

# Growth: Can this budget help it leap?

FAARIA TASIN

THE recent announcement of the fiscal budget has triggered a wave of opinions countrywide. Is the curiosity surrounding the budget necessary? Absolutely. We know that for a developing country like Bangladesh, fiscal policies may tend to take precedence over monetary since financial sectors are still developing.

Firstly, let us briefly take a look at some of the figures presented this year. The budget targets an acceleration of real GDP growth to 7.3% (from 6.12%) and a fall in inflation to 6% (from 7.5%). Some have critiqued the enormous size of the Tk. 2.5 trillion budget; However, a 15.9% increase in spending may not be considered undue as nominal GDP growth rate is targeted to be more than 13.4%; the deficit level of 5% of GDP (excluding grants) -- though increasing -- is still in line with past budgets and debt sustainability.

The real question now remains whether Bangladesh can finally free itself and leap to the 7% growth threshold. Many may question the relevancy of this. A 6% growth implies that the economy is expanding nonetheless. However, for Bangladesh it is more essential to increase the growth rates especially to tackle the problems of unemployment and poverty. Each year, 1.8 million people enter the job market, and without adequate expansion, the economy would be unable to absorb all the new people coming into the labour force. Moreover, a rise in growth rate provides an opportunity for many people to climb up the poverty line.

So what are the factors that are barring us from attaining the desired growth year after year? Let us rewind back to 1970s. GDP of Bangladesh was at par with countries such as Korea, Indonesia, Malaysia and Thailand. The annual average growth rate (CAGR) for Bangladesh between 1990 and 2000 has been only 4.6% in contrast to Korea (7.3%), Malaysia (7.9%); whilst Indonesia ascended during the 2000s with an average growth of 15%. High growth rates are not magical, rather attainable given the right policies.

Investment remains a crucial factor for attaining high growth rates. In fiscal 2014, proportion of investment to GDP in Bangladesh was at 28.7%. In order to attain 7.3% growth rate, the required proportion of investment-GDP should be 34.3%. It would be a formidable task to increase investment by 5.6 percentage points over one year, especially since private investment rates have been almost stagnant over the last five years. For investment to grow, factors such as political stability, energy, infrastructure and good governance need to be present to boost investors' sentiment.

As far as public investment is concerned, further improvement in the management in ADP implementation is required. According to a recent Asian Development Bank portfolio review, half of the project time elapses by the time only 20% of the funds are released. This mainly occurs due to poor project readiness. In addition to procedural constraints, inefficiency subsists in the planning cell of executive agencies and line ministries. Delays in procurement and recruitment of

consultants remain common in infrastructure projects. Resettlement and land acquisition can delay project implementation by 2 to 2.5 years.

Foreign direct investment is an area where Bangladesh has potential for growth; In Fiscal 13, FDI inflow was \$1.73 billion, compared to Vietnam (\$7.4 billion) and India (\$32.2 billion). FDI can bring in new technology and management know-how into the country.

Attaining a galloping growth rate of 8% in the later years also requires investment in human capital. Let us take a look at the case of education and health. Between fiscal 10 and fiscal 14, public allocation for education was increased by 1.7 times. Stripping away the effects of inflation, we can see that it was raised by 1.3 times only. Public spending on education as a proportion of GDP has been hovering around 2% whereas countries like Vietnam, Malaysia and India are spending 6.3%, 5.9% and 3.3% respectively. Proportion of public spending on health has been on the wane: from 6.2% in fiscal 10, to 4.4% in fiscal 15. As the returns on education and health may encompass a time lag, investment in human capital should be increased immediately in order to reap the benefits in the near future.

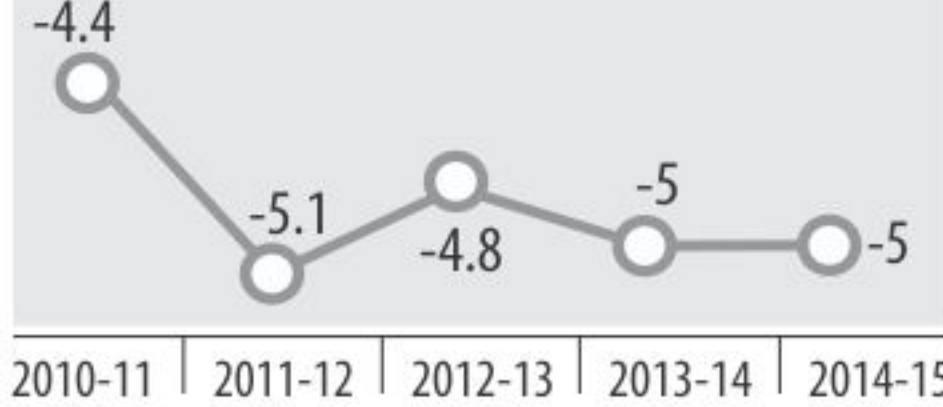
Growth rates can be expected to improve considerably in fiscal 2015 with the help of political stability, robust exports, remittances and global recovery. Crossing the 7% growth rate threshold remains the biggest challenge!

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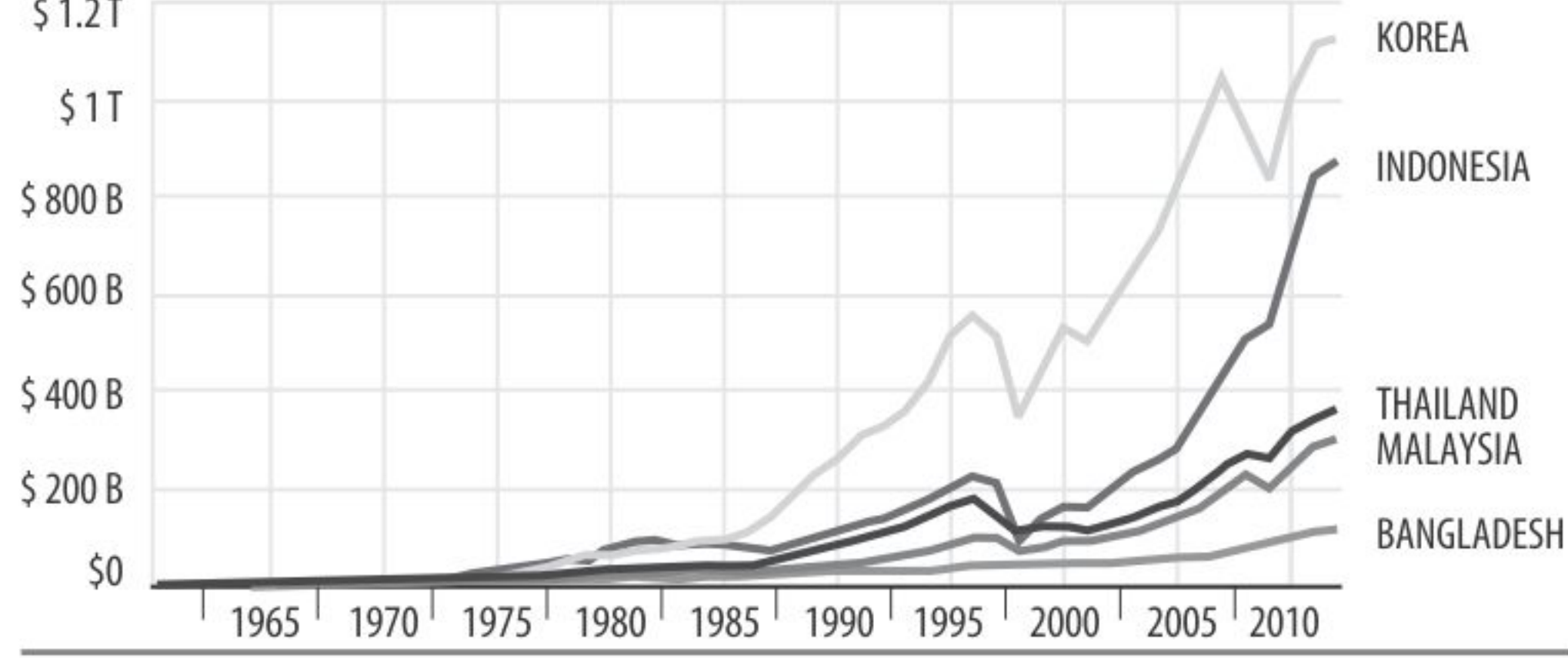
## GROWTH OF GOVERNMENT EXPENDITURE (%)



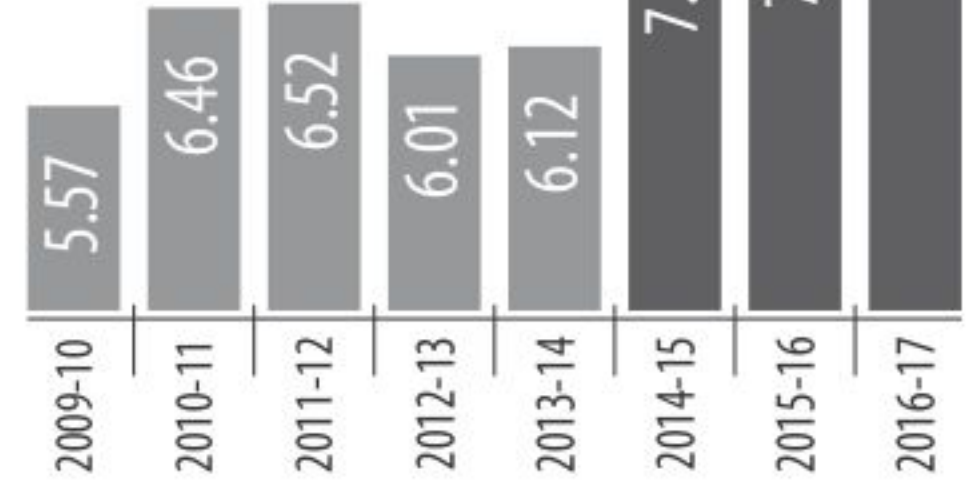
## BUDGET DEFICIT (excluding grants)



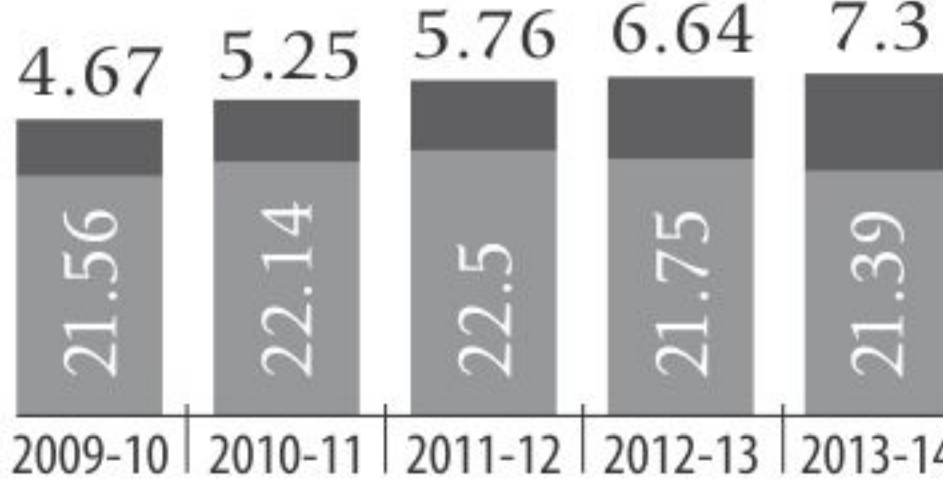
## GROSS DOMESTIC PRODUCT



## GDP GROWTH RATES (%)



## INVESTMENT (% of GDP)



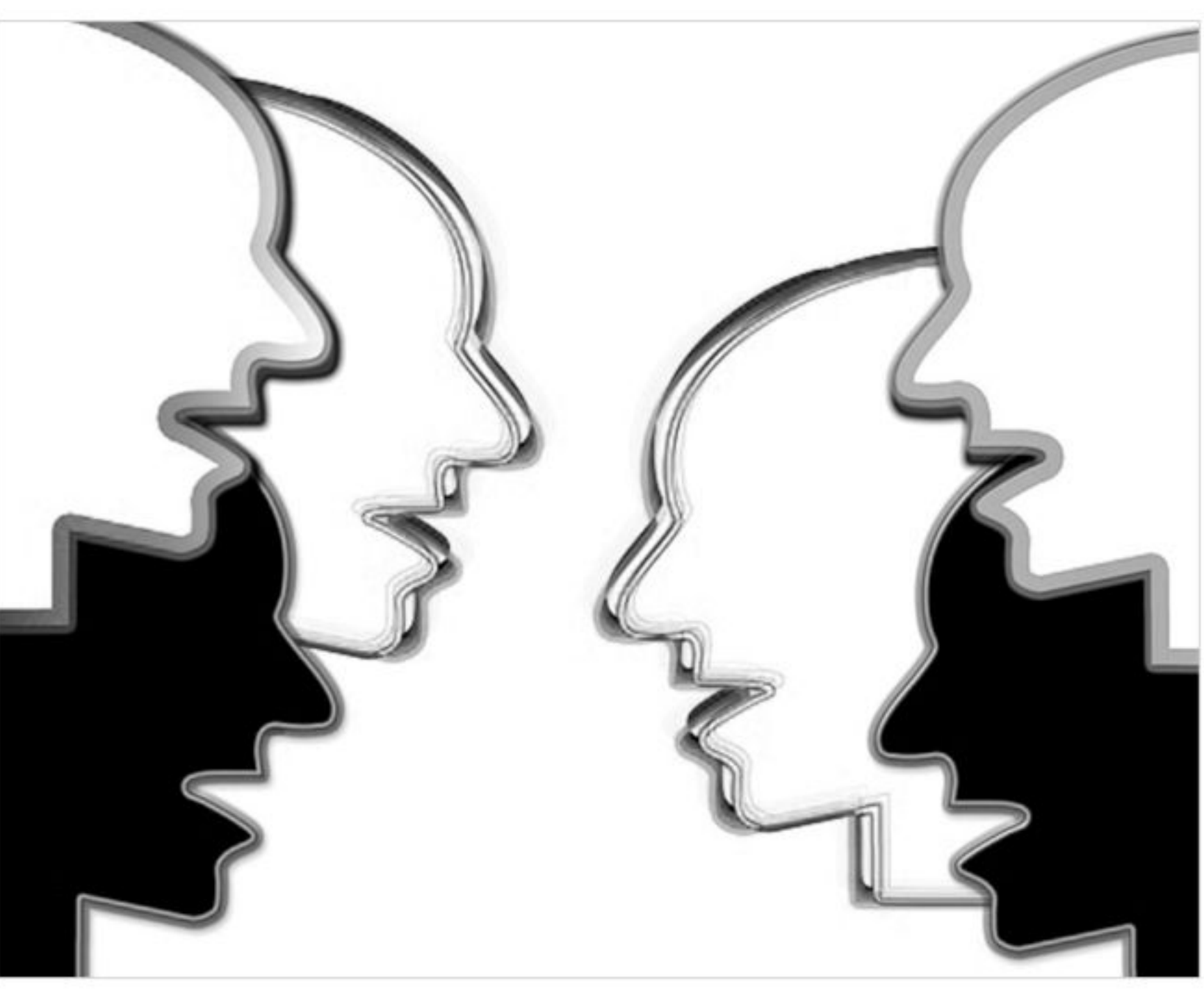
SOURCE: CALCULATIONS DONE WITH BBS, WB AND MoF FIGURES

# The 'social entrepreneurship' conundrum

AHMAD IBRAHIM

WHEN the idea of microcredit first came to the fore, it captured the imagination of millions. Here was a way to tie in business and development together to finally put poverty in a museum. As many put it, then, it was one of the kinder faces of capitalism, an ideal which has effectively left many destitute and living in decrepit conditions. And so it took the world by storm and since then we have come a long way. Microcredit now forms one of the fundamental pillars of our developing society and has been praised the world over for providing sustenance, mobilising the resources of the extreme poor and empowering women. It is not without its detractors, who often say it is not enough to raise the poor out of their conditions and is just a temporary band-aid over a deep wound. Still, the general consensus remains that the world would have been much worse off without microcredit, whatever its drawbacks.

By 2013, 'the kinder face of capitalism' began to incorporate another dimension to its features -- that of social businesses. Grameen Bank's new mantra, as stated by Dr. Yunus himself, is to make sure that its borrowers remind themselves, "We are not job-seekers, we are job-givers." Grameen Bank's Nabin Udyokta (NU) or New Entrepreneurs programme focuses on shifting the path of its bor-



rowers from traditional jobs to entrepreneurship. The idea of social businesses puts their priority on tackling and solving a problem rather than on the profits of the business. According to Dr. Yunus, "If someone can be persuaded to only keep 1% profit, they can also be persuaded to keep 0% profit." The investor does not take any dividend apart from the amount of money he invested and stops taking dividends once that amount has been paid. In other words, it presents a perfect setting of altruistic utopia whereby social development can thrive.

However, on closer viewing, there

appear to be several pitfalls in the idea of a social business. The first one is this -- the entrepreneur, the heartstring of the business, the brains on whose ideas the business is set, may have no shares in his business. "He can be the managing partner or a paid manager of the business owned by the investor," says Dr. Yunus (The Daily Star, June 10). This means that even after the investor has received his share of the invested amount as dividend, he still owns the business. But since the idea of a social business is to make entrepreneurs out of the people, the investor then sells his shares to the entrepreneur

to make him the principal owner of his own business. In real terms, it is a heavy burden for the person to pay after having already paid the original invested amount. It effectively means that, in theory, there might be little or no money left for the entrepreneur after all his debts and shares are paid for. What is more, the NU programme only accepts those whose families already have a borrowing history of at least seven years from Grameen Bank. There will already be a significant amount of debt for the household. Is it wise to push them into more debt?

And what of the investor? Social business guidelines, according to Dr. Yunus, dictate that the investor is entitled to sell his shares at market value or face value of the shares. If the investor sells his shares at the market value, then he cannot hold on to the extra earning over the face value that he has received. This amount has to be reinvested into another social business or the same business. This is perhaps the biggest loophole in social business programmes that will cause lending firms such as Grameen Bank to rake in millions in profit. The investor has already by now recouped the original loan through dividend and has now also sold his shares and, with the extra money he has received, he can dive into another social business -- and the cycle can go on and on following the principle of diminishing returns until Tk.1 of investment has effectively turned into Tk.1 lakh. In Grameen Bank's NU programme, the investor receives a 20%

share transfer fee over the face value of the shares. Even if this is free from increasing interest rates on loans, it provides a loophole for a firm to make exponential profit from a small original sum. It is the perfect example of the multiplier effect being put into use.

According to Dr. Yunus, Grameen Bank plans to consolidate the NU programme by deepening its institutional infrastructure. What are the implications of this? For one, it stands to create a generation of borrowers who will stand to pay back exorbitant amounts of money in order to own a business that was their idea to begin with. It stands to earn Grameen Bank a lot of money and will result in a further widening of the income disparity between the poor and the rich 1%. It stands to create the illusion of cash flow amongst the entrepreneurs who might be mired in a deeper cycle of poverty because of it.

At this point it is pertinent to question whether the people implementing this model have taken into account its likely implications and whether they believe it will solve social problems rather than create a debt-ridden situation of development where the poor remain continually stuck in their cycles of poverty. As it stands, this model falls in nicely with the ethos of capitalism and it might just be that the 'kind face of capitalism' is really just a mask hiding a reality of opportunism.

The writer is Editorial Assistant, The Daily Star. (Views expressed are the writer's own.)

## BEETLE BAILEY

by Mort Walker



## HENRY

by Don Trachte



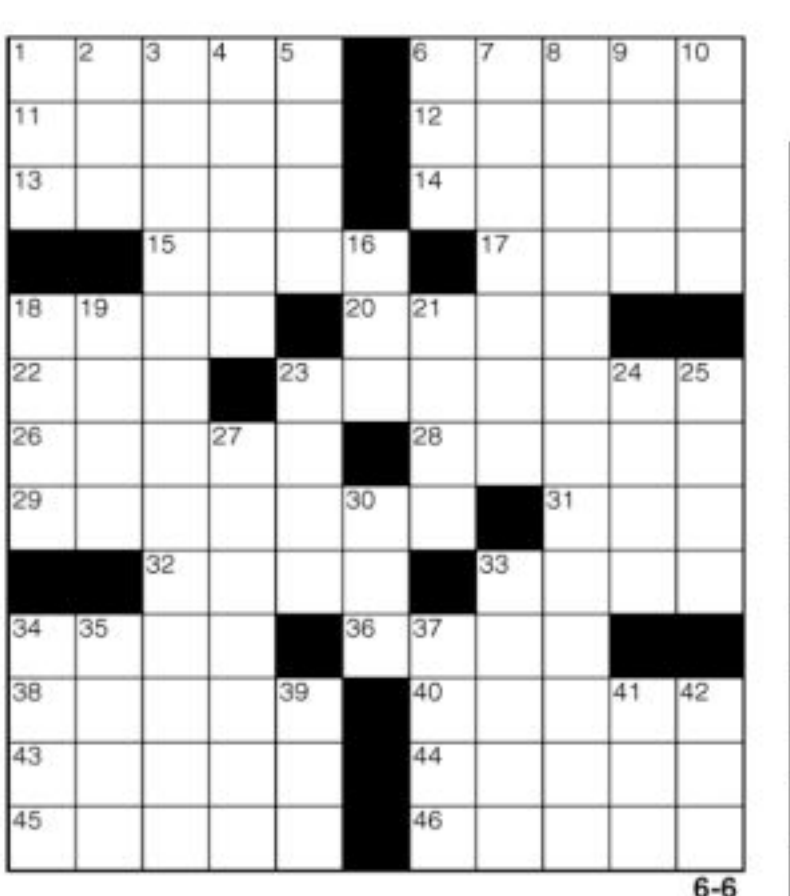
## QUOTABLE Quote

Football is, after all, a wonderful way to get rid of your aggressions without going to jail for it.

Heywood Hale Brown

## CROSSWORD by Thomas Joseph

- |                        |                       |
|------------------------|-----------------------|
| <b>ACROSS</b>          | <b>DOWN</b>           |
| 1 Diving gear          | 1 Relaxation site     |
| 6 Clue room            | 2 Heel                |
| 11 Comics unit         | 3 Covertly            |
| 12 Bert's buddy        | 4 Stocking shade      |
| 13 -Ababa              | 5 Not to mention      |
| 14 Kind of pool        | 6 Filming site        |
| 15 They may clash      | 7 Prop for Poseidon   |
| 17 Secluded spot       | 8 Unnoticed           |
| 18 Plot unit           | 9 Watch part          |
| 20 Finished            | 10 Holler             |
| 22 Crude home          | 16 Musical note       |
| 23 Column bases        | 18 Obsessed captain   |
| 26 Despise             | 19 Die, e.g.          |
| 28 One of the Kennedys | 21 Competes           |
| 29 Paging gizmos       | 23 Veep's superior    |
| 31 Pitching stat       | 24 On this spot       |
| 32 Ordeal              | 25 Strike             |
| 33 Make ready          | 27 Run                |
| 34 Deceitful sort      | 30 Numbered rd.       |
| 36 Pound of poems      | 33 Tag info           |
| 38 City-based          | 34 Slow-witted fellow |
| 40 Down source         | 35 Pressing need      |
| 43 "Blue Chips" star   | 37 Bit of frind       |
| 44 Spook               | 39 Homer's neighbor   |
| 45 Kicked, in a way    | 41 Mess up            |
| 46 Towel material      | 42 Spanish king       |



## Yesterday's answer

PUBS ALTARS  
 ERIE MEAGER  
 SAGE MAKEDO  
 OLDSORE  
 ITA NOBEL  
 DEPOT SNIDE  
 ALP GIN  
 BLESS MATES  
 SARAH AMI  
 FIREOPAL  
 BEWARE UPTO  
 AVERTS NEMO  
 RESIST TREK

**CRYPTOQUOTE** 5-6  
 X NWNLMAL, XY RYBIYBRMY, X ZIAREY, ABLRVIA IUILCJSILI IUUY BSI TXLIPIAA, BSI QMAB ABWNRZ BSRVIL.  
 - ZXURZ SWQI

Yesterday's Cryptoquote: GOD GAVE US THE GIFT OF LIFE; IT IS UP TO US TO GIVE OURSELVES THE GIFT OF LIVING WELL.  
 - VOLTAIRE

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## THINK NO MORE

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