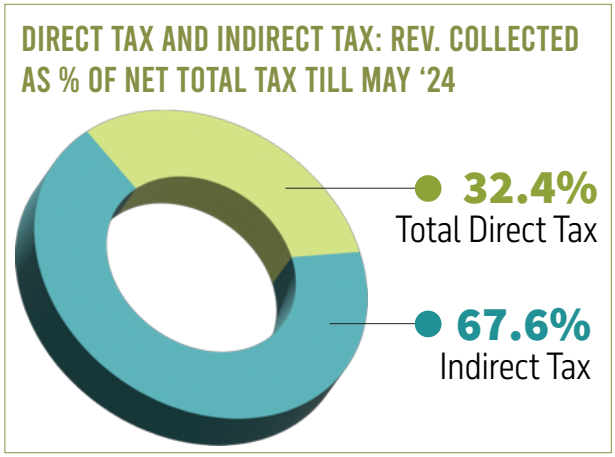
Sources	Budget FY24 in Billion BDT	Actual FY24 (up to April) in Billion BDT	Budget/ Actual	% Share of Revenue Source of Total Revenue
1. NBR	4,300	2,779	64.63% (64.63% of NBR's revenue target has been met.)	86.00%
Income	1,533	899		
VAT	1,638	1,093		
Supplementary	607	408		
Import Duty	460	319		
Export	1	0		
Excise	46	41		
Other Taxes	15	20		
2. Non-NBR	200	64	31.93% (Only 31.93% of Non-NBR revenue target met)	4.00%
3. Non-tax Revenue	500	336	67.29% (67.29% of Non-tax revenue target has been met)	10.00%
Total Revenue	5,000	3,180		100%



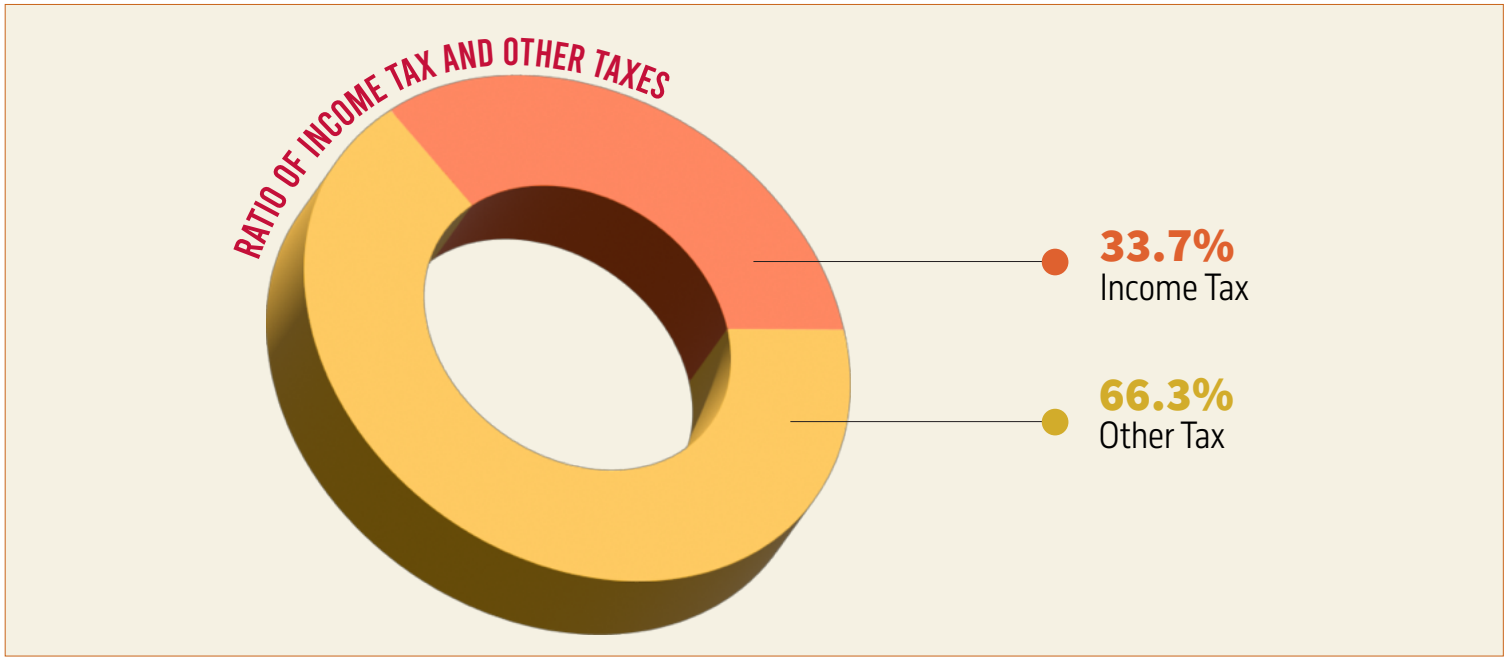


DIRECT TAX AND INDIRECT TAX COLLECTION

Revenue Sources	Rev. collected till May '23 (In Billion BDT)	Rev. collected till May '24 (in Billion BDT)	Rev. ed as % of Net Total Tax till May '24
Total Direct Tax	**889.60**	**1,050.54**	**32.39%**
Indirect Tax	**1934.57**	**2,193.24**	**67.61%**
Net Total Tax	**2824.17**	**3,243.78**	**100%**

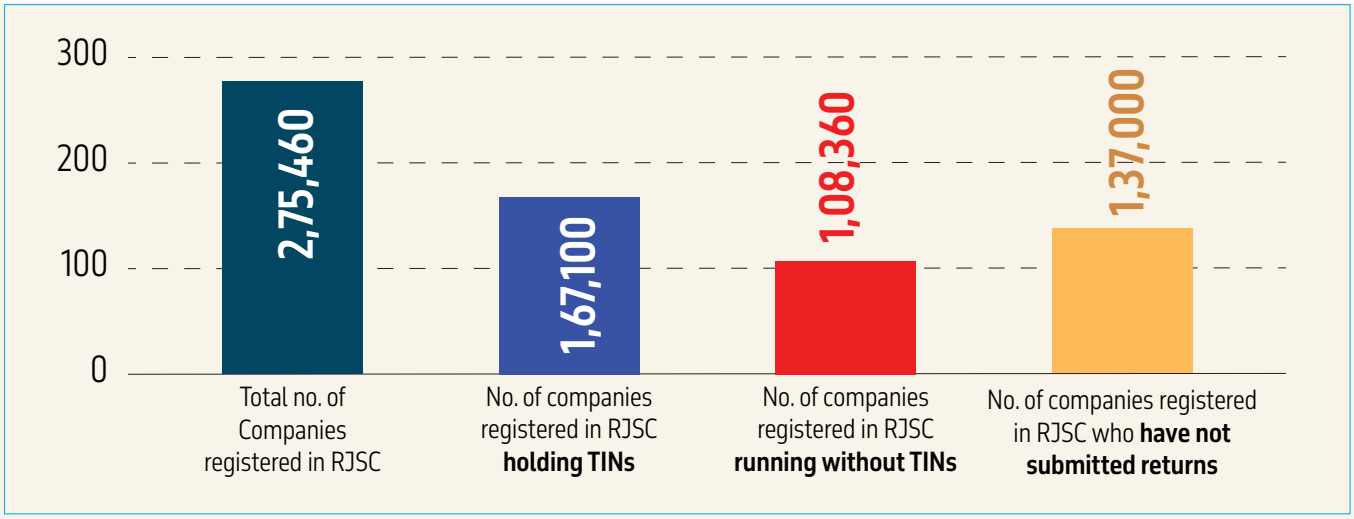


RATIO OF INCOME TAX AND OTHER TAXES

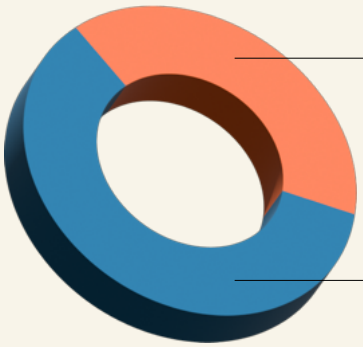


STATUS OF BUSINESSES AND TAX

STATUS OF COMPANIES REGISTERED UNDER OFFICE OF THE REGISTRAR OF JOINT STOCK COMPANIES AND FIRMS



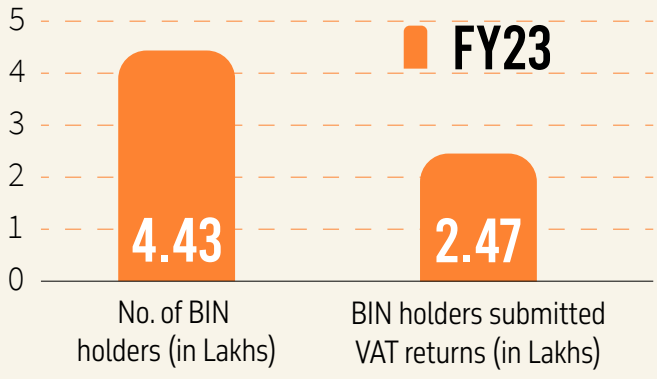
BUSINESSES HOLDING TINS UNDER RJSC



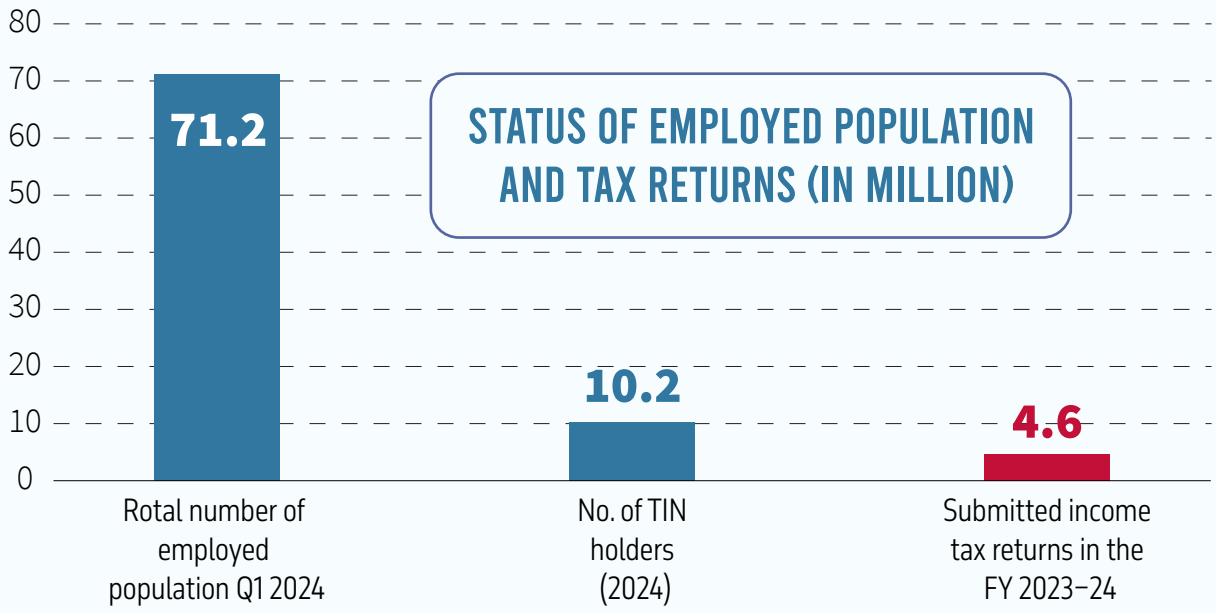
Companies registered in RJSC running without TINs **39.3%**

Registered companies holding TINs **60.7%**

BUSINESS IDENTIFICATION NUMBER HOLDERS AND RETURNS



STATUS OF INDIVIDUAL TAX RETURNS



Bangladesh reversed its journey from reduced dependence on foreign aid and loan, and now the external debt (MLT) **increased by 11.4%** from FY22 to FY23, reaching USD 62.3 billion, compared to USD 55.6 billion in FY22 and USD 50.9 billion in FY21.

Most of these countries already **overextended**: one-half of the poorest countries eligible to borrow from the World Bank's International Development Association (IDA) are at **high risk of debt distress** or already in distress. Many of them recognize that borrowing from foreign lenders will be a limited option going forward—that mobilizing domestic resources in the form of tax revenues will be critical to economic progress.

A Six-pronged Strategy for increasing domestic revenue

a. Build trust and provide proof: For raising revenue from taxes, there should be trust between the citizens (corporate and individual) and the government, and there should be evidence of that trust. Transparency in the taxation system, proof that hard-earned resources from the citizens are being used wisely.

b. Ensure Transparency and Predictability While Expanding Tax Net: The informal nature of large portion of businesses and reluctance of coming under tax net are function of:

i. Fear of unreasonable tax burden (by design and due to rent-seeking behavior of the tax authorities)

ii. Lack of incentive to come under tax regime due to low profitability of businesses.

iii. The tax structure is ambiguous, complex and there is no predictability over the horizon (say what would be the tax imposition over a period of time)

Ensure transparency in government spending. The government can start by implementing and *publishing a medium-term revenue strategy so that all citizens can be informed about how their tax dollars are being used*. In a country like Bangladesh with a l*arge trust deficit*, the government can commit new resources for specific projects that have *visible benefits for the average citizen* (e.g., building hospitals and schools, modern urban transportation with high-quality and equal access to services by rich and poor can go a long way).

c. Keep it simple: Complex tax systems keep the new tax payers away from the tax net, also foster a culture of evasion and can create opportunities for corruption.

Example from Latin America: The average company can expect to spend 547 hours each year making 22 separate tax payments. Not surprisingly, countries in Latin America and the Caribbean lost $340 billion in 2015 to tax evasion.

Evidence of the benefit of a simple tax system: a 10 percent reduction in both the number of payments and the time to comply with tax requirements can lower tax corruption by 9.64 percent. A simpler code can bring more small businesses into the taxable formal sector.

A 2014 World Bank Group report found that 50 economies now have just one tax per tax base. Over the past 13 years, 57 economies have merged or eliminated certain taxes.

d. Go digital: The simpler a tax system is, the easier it is to enable electronic tax payments.

Bringing a complex tax system on a digital system does not help. It may help in reducing the time of submission, but new tax payers will shy away. The digital system should be hybrid and assisted, considering access to digital devices and Internet quality and digital literacy of citizens. *A road of integration of transactions through digital systems with proper incentives can pave the way of auto-populating tax returns that citizens simply have to confirm*.

Kenya, for example, leveraged its ubiquitous money-transfer system, *M-Pesa*, to allow taxpayers to file and pay their taxes electronically through the platform.

e. Find new sources of revenue: Social security taxes and carbon taxes are a potentially new source of revenue for Bangladesh—because they apply primarily to wealthier households. They can also deter unwanted behaviors, such as driving cars in already congested areas, smoking, or consuming unhealthy foods.

Social Security Contribution

Bangladesh may introduce the *Social Security Contribution Levy (SSCL) like in the US and our neighbor Sri Lanka*. This tax would allow Bangladesh to spend for social safety net from a dedicated source and transparency.

Social Security Levy as a New Source of Tax: OECD Classification (2000)

2100. Employees	
	2110. On a payroll basis
	2120. On an income tax basis
2200. Employers	
	2210. On a payroll basis
	2220. On an income tax basis
2300. Self-employed or non-employed	
	2310. On a payroll basis
	2320. On an income tax basis
2400. Unallocable as between 2100, 2200 and 2300	
	2410. On a payroll basis
	2420. On an income tax basis

Sri Lankan Example of Social Security Contribution:

The Social Security Contribution Levy (SSCL) in Sri Lanka was introduced in 2022. SSCL is payable by every taxable person (individual or entity) who: Imports any article, carries on the business of manufacturing any article, provides a service of any description, Engages in wholesale or retail sale of any article (except for sales by the manufacturer of that article).

Turnover is used to determine liability based on the specific category of persons:

a. **For importation of any article:** The value of the article is ascertained for the purpose of Value Added Tax (VAT).

b. **For business of manufacture of any article:** The sum receivable from selling articles manufactured in Sri Lanka (excluding exempted articles).

c. **For providing a service:** The sum receivable from supplying financial services in Sri Lanka (excluding exempted services).

d. **For wholesale or retail sale of any article:** The sum receivable from selling articles in Sri Lanka (excluding exempted articles).

e. **Certain exemptions apply**, such as pharmaceuticals and articles subject to special Commodity Levy.

US Example of Social Security Contribution:

- In the United States, Social Security is financed through a dedicated payroll tax.
- Employers and employees each pay 6.2% of wages up to the taxable maximum (which was $168,600 in 2024), while self-employed individuals contribute 12.4%.
- High earners only pay into the Social Security system until their pay reaches the taxable maximum.

f. Restructuring the Tax System:

a. Revisiting Personal Income tax

The personal income tax requires restructuring giving respite to poor and middle-class citizens, with high tax brackets for earning above BDT 3 million annually.

Current	Tk300,000	Tk300,001 to Tk400,000	Tk400,001 to Tk700,000	Tk700,001 to Tk1,100,000	Tk1,100,000 to Tk1,600,000	>Tk1,600,000
	0%	**5%**	**10%**	**15%**	**20%**	**25%**
Revisited (Proposed)	Tk500,000	Tk500,001 to Tk1,000,000	Tk1,000,001 to Tk2,000,000	Tk2,000,001 to Tk3,000,000	Tk3,000,001 to Tk5,000,000	>Tk5,000,000
	0%	**10%**	**20%**	**30%**	**40%**	**50%**

This may provide a respite to low income and middle class.

b. The value added tax needs revision considering the cost of living of the poor and the middle class. The VAT on essential products may be revisited to *5% from 15%*. This would also facilitate reducing inflationary pressure.

Comparative Tax Rates in Selected Countries of Asia-Pacific (VAT and CIT)

Country	Type of tax	VAT/GST Rate		CIT
		Minimum	Maximum	Average
Brunei	VAT	0		18.5
Bangladesh	VAT	15		27.5
Cambodia	VAT	10		20
India	GST	5--28		34.5
Indonesia	VAT	11		25
Laos	VAT	10		24
Malaysia	GST	6		24
Myanmar	Commercial Sales tax	5	120	25
Pakistan	VAT Product	18		29
	VAT Services	13	16	
Singapore	GST	7		17
Thailand	VAT	10		20
Vietnam	VAT (Two tier system)	5		20

Source: Trading Economics, Asean Briefing

Other Measures

c. Launch medium-term revenue strategy

d. Publish tax expenditure

e. Remove cost-ineffective taxes.

REVISITING DISASTER MANAGEMENT FRAMEWORK

NADEEM RAZZAQUE ROMMO

IN NUMBERS: FLOOD OF AUGUST-SEPTEMBER 2024

Considered Bangladesh's worst flooding in 3 decades

Total deaths **71**

Affected **5.8M PEOPLE**

More than **1.2M PEOPLE** left stranded without relief

Floods reached **545 MUNICIPALITIES** across **74 UPAZILAS** in **11 DISTRICTS** (Sylhet and Chattogram divisions most affected)

502,501 displaced across **3,403 EVACUATION SHELTERS**

296,900 HECTARES of crops damaged

$122M in fisheries lost

$34M in livestock loss

7,000 SCHOOLS closed, affecting **1.75M STUDENTS**

BANGLADESH AS A CLIMATE VICTIM:

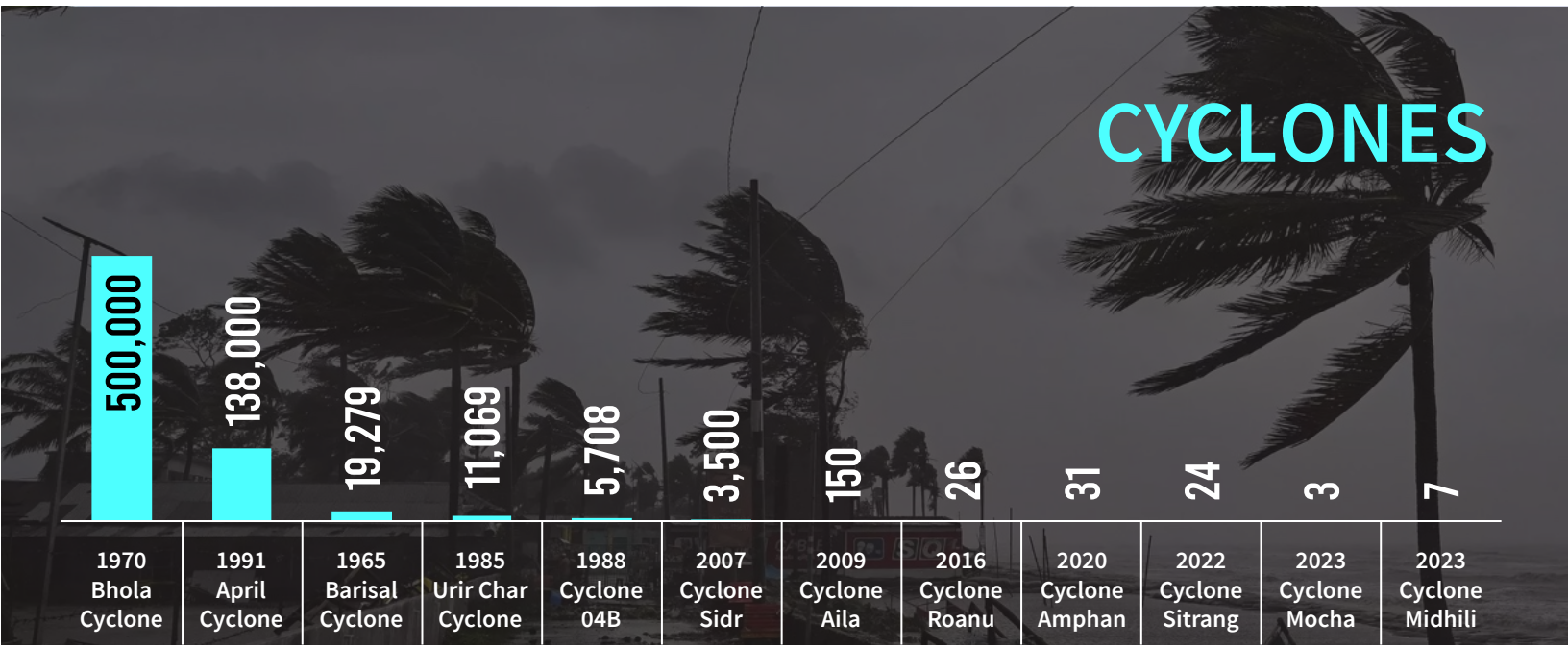
Contributes *0.56%* of global emissions but **suffers disproportionately**

Vulnerable to flooding due to *low-lying geography, melting glaciers, and rising sea levels*

Agriculture affected by **erratic monsoon rains** and **severe cyclones**

Fatalities from cyclones and floods have *decreased dramatically*

TREND OF FATALITIES FROM BANGLADESH'S MAJOR NATURAL DISASTER



BANGLADESH A ROLE MODEL FOR CLIMATE-RESILIENCE:

Volunteerism, effective early warning systems (EWS), community-based decision-making, donor support, and government commitment

Strong **coordination network** from National Disaster Management Council (NDMC) down to **over 2,000 District, Upazila, and Union level disaster committees**

Effective cooperation between *Government, INGOs, NGOs, Civil Society Organisations, community leaders, development partners, and UN Bodies*

SPECIFIC TECHNOLOGICAL AND COMMUNITY-BASED SOLUTIONS:

Use of *satellites* to track cyclones and share data regionally

Solar-powered buoys to monitor sea levels

Floating farms made from bamboo and water hyacinth for year-round agriculture

Elevated gardens (e.g. bitter gourd vines) which survive floods

Use of *saline-resistant rice and pond filtration systems* for drinking water by coastal farmers

Government partnership with cellphone providers to extend 4G coverage to remote areas

Rebuilding homes on *raised platforms*

Portable cookstoves fueled by cow dung, preserving local wood resources

HUMAN CHAIN OF COMMUNICATION:

Local villagers monitor water levels and report to the Flood Forecasting Centre in Dhaka via text

Government's emergency warning system includes *smartphone push notifications and analog SMS alerts*

Almost 100% mobile phone penetration allows mass communication for disaster warnings

Sources: Ministry of Disaster Management and Relief, ReliefWeb, NPR, icddr,b, Media Reports

WHAT EXPERT SAYS

Gawher Nayeem Wahra
Climate change and disaster management expert

"

Governance failure from Political changeover, left Deputy Commissioners in fear of withdrawal/transfer and away from routine duties during disaster

Local level Red Crescent committees highly politicised, stayed away in fear

Standing Orders of Disaster did not work properly due to fear stemmed from previous regime's downfall

UNOs should take more pro-active roles in flood relief distribution to assist volunteers

Senior officials from central civil admin should have been deployed in district and upazila level for improved coordination

Higher-ranked officials could have influenced local officials and forged better coordination **among administrative, livestock, agriculture and health officers for better post-flood rehabilitation**

AREAS FOR IMPROVEMENT

Involvement of Scout, Rovers, School Cabinets, Young Red Crescent Volunteers and BNCC:

ENGAGE SCOUTS IN LOCAL AREAS

24.3 lakh scouts, professionals and support staff as of 2022

Leverage their knowledge of hometown roads for better coordination in rescue, relief distribution and rehabilitation

Tech Improvements and New Uses:

STRENGTHEN THE HARDWARE AND ICT INFRASTRUCTURE OF THE BANGLADESH METEOROLOGICAL DEPARTMENT (BMD)

IMPROVE DISASTER FORECAST ACCURACY AND LEAD TIMES

USE DRONES FOR RAPID ASSESSMENT AND SEARCH-AND-RESCUE MISSIONS IN INACCESSIBLE AREAS

Hygiene and Sanitation in Shelters:

5,000 SHELTERS LACK USER-FRIENDLY FACILITIES FOR WOMEN

ENSURE SEPARATE SPACES FOR BREASTFEEDING/SICK MOTHERS

Swimming and Boat-Driving Lessons:

IMPLEMENT MANDATORY LESSONS IN FLOOD-PRONE DISTRICTS

STOCK UP ON PLASTIC BOATS/FLOATABLE OBJECTS (I.E. BOTTLES) FOR EMERGENCY MEASURES

Lessons from recent Amateur Radio Network Operations:

AMATEUR RADIO NETWORK COORDINATED RESCUE EFFORTS DURING THE DISASTER

Mobilized 375 rescue operations in remote upazilas like Parshuram and Fulgazi

Created a database of stranded people with the help of university and private networks

REFORMING THE RTI FRAMEWORK: A STEP TOWARDS ENSURING TRANSPARENCY

SADIQ MAHMOOD

There is a strong instrument for bringing the government and public-funded institutions for bartering corruption, the **Right to Information (RTI) Act 2009**. The irony is, although the *Ordinance made by the caretaker government* in 2008, was made a law in the very first parliamentary session in 2009 by the ousted government, the law remained **ineffective** and Bangladesh has seen the spree of corruption. The imperative now is to *make the law enforced* and the Commission established under the law effective, through creating a system of information disclosure by **appointing designated officers in all relevant institutions** and removing all barriers, including legal barriers, stipulated in other laws. Most importantly, it is **vital** that people, including journalists, feel confident and safe to *exercise their right to know* and expose corruption and bring corrupt individuals and institutions of justice.

GENUS OF RTI ACT (2009)

Resolution 59 of the UN General Assembly (1946)	Article 19 of the Universal Declaration of Human Rights(1948)	International Covenant on Civil and Political Rights (1966)

Article 39 of the Constitution of Bangladesh

Freedom of expression is upheld as a **fundamental right** under this article. Although the right to seek and receive information is not explicitly mentioned in the constitution, the Preamble of the Right to Information (RTI) Act affirms this right as an integral and inalienable aspect of **freedom of expression**.

KEY INSTRUMENTS OF RTI ACT (2009)

Section 02, 24

- Defines information
- Specifies Information Providing Unit
- Defines the appellate authority and appeals mechanism

Section 04

- Gives Right to Information

Section 05, 08

- Specifies authority's duties to follow guidelines regarding the cataloging and publishing the informations

Section 06

- Provides a comprehensive guideline regarding information disclosure by authorities

Section 08

- Provides a comprehensive guideline regarding application procedure for requesting information

Section 09, 10

- Orders the nomination of a Designated Officer (DO) for each "Information Providing Unit" and provides specific guidelines for the nomination mechanism
- Specifies the duties and provides guidelines for the DOs
- Maps out the procedure and time limits for providing information in different cases

Section 11, 12

- Orders the establishment of the "Information Commission"
- Describes the composition of commission

Section 13

- Defines the power of the Information Commission
- Describes the function of commission

Section 25, 26

- Lists specific reasons for complaint request
- Explains the complaint mechanism

Section 27

- Lists penalty provisions for the DOs, imposed by Information Commission

Section 30

- Mandates the Information Commission to submit an annual report

Sections regarding Information Commission

IMPEDIMENTS OF RTI FRAMEWORK

Section 09 of RTI Act (2009)

Authorizes partial access to information.

Section 32 of RTI Act (2009)

Exempts national security organization and intelligence from the coverage of this RTI Act

Official Secrets Act (1923)

Prohibits the unauthorized collection or disclosure of **classified information** and imposes penalties on offenders, including situations where an individual voluntarily receives official information that they know, or should reasonably know, is classified. Any attempts to violate or assist in breaching the OSA are also subject to punishment.

National Broadcasting Policy

Restricts broadcasters from sharing information that harms the reputation of law enforcement, the military, or government officials, or that opposes the government, public interest, or national security. However, these restrictions are not law and **should be formalized** and **aligned with international standards**.

SAFEGUARD

Section 07 of RTI Act (2009)

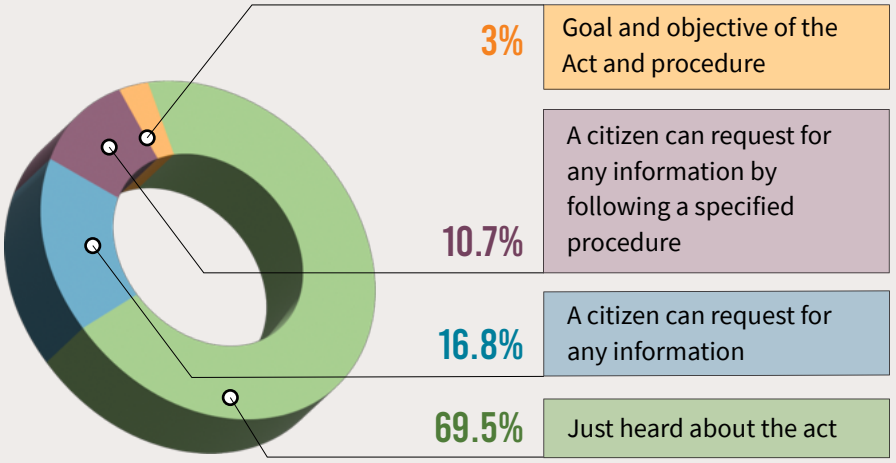
Both the government and businesses have information, which are not meant to be made public. The RTI Act 2009 keeps **provisions** where the authorities are not obligated to provide citizens with information regarding matters such as state security, international relations, intellectual property rights, law enforcement, judicial proceedings, investigations, and related areas.

While a critical review of this clause required, this clause is a **safeguard mechanism** for the institutions under the purview of the law.

CONCERNS FOR THE EXISTING RTI FRAMEWORK

Awareness

The awareness about the RTI act is a big issue. Although a lot of people have just heard about this, most people are **unaware** about the objective of this act and request procedures through this act. (RTI Survey 2019)



Demand-side Issues

Culture of impunity in general, especially Impunity for **violence against journalists** persists. Additionally, the enforcement of **outdated laws** like the Official Secrets Act of 1923, as seen in the case of Prothom Alo senior reporter Rozina Islam, has **deterred** many journalists and researchers from seeking information through **legal channels**.

Data Terrorism

Certain sections of the RTI Act, particularly Sections 07 and 09, have **led to a lack of accountability** in both government and non-government agencies, creating **opportunities for data manipulation**.

Incompetencies of the Designated Officers (DOs)

60.7% of DOs received training on the RTI, who are aware of the Act as a whole. A few respondents found training **unhelpful**. There were cases of **lacking motivation** among the DOs as well.

Absence of Proper Guidelines

Several DOs have reported that the **quality** of the applications is **poor**. Proper guidelines are **lacking** in this case.

AREAS OF REFORM FOR THE EXISTING RTI FRAMEWORK

Immediate Reform of the Current Laws Enacted

Abolishment of the Official Secrets Act (1923) and enforcing RTI to supersede any and all restrictions

Immediate amendment of the Digital Security Act in line with international human rights law.

Review of All Existing Charges and Implementation of Proper Governance

Dismiss all charges against individuals accused solely for exercising their freedom of expression.

Cease the misuse of laws to suppress freedom of expression in Bangladesh, and safeguard the media's ability to operate independently while ensuring the public has full and unrestricted access to news.

Carry out prompt, impartial, and transparent investigations into all acts of violence against journalists, and hold those responsible accountable through fair trials.

Stop the harassment of journalists, protect media freedom, and ensure that individuals can express criticism and concerns freely, both online and offline, without fear of retaliation.

Creating Awareness & Subsiding Bottlenecks in Demand-Supply Side

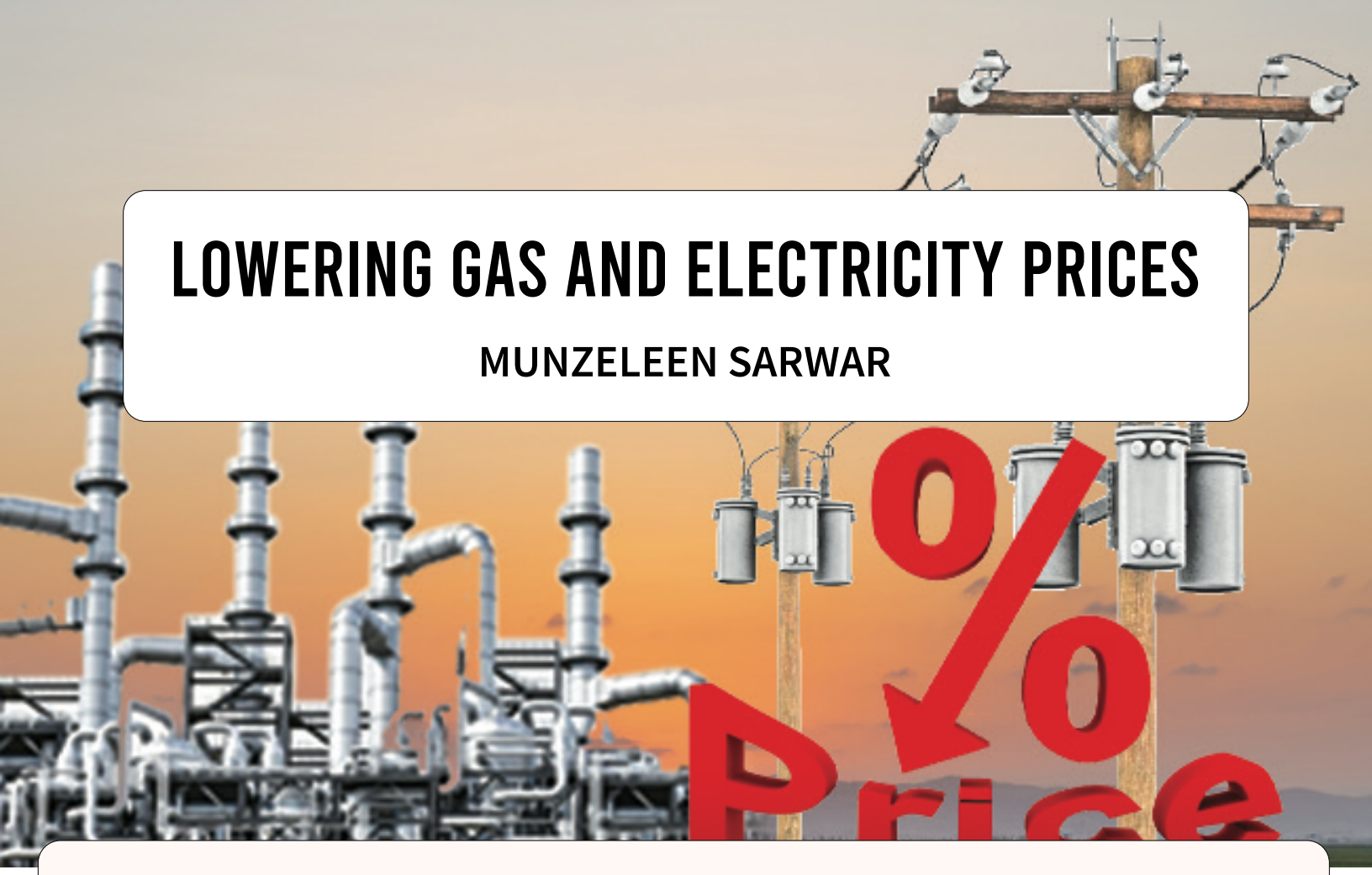
Draw up necessary plans to activate demand-side actions to generate awareness among the citizens.

Creating guidelines and holding sessions to inform the proper procedure of requesting information.

Conducting training sessions for DOs for efficient distribution of information

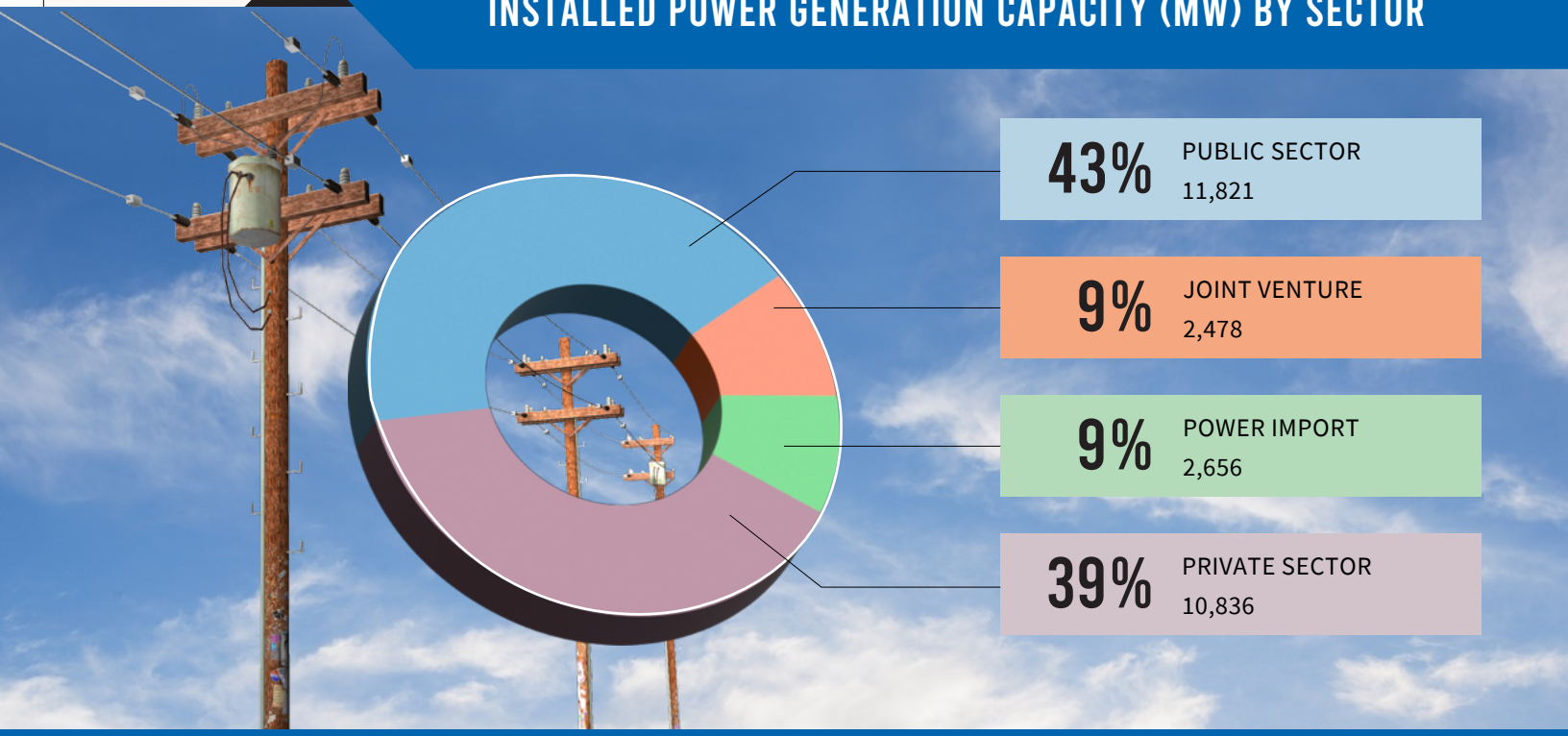
LOWERING GAS AND ELECTRICITY PRICES

MUNZELEEN SARWAR



BPDB'S PRESENT INSTALLED GENERATION CAPACITY IN MW

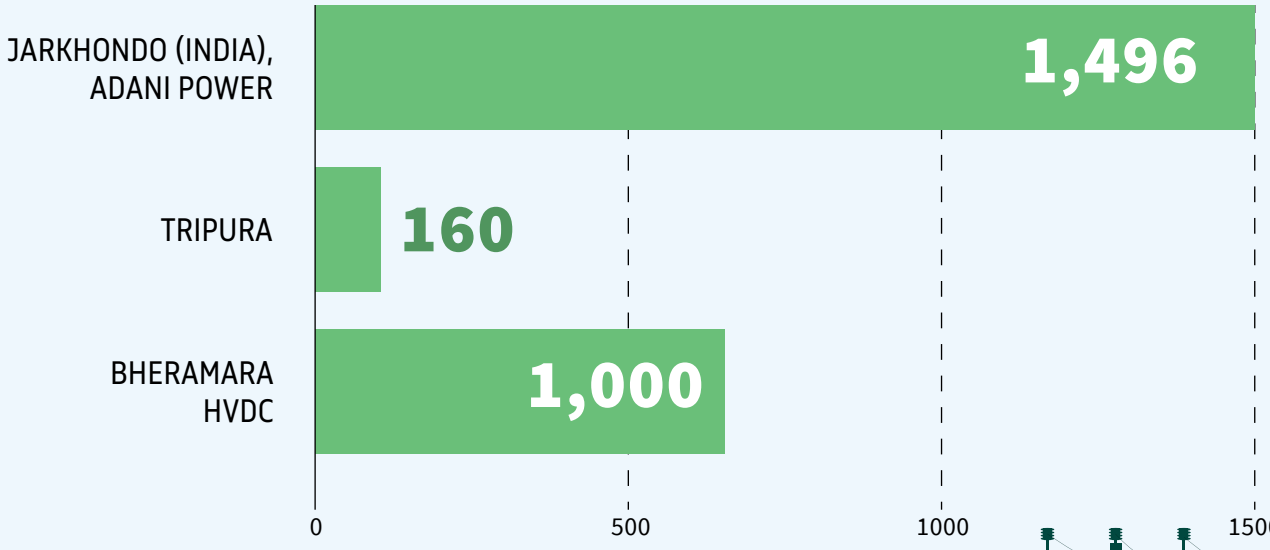
INSTALLED POWER GENERATION CAPACITY (MW) BY SECTOR



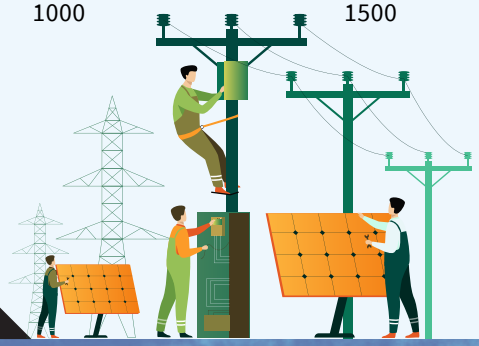
43%	PUBLIC SECTOR	11,821
9%	JOINT VENTURE	2,478
9%	POWER IMPORT	2,656
39%	PRIVATE SECTOR	10,836

As of 31 August 2024, total installed electricity generation capacity is 31,145 MW, with 27,791 MW on-grid and 3,354 MW off-grid.

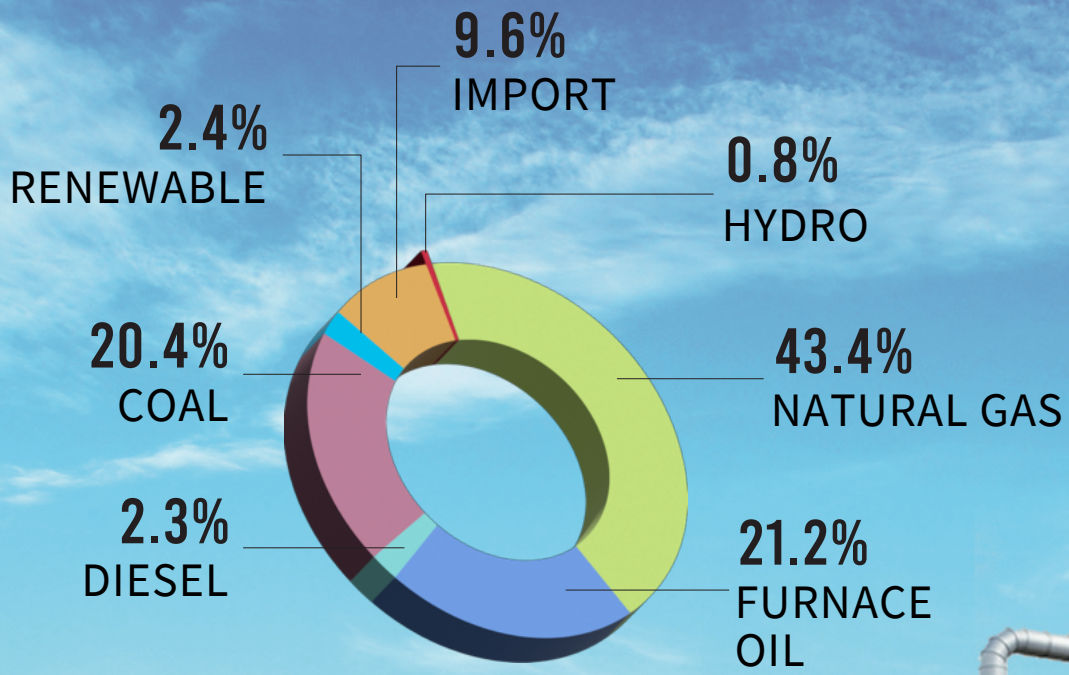
POWER IMPORT (IN MW)



Bangladesh has excess power generation capacity but faces challenges due to fuel shortages and transmission constraints. This has led to the *underutilization* of power plants and the *need for energy imports*.



INSTALLED CAPACITY (BY FUEL TYPE)



BANGLADESH'S ENERGY CRUNCH

ELECTRICITY TARIFF HIKE

- Retail price increased: From **8.25 BDT/unit** to **8.95 BDT/unit** from February 2024.
- Bulk electricity price increased: From **6.70 BDT/unit** to **7.04 BDT/unit** from February 2024.

The power sector faces **underutilization**, with peak generation **below capacity**, revealing inefficiencies in demand and grid management. Despite significant **underutilization**, ongoing addition to the grid persists resulting in **capacity payment burden**, while outstanding dues of **BDT 10,000 crore** to IPPs may affect future investments.

LPG PRICE HIKE

- Retail price increased: From **BDT 1,377** in August to **BDT 1,421** in September 2024 (for a 12kg cylinder).
- Highest price recorded: **BDT 1,498** (in February 2023).

BDT 70 Billion LNG import subsidy is proposed for FY25 in the National Budget FY2025, up from **BDT 60 Billion** in FY24, surpassing export sector allocation. Funds should **prioritize domestic gas exploration** to address energy security concerns over growing LNG reliance in the **long run**.

	2021-22	2022-23	% Change over the previous year
Per Unit Power Generation Cost (BDT/kWh)	**8.54**	**11.03**	**29.16** Corruption in energy deals has contributed to **rising electricity generation costs**
Ave. Bulk Electricity Supply cost (BDT/kWh)	**8.96**	**11.52**	**28.57** Increases can be passed on to consumers in the form of **higher electricity tariffs**.

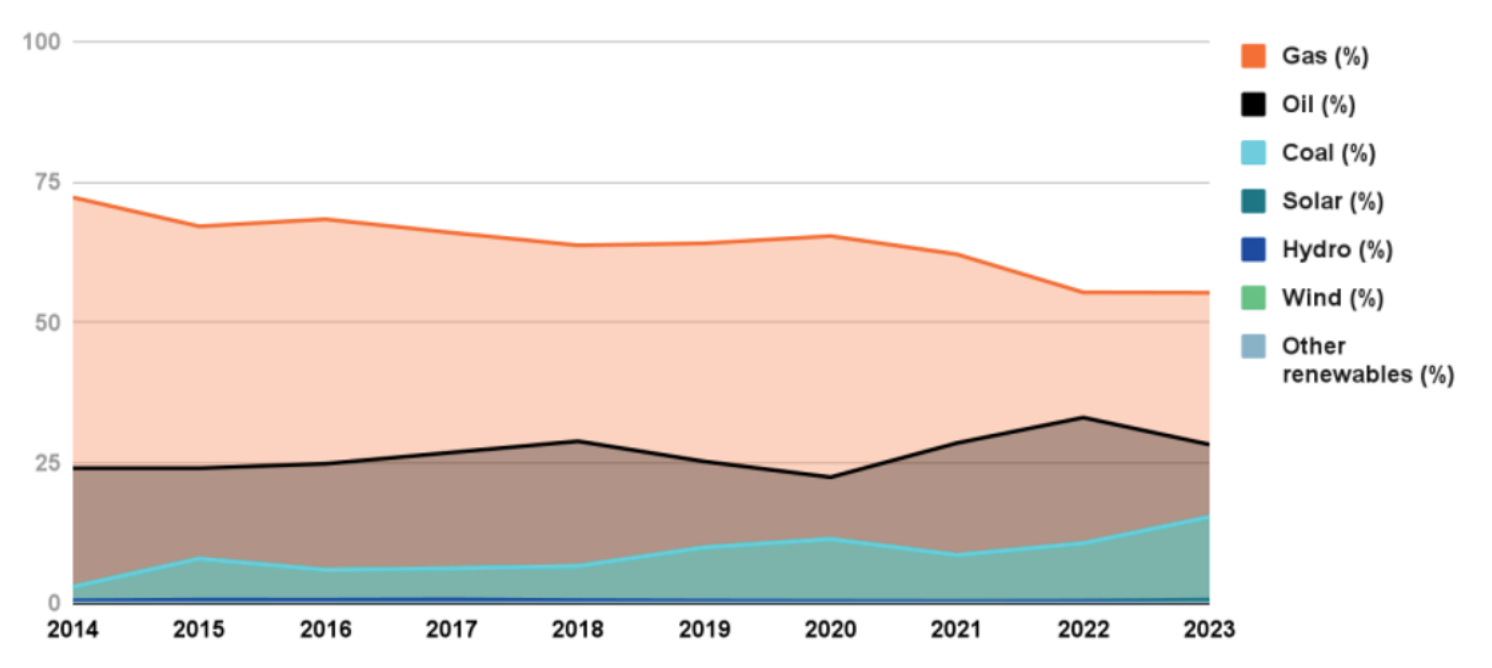
Bangladesh has **8 categories** of gas consumers
S&P Global

37%	Power Generation
23%	Industries
18%	Captive Power
10%	Household Use
7%	Fertilizer Production
4%	CNG
1%	Commercial and Tea industry

- Bangladesh is experiencing a **gas crisis** due to falling domestic production and rising demand.
- Sole reliance on LNG imports offers only a short-term solution and **risks price volatility** and supply disruptions.

Source: BPDB

SHARE OF ENERGY CONSUMPTION BY SOURCE, BANGLADESH



Energy Institute - Statistical Review of World Energy (2024)

Gas has consistently dominated the energy mix, though its share has declined over time from **72.30%** in 2014 to **55.31%** in 2023, while the use of oil and coal has increased slightly in recent years.

Renewable energy sources like solar, wind, nuclear and others remain a very small part of the overall energy mix, indicating **slow progress in clean energy adoption**.

WHAT LED TO THE CRISIS?

DEPLETING FOREIGN CURRENCY RESERVES:

Soaring import costs and a recent $4.7 billion IMF bailout have strained Bangladesh's finances, increasing debt and jeopardizing economic stability. **Excess energy capacity leads to excessive subsidies**, with **81% spent on idle power plants**, while capacity payments in USD further pressure foreign reserves.

LACK OF EXPLORATION OF NATURAL GAS RESERVES:

Focus on costly LNG imports **neglects domestic reserves**. The last budget promised 46 new gas wells by December 2024, but **only 8 have been explored so far**.

DEPRIORITIZATION OF RE (RENEWABLE ENERGY):

Integration of RE requires upgrading the transmission and distribution systems, but current renewable energy capacity is **only 4.5%** of the target 40% by 2040, with **actual generation being even lower**.

EXPENSIVE POWER IMPORTS:

Bangladesh's shift from affordable regional power to a **costly 25-year deal with India's Adani group**, costing **USD 11.01 billion for 1,496 MW**, deviates from its goal of cheap renewable energy and poses a long-term financial burden.

UNCLEAR PRICING MECHANISM:

Approach of raising electricity prices to manage subsidies **shifts the burden to consumers**, while unclear petroleum pricing and high margins from BPC add to costs. The pricing mechanisms lack transparency and justification, with BPC and BPDB passing the **subsidy burden onto consumers** under IMF conditions.

LACK OF TRANSPARENCY IN PROCUREMENT AND BIDDING PROCESSES:

Led to financial mismanagement in major projects like Adani, Payra, and Rampal power plants such as **unclear power purchase rates, questionable capacity payments, and unwarranted extensions of inefficient plants**, incurring significant additional costs, reportedly amounting to **BDT 350 billion**, due to **flawed procurement practices**.

THEFT IN THE NAME OF SYSTEM LOSS:

Inefficient distribution and transmission systems contribute to **significant system losses**. This is due to a lack of clarity in government strategies for sustainable power solutions.

CHALLENGES

Optimizing the utilization of power plant capacity, reducing system losses, lowering electricity procurement costs from Independent Power Producers (IPPs), adjusting capacity payments and subsidies, trimming operating costs for BPDB, lessening the heavy reliance on fuel imports, and increasing the share of RE in power generation.

WHAT SHOULD BE DONE NOW?

ELIMINATE:

Non-competitive and politically motivated energy deals with foreign suppliers and reduce excessive capacity charges.

CEASE FUNDING FOR FOSSIL FUELS:

Stop funding new fossil-fuel power plants and commit to phasing out old and expensive ones as their contracts expire.

ENHANCE GAS EXPLORATION:

Increase funding for drilling new gas wells and meet the drilling target to reduce dependency on LNG imports.

PROMOTE RENEWABLE ENERGY PROJECTS:

Invest in renewable energy and smart grid systems to improve generation and distribution efficiency.

REVISE FISCAL STRUCTURE:

Extend tax holidays to 10 years for renewable energy projects, provide 100% duty waivers for small-scale solar projects, and lower taxes on solar accessories.

OPTIMIZE TRANSMISSION NETWORKS:

Allocate targeted funds for completing transmission and distribution system upgrades and develop a smart grid system.

REFORM DEBT MANAGEMENT:

Implement robust debt management strategies for PetroBangla, including refinancing and restructuring, to ease financial distress.

SHIFT TO LOW-COST FINANCING:

Move towards low-cost, long-term financing and investments in renewable energy to reduce reliance on expensive credit.

ADJUST TARIFF SETTING:

Implement a market-based price setting mechanism for electricity and consider renegotiating contracts with Independent Power Producers (IPPs).

ELIMINATE:

Import duties on energy-efficient manufacturing technology to encourage its adoption.

ENHANCE OVERSIGHT AND COOPERATION:

Repeal the 2010 energy act, align procurement with public regulations, and increase regional and international cooperation in energy sectors.

ADDRESS FINANCIAL VULNERABILITIES:

Audit financial reports of energy institutions, shut down inefficient power plants, and reconsider the import of large-scale electricity based on excess domestic capacity.

BREAK SYNDICATES:

Diversify electricity suppliers and increase the number of importers to curtail monopolistic behaviors through policy actions.

PROMOTE STARTUPS IN ENERGY-TECH:

Support existing startups such as Tiger New Energy (clean energy startup focused on battery-swapping technology for eco-friendly mobility) and SOLshare (affordable solar energy for rural communities).

Offer grants and subsidies to help energy-tech startups cover their initial costs and fund research and development.

Encourage angel investors and venture capital firms to invest and provide tax breaks and other financial incentives to attract investment in the energy-tech sector.

PRIORITIZING EMPLOYMENT:STRATEGY FOR DISPOSAL OF A TICKING TIMEBOMB

ANANYA RAIHAN & KAZI FATIN SAMI

Bangladesh's workforce, in general, is not fit for the demand of the economic sector, thus, a huge population is **unemployed or underemployed** in the country. In many cases as seen recently, **foreigners are often hired at senior positions** to run the businesses. More than a quarter of Bangladesh's Labor Force is aged 15-29 years, yet the **rising number of youth NEET** in Bangladesh is concerning. This structural mismatch is further exacerbated by the risk of job loss due to slow response to the changes happening due to the **application of AI** in businesses.

In the above context, Bangladesh needs to make structural changes and r**econstruct education, vocational training to develop its young workforce** and reduce NEET (not in education, employment, or training) population.

APPROXIMATELY 2 MILLION YOUNG PEOPLE ENTER THE LABOR FORCE ANNUALLY

AMONG THEM, 9.65 MILLION (22 PERCENT) WERE CATEGORIZED AS NEET IN 2023

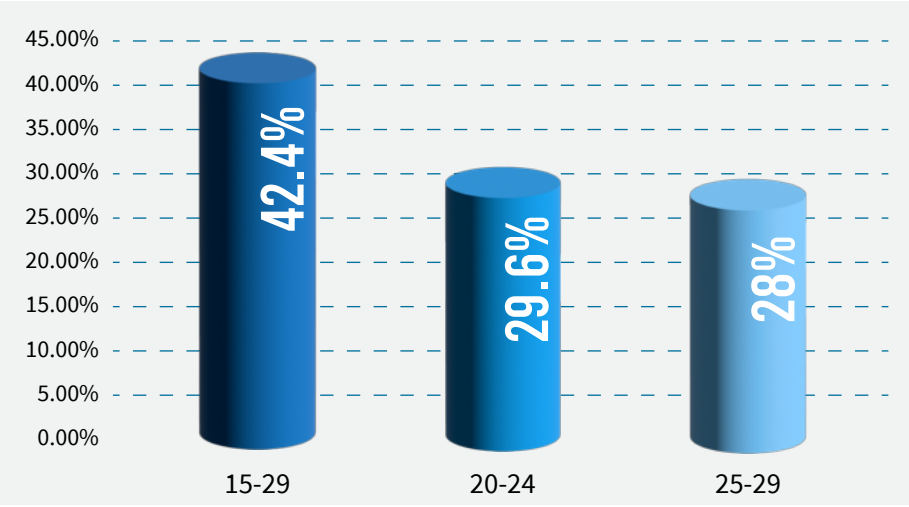
LFS 2022 reveals that. among the youth NEETs,

6.32 million are Female,

3.33 million are Male.

The NEET rate among young women in the sub-region was nearly **four times** greater than the rate of young men in 2023. This marks the Gender Gap in youth NEET of Bangladesh at **31%**, which is the largest in the world.

NEET YOUTH-AGE GROUP COMPARISON



A 2022 survey by M.J Alam and K. Ogawa found that many Bangladeshi students are **dissatisfied with the relevance of their university education to the job market**, highlighting the need for educational reforms to equip graduates with employable skills. The same survey of 437 Bangladeshi university students found that **81%** perceived a **mismatch between their acquired skills and job market requirements**, highlighting the need for educational reforms to better equip graduates for employment. **73%** believed their **tertiary education institutes were not doing enough to develop their employable skills**, highlighting the need for educational reforms to better equip graduates for employment.

Technical and Vocational Education (TVE) faces capacity and quality issues.

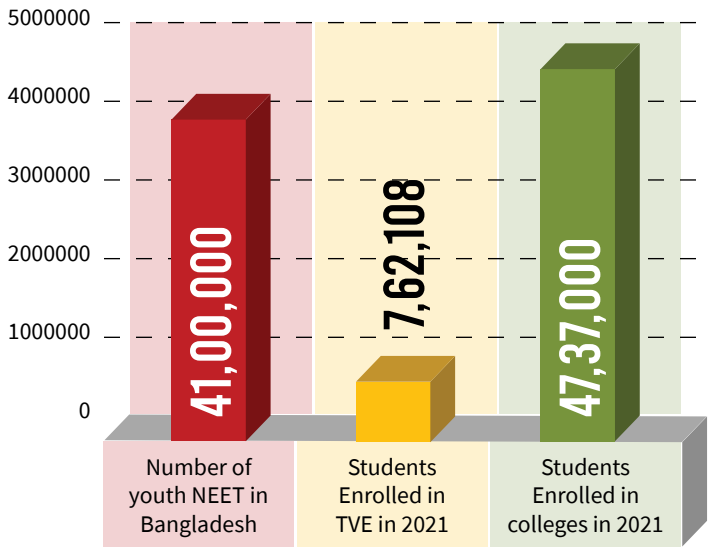
> "We have around 10,000 technical institutes in the country, but we still have a large gap between their curriculum and industry requirements,"

Md Masudur Rahman,
chairperson of the SME Foundation.

REASONS WHY TVE IS FAILING IN BANGLADESH

- *Outdated curriculum*
- *Low enrollment rates*
- *Lack of internship opportunities*
- *Skill gap between curriculum and industry requirement*
- *Weak linkage between labor market and TVE institutions*
- *Gender disparity*
- *Resource limitation*

YOUTH NEET (15-29 AGE GROUP) AND CAPACITY COMPARISON OF EDUCATIONAL INSTITUTES



The number of youth NEETs in Bangladesh is nearly **5.3 times higher** than those enrolled in TVE institutes. This indicates a significant **capacity gap in TVE** and a reluctance among NEETs to pursue vocational training.

Addressing unemployment requires a multifaceted approach that **prioritizes entrepreneurship** in general, startups and women entrepreneurship in specific, as key drivers of job creation and economic growth.

Bangladesh currently has over **1,200+ active startups**, which have raised over **USD 977 Million** investments over the past decade, prominently in sectors like Financial Services, Logistics & Mobility, and e-Commerce.

Bangladesh has seen a rather **slow rise** over the years in the number of startups and the amount of funds raised. Entrepreneurship in Bangladesh remains an **underutilized sector** due to countless barriers and limitations. Cultivating a strong entrepreneurial culture in Bangladesh can **stimulate job growth**.

The startup ecosystem remains **fragmented and politically controlled**, which is resulting in an inadequate generation of new enterprises.

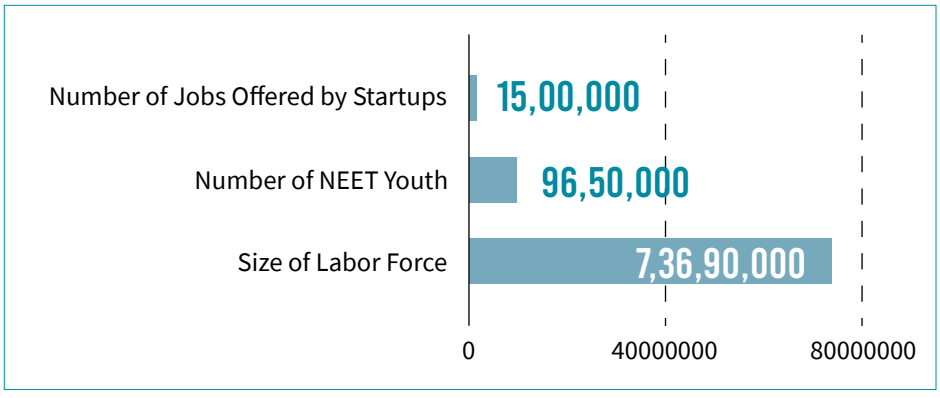
The Key Challenges -

- Difficult Entry and Exit
- Information Asymmetry / Lack of Information
- Corruption in funding

Bangladesh received **USD 72 Million** of Total in Investments in 2023, which is a **42% reduction** from 2022. The highest investments gained belong to these 3 sectors – Financial Services, Garments and Textile and Education Services.

Number employments offered by startups available, as of 2020, is **1.5 million**. This can, in present, accommodate:
only **2.0%** of the total labor force size of Bangladesh.
only **16%** of Youth NEETs of Bangladesh

COMPARISON OF EMPLOYMENT OFFERED BY STARTUPS



WHAT WENT WRONG?

TVET

- The emergence of NSDA was necessary, however NSDA and BTEB went in conflict of mandate.
- NSDA entered the domain, which is conflicting with its mandate, like getting into the business of providing training, which discouraged TVET institutions.
- There is **pervasive reluctance of the youth** and workers in going through proper training and rather **obtaining certification through illicit means**. This leads to lack of job or low income (mostly, for the migrant workers, compared to their Sri Lankan or Filipino counterparts).
- The TVET institutions, their curriculum and training facilities **do not fit the demand of the economy**.
- There is **no prestige in blue-collar jobs**, thus youth are reluctant to go through training and look for a job with technical skills.
- There were perverse incentives in the skills training program by offering 'participation fee' to the trainees, which led to **corruption and dysfunction of the TVET institutions**, which intend to provide training against a fee.
- The investment in the skills training sector was wasted as entities captured their contracts did not have a track record or infrastructure or intention to provide actual training. The bulk procurement method was a reason, other than corrupt nexus, that genuine training institutions did not get access to those funds, provided by the government, taking loan from the World bank and other institutions.

ENTREPRENEURSHIP

- Entrepreneurship is being promoted without removing the structural and systemic barriers.
- The **entry barriers are high** due to lack of information, training, cumbersome procedure and rent seeking.
- Compliance systems are complex and difficult to maintain by all businesses, especially by **CMSMEs**, thus most of them **remain informal**, impacting the GDP estimate and revenue generation by business.
- Access to finance remains the biggest challenge to start and grow a business, especially by CMSMEs. Despite many schemes and programs, the **disbursement of loans and grants is low**, predominantly due to reluctance of the financial institutions.
- The exit of a venture is very **complex and costly**.
- Ecosystem development of startups was on the right track initially by the government, then got corrupted.
- Pipeline development of startups and enterprises from the **universities** is at its nascent stage, **more resources need to be invested** in the universities.

Although the Ministry of Labour and Employment is mandated to work on employment generation, there is **no activity in this regard**.
The majority of the labor and enterprises are informal, thus **deprived of legal protection**.

A THREE-PRONGED APPROACH IS REQUIRED TO ADDRESS THE TICKING TIME BOMB OF UNEMPLOYMENT

- Fostering TVET and transformation of the TVET institutions
- Investment in entrepreneurship development for creating jobs, which is not possible by the mainstream industries.
- Overseas employment sector needs revamping to send workers with proper training.

TEN-POINT AGENDA FOR STREAMLINING JOB CREATION THROUGH TVET AND ENTREPRENEURSHIP

1. Restructure TVET sector, the apex institutions (NSDA, BTEB) by **streamlining** their mandate.

2. Create a **national labor registry** following the example of other countries with mandatory enlistment and update of status of employment by the employers and workers. This will facilitate to:

a. Get unemployment data in *near-real-time* for economic planning. Have *database of workforce* with their employment status and skills set.
b. Target programs with *appropriate beneficiaries*

3. Launch **unemployment benefit program** for taming potential unrest due to unemployment. Identify people who are eligible for unemployment benefits from an up-to-date labor registry.

4. Transform the TVET institutions with adequate investment in **developing state-of-the art trades, facilities, and curriculum**.

5. Make certification mandatory for anyone to get a job, with **subsidized training**, not free training.

6. Research and **identify the root cause of reluctance** of youth and workers towards training and technical jobs. Based on the findings, we should **create a mechanism** to attract youth towards TVET training and jobs.

7. Based on the progress so far, **invest more** in creating a **complete ecosystem** of promoting all kinds of entrepreneurship including startups, engaging education system (from higher-secondary to tertiary).

8. Put the right people in the right place for making progress with **transformation agenda**.

9. **Reform the institutional framework** to prioritize employment creation through jobs and entrepreneurship. A Ministry of Employment and Entrepreneurship may be considered.

10. Create a **roadmap for formalization** all forms of labor and enterprise formally by institutional reform, amendment or creating new legal framework.