

# Does the budget promote power sector?

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IN his budget speech, the finance minister has given some new hopes to the nation. He said that by next year there would be a surplus of 1,172 MW of power and the situation would continue to improve in the following years. To achieve these targets, the government revised its peak demand projection and generation targets.

The minister admitted that not enough attention was paid in the past to the maintenance and repair of the old power plants of the Power Development Board (PDB). The government now plans to repair 26 old power plants and retire the rest. He further said that the demand was increasing "astronomically" and this increase was "natural" because the economy was "on a dynamic growth path." According to the minister, the actual growth far exceeded the forecast and the current peak demand is 7,518 MW against a production of 6,066 MW (maximum). He also claimed that the per capita consumption of electricity increased from 220 kwh in 2010 to 265 kwh now.

While presenting the budget, the minister placed the "Power & Energy Sector Road Map: Second Update" in the house with details of the achievements and future plans of the government. According to this Road Map, 356 MW of additional generating capacity was added in 2009, zero MW in 2010, 1,763 MW in 2011 and 1,986 MW are due to be added in 2012. The lists of plants completed in 2009 and 2011 do not indicate the dates when the contracts for the power plants were signed. There is no explanation why no power plant was added in 2010. The list of power plants expected to be in operation by December 2012 includes plants whose contracts were signed as late as July 2011. The projected peak demand and the dependable generating capacity shown in the

Road Map are summarised in Table 1. The allocation of resources in the power sector for the years 2011-12 and 2012-13 are shown in Table 2.

The minister deserves credit for admitting that the peak demand had been under-estimated and that no attention was paid to maintenance of the old power plants of PDB. He, however, must have been wrongly advised regarding the "astronomical" increase of the power demand. Load cuts combined with restrictions on new connections always generate

ment. Surprisingly, no power plant was added during 2010. Does it mean that no contract was signed during 2009 for any power plant?

Let us now examine the claim of the minister that the country will have a surplus of 1,172 MW by 2013. The peak demand for the year is estimated by PDB at 8,349 MW. Using a standard rule, we

MW are yet to be signed. Even if the contracts are signed by July 2012, it will be unrealistic to expect that the plants will be completed by the end of 2013.

Similarly in the private sector, out of 13 power plants, with a total generating capacity of 1,372 MW, contracts have been signed for three power plants with a combined capacity of 664 MW only. Completion of the remaining power plants with a combined capacity of 708 MW remains uncertain for similar reasons. It is also planned to add 500 MW of imported power

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Table 1: Projected Peak Demand and Dependable Generating Capacity (2012-2016)

Years	2012	2013	2014	2015	2016
Peak demand, MW	7,518	8,349	9,268	10,283	11,405
Dependable Generating Capacity, MW	7,158	9,521	11,444	12,765	14,084
Surplus/Deficit, MW	-360 (-5%)	1,172 (+14%)	2,176 (+23%)	2,432 (+24%)	2,679 (+23%)

Table 2: Allocation of Resources in the Power Sector

Years	2011-2012	2012-2013
Development Budget, crore	7,185.8	8,151
Subsidy, crore	6,000	6,400
Total allocation, crore	13,185.8	14,551
% of GDP	1.47	1.42
% of total development budget	32	26.85

what is known as suppressed demand. As the system generating capacity is increased, the demand jumps as the suppressed demand is promptly added to the system load. With the increase of generating capacity, the per capita generating capacity increases automatically as the growth rate of electricity is higher than the population growth rate. This explains the reasons for the "astronomical" load growth and the per capita increase in electricity consumption.

It is not clear why the dates of signing of the contracts are not shown in the lists of plants which were added during 2009 and 2011. The contracts for the plants which came online in 2009 were probably signed during the caretaker govern-

ment. Surprisingly, no power plant was added during 2010. Does it mean that no contract was signed during 2009 for any power plant? must have a minimum generating capacity of 10,019 MW, including a reserve margin of 20%, to meet this demand. With a projected dependable generating capacity of 9,521 MW, the system will have, in fact, a deficit of 498 MW. A surplus of 1,172 MW by 2013 cannot, therefore, be substantiated.

Is the estimated dependable generating capacity of 9,521 MW feasible by 2013? From the list of the completed power plants, it is observed that even small power plants take about two years for construction. Out of 9 power plants with a total generating capacity of 1,467 MW expected to be completed in the public sector by 2013, contracts for 4 plants with a combined capacity of 450

from India by the same year. With uncertainties about 1,158 MW, how can we be assured that the projected generating capacity of 9,521 MW will be installed by 2013? I refrained from commenting on the power plants expected to be in operation by 2014 and beyond as most of the plants are only planned.

It is not clear how the current peak demand of 7,518 MW has been determined without ever meeting the demand. Is the minister sure that this has not been underestimated like before? In case it is underestimated, all the projected figures of the peak demand will be surpassed by the actual demand and we shall be back to square one again.

Use of furnace oil generated 5% of the

total power in 2011. It increased to 11% in 2012 though the use of diesel remained static at 6% during the same period. Use of liquid fuel has been a big drain on the economy of the country and its use is planned to be reduced from 21.69% in 2012-2013 to 6.09% in 2015-2016.

Electricity is being sold at a loss of Tk 2.00 per kwh and consequently the subsidy of Tk. 6,000 crore during 2011-2012 will increase to Tk. 6,400 crore during 2012-2013. A big part of the total development budget (43.98%) in the power sector will thus be spent on non-development activities during 2012-2013. The allocated budget for 2012-13 decreased as per cent of both GDP and total development budget from the previous year.

The long term power generation is being planned on large coal fired power plants even though the national coal policy is yet to be approved. It is planned to add 5,000 MW of electricity from nuclear power plants. Several protocols have been signed during the last three years for the implementation of the much talked about Rooppur Nuclear Power Project and yet we are nowhere close to signing any contract for the supply and construction of the plant. With the present pace of development and the shortage of trained manpower in Bangladesh Atomic Energy Commission, the target for nuclear power is unlikely to be met unless the issue is addressed with due sincerity and professionalism.

Finally, I must add that the data presented in the Road Map hardly substantiate the promises made by the finance minister. He will need the good wishes of all the people of Bangladesh to implement his development plan in the power sector.

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# Getting the economy back on track

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BANGLADESH economy has been growing at a rate of around 6% for the last few years.

Considering the global economic downturn, it has been one tremendous achievement. The economy of Bangladesh has been hailed as resilient and the people of Bangladesh must be applauded for their efforts against natural and manmade disasters. However, every cloud has a silver lining and more importantly, vice versa. Any national economy suffers a threat of "overheating" when it goes through periods of high growth.

Bangladesh is at such a stage now. The economy cannot bear the pace it has achieved in recent past. There is an acute shortage of new investments. It is as if a beating heart has suddenly run out of blood to pump. The economy is up and running but there is no investment to keep the flow and produce more products and employment.

Our government has been quite reluctant to admit that we are going through a liquidity crisis.

On March 28, Bangladesh Bank remarked that we do not have a liquidity crisis. On April 20, Bangladesh Bank Governor Professor Atiur Rahman admitted that we are in a liquidity crisis but said it would go away soon.

The government in recent years has taken loans from private banks. When the government takes such loans it means there are little funds left in the banks to lend out to investors. So investors are not getting loans and as a result, new projects are not being implemented by the entrepreneurs who are the ones who produce products and create jobs.

We need more investment and we need it fast. It is imperative that we find an alternative source of funding. And this is where the issue of disclosing undisclosed money comes up.

This year's budget has a provision that any amount of undisclosed money can be declared and invested after paying due taxes to the National Board of Revenue (NBR). This clause, 19 (b), has been there in previous budgets and has

always generated much debate and discontent among certain segments of the society. There have been questions raised on the ethicality of having such a clause in the budget. But we need to get more pragmatic. We need to understand what we must do in order to contain this economy before it dries out due to a lack of investment.

Bangladesh economy is a largely informal one. Some believe the size of the informal economy may even be 80% of the total economy. The economic estate that Bangladesh has achieved does not allow the informal sector to be so big. We need to integrate the informal economy with the formal sector. We will not get enough investments from proper channels. We must channel the undisclosed money and utilise it to feed our economic engine.

There are a few allegations that this provision does not work well. In the last few years it has not been able to channel any substantial amount of money. But we must look at it from the other side.

We must understand that there is a sense of distrust among potential entrepreneurs about this clause. We must understand that it is us who need the money to run our economy. The demand is greater from our side and we must act accordingly. There must be good incentives for people to declare undisclosed money. If undisclosed money is invested in the industries then we should incentivise the industry by giving them a tax holiday for a certain period.

Doing this has a lot of positives. First, this incentivises investment which we direly need. Second, once the money is

in the formal network the government will get taxes from it indefinitely after the tax holiday is over. We will have many more vibrantly taxable institutions. Third, these new organisations will create employment. Fourth, this incen-

And we must understand that this is only an example and other sectors of the economy are also facing such adversities. We must deal with this now otherwise our economy will lose many of its achievements in different industries.

It is quite surprising to see that when the government is asked about this stagnation it tries to shift the blame to somewhere else. Recently, it was said that real estate sector is unproductive and so the problem concerning this industry is not significant for the national economy.

The accusation seems rather astonishing. Real estate sector is very important for any capitalistic economy. Apart from creating jobs and supporting backward linkage industries, it develops infrastructures which are vital. We

have a small country with a huge population and that makes it imperative for us to plan and implement commercial spaces and housing projects which will utilise our lands properly. In this regard, the role of the real estate sector is most important. Because, in a capitalistic economy, it is the real estate sector which implement projects which accommodate businesses and people. Thus, the growth of real estate sector may lead to better infrastructural development in our country.

The demand for real estate products in Bangladesh has not been met yet. In fact, more than half of the market is yet to be explored. The problem with the current scenario lies on the buyer side. Small buyers, who buy individual units from the real estate developers, are the principal clients of real estate. But in the last



*It seems that our economy, after doing quite well for some time, has lost track and this budget must get it back on track.*

tive will pave the path for new entrepreneurs and motivate older ones to make new investments. The growth of entrepreneurship is the best sign of a healthy economy.

And the development of an entrepreneurship culture is a dire need for us at this moment.

Let us look at the real estate sector for an example. This sector is quite huge and has backward linkages with industries like cement, rod and ceramics. As a result a lot of employment depends on this sector.

Real estate sector must continue to thrive if we want to see our lands properly used, which is so very vital for a small country with enormous population. But this sector has been facing a peculiar situation for the last few years or so. There has been acute shortage of buyers. The entire industry has come to a halt.

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