

Jumpstarting sustainable growth

RODRIGO CUBERO

ANGLADESH is facing some challenges as well as opportunities from the global and regional economies. Global economic growth remains modest and uneven; while momentum in advanced economies has picked up, several major emerging markets have lost steam. This takes place in the context of falling oil prices and sharp variations in the exchange rates of major currencies, producing winners and losers across the globe. In addition, the prospect of a new mediocre for the world economy lingers, with medium-term growth forecasts being marked down again and concerns about declining potential growth.

Against these cross currents, Asia remains the world's growth leader. According to our latest Asia and Pacific Regional Economic Outlook, growth in the region is expected to hold steady at 5.6 percent in 2015, easing slightly to 5.5 percent in 2016. Domestic demand is forecast to remain strong, supported by healthy labour market conditions, historically low interest rates, and more recently, the fall in oil prices. Exports will continue to benefit from the recovery in advanced economies and weaker exchange rates in some economies.

Growth momentum in the largest economies in Asia and the Pacific is expected to be mixed. China's economy is slowing to a more sustainable pace, with GDP projected to expand by 6.8 percent in 2015 and 6.3 percent in 2016 as the correction in the real estate sector continues to compress investment. In contrast, growth in Japan is expected to recover to one percent in 2015 and 1.2 percent in 2016, buoyed by consumption and exports. Thanks to recent policy reforms and lower oil prices, India will be one of the fastest growing economies in the world, expanding by 7.5 percent in 2015 and 2016. Across most of the region, lower commodity prices are expected to boost incomes and reduce inflation, although commodity exporters such as Australia, Indonesia, and Malaysia will be adversely impacted.

These developments have spill-overs for the Bangladesh economy. As an oil importer, the country is benefiting from lower global oil prices, while rapid growth in India provides opportunities for expanding exports. On the downside, a sustained real exchange rate appreciation (as the taka strengthens against the euro) could undermine export competitiveness. The China slowdown could hurt export growth potential at the margin, but rising real wages in China also bring the prospect of increased Chinese investment in Bangladesh.

Similarly, Bangladesh is facing tailwinds and headwinds at home. While economic activity bounced back after the January 2014 elections, the resumption of political unrest since January 2015 is taking a toll on the economy, and several activity indicators have slowed. Nevertheless, macroeconomic stability has been preserved. Monetary policy has remained prudent and inflation has generally abated but faces upside risks from unrest-related disruptions. The external position remains strong, with foreign exchange reserves steadily increasing. While tax collections remain weak, the fiscal deficit is contained, supported in part by lower energy subsidies (resulting from lower oil prices), and public debt remains sustainable. Assuming that calm is restored and political tensions abate, Bangladesh's economic growth is expected to improve from around six percent in the fiscal year 2014-15 (FY15) to about 6.5 percent in FY16.

There are, however, important home-grown risks to the growth outlook. Intensification and persistence of political unrest would undermine activity as well as confidence. Continued weaknesses in the banking sector could have fiscal and financial stability implications over the medium term, and undermine growth.

Over the past few years, the IMF has worked closely with Bangladesh in strengthening macroeconomic stability and implementing the government's reform agenda, with support from an Extended Credit Facility arrangement that now approaches completion. Going forward, continued prudent fiscal and monetary policies would support stronger growth and sustained poverty reduction. Increasing the tax to GDP ratio, one of lowest in the world (8½ percent of GDP in FY14), remains a priority. Increasing fiscal revenues will provide the much needed resources to boost spending on critical infrastructure in power and transport, and well targeted safety net programs.

The new VAT law, approved by the Parliament in 2012, is a key tool to achieve this much-needed boost in fiscal resources. In addition, the new VAT is designed to protect poor households by exempting basic consumption items and to shield small businesses through a high minimum threshold, while its simple, single-rate system and automated filing and payment mechanisms will help reduce taxpayer harassment and compliance costs for businesses.

Continued efforts to improve the business environment and strengthen financial sector supervision and governance will also be critical for sustained, inclusive growth. The IMF, as a partner to Bangladesh, stands ready to continue working closely with the government in support of these policy priorities.

The writer is Mission Chief for Bangladesh, International Monetary Fund.

Old city, new perspective?

SHIFTING IMAGES



MILIA ALI

TIME seems to have a transformative impact on a person's perception of the surrounding environment. Since my stay in Dhaka this time has stretched longer than usual, I have begun to observe aspects of the City's social and economic activities that I never noticed before. For instance, beneath the chaos and cacophony that dominate Dhaka life, I can discern some positive changes that are being gradually accommodated by a mega city virtually bursting at the seams. Dhaka may be unliveable on a day to day basis, but it has an enormous supply of ingenuity and imagination, which explains its vibrancy.

Since my 'new arrival' status has changed to 'part time resident', social interactions have fallen into a routine, slower pace. This has allowed me to take leisurely strolls, spend time with grandkids and pursue my hobbies of singing and travelling. It has also provided the opportunity to observe more intently the city and its people, not as a casual visitor, but as someone who has seen its transformation over the years. I have

begun to connect the dots and understand the underlying causes behind many behavioural deviations.

It's interesting how with a slight shift in perspective I discovered another Dhaka beyond the shopping arcades, neon signs, oversized cars, luxury apartments and cultural vibrancy. The most interesting facet of this "other Dhaka" is the new social strata—people who are resolutely moving up the economic ladder. Primarily entrepreneurs, they have seized the emerging opportunities of a vibrant economy. They may not be large garment factory owners, but they have taken advantage of the gaps in the production or supply chain and are providing the linkages. These people are highly visible since they throng public places like shopping malls, restaurants and movie theatres. The social snobs call them the "nouveau riche" but they are the ones who have pushed up the consumption curve. For they have not yet discovered the magic of weekend holidays and shopping sprees in Bangkok/Singapore! They are making things happen right here in Dhaka. The transformation is imperceptible to the eye of a casual observer but there are subtle changes that indicate that Dhaka life has become more organic with this new cohort of people taking control of the city's economic and social activities.

I was hit by this fact on my recent visit to the Basundhara Mall where I took my grandkids to watch "Cinderella". I had thought that fairy tales were too passé for the consumer-oriented new generation of children obsessed with video games and Super Heroes. To my surprise the movie was sold out for all three shows. The trip also exposed me to a whole new breed of consumption savvy Bangladeshis. They were an assorted lot—from youngsters in jeans and T-shirts taking selfies to Hijab clad young women merrily accompanying their husbands into expensive jewellery stores. It was apparent that this mall trip was an outing for these upwardly mobile, urban young and inquisitive folks.

Inside the theatre I was amazed to see the bustling crowds. Relatively young parents had brought their kids for a treat. Although the show was frequently interrupted by youngsters in the audience asking all kinds of questions from "why Cinderella wore dirty clothes" to "how the pumpkin turned into a carriage," I was impressed that their parents had chosen "Cinderella" over "Avengers". As the story unfolded, I was once again moved by the simple fairy tale message of "have courage and be kind"—emphasising the human potential to endure in adverse situations, but never forgetting compassion.

Coming out we encountered the famil-

iar pushing and shoving to get ahead and the same traffic chaos. But I was filled with a sense of bonhomie. The core message of "Cinderella" resonated in my mind. I realised that even if it influences the young people watching the movie at a minuscule level, it is a welcome deviation from the usual super hero stories where physical might and prowess are emphasised over the human qualities of love and compassion. The fact that so many parents had brought their children to watch this tale of human endurance made me conscious of the fact that Dhaka is going through a conversion in terms of social mores. This kind of change is the most mysterious of time's processes: the ripening of society. Ripening of fruits is less complicated than for humans. Because, for humans, ripening involves learning life's lessons through experiences that make you aware of moral standards and principles. There are tremendous benefits to this since it alchemises the human mind into a more mature state. And only when this happens, society can come to fruition.

Is this transformation really happening in Bangladesh? Or am I imagining things—perhaps charmed by the magic of a fairy's wand?

The writer is a renowned Rabindra Sangeet exponent and a former employee of the World Bank. E-mail: shiftingimages@gmail.com

HERE COMES THE SUN

The potential of solar home systems in Bangladesh

IMRAN KABIR

BANGLADESH has made questionable decisions, both economic and environmental, to bring electricity to its 160 million people. About 65 percent of its capacity for generating electricity is gas-based and therefore underutilised. Although natural gas is environmental friendly, the decision to build gas-based generators has been a questionable one economically; Bangladesh lacks a sustainable supply of gas and the infrastructure necessary to import it. In order to meet the growing demand for electricity, the administration has resorted to leasing it from oil-based rental power plants that are costly, economically and environmentally.

On the other hand, Bangladesh's push into solar power has largely been a success story. Its flagship, the Solar Home Systems (SHSs) that power rural households is both economically feasible and environmentally friendly. SHSs gained popularity among multiple parties for various reasons. The government and international community prefer it because it produces power in an eco-friendly and sustainable manner. The end-users, who are mostly poor rural inhabitants, prefer it because the monthly instalments for each set-up are less than the equivalent monthly amount spent on kerosene to meet their power needs.

Since the inception of Infrastructure Development Company Limited's (IDCOL) programme in 2003, about 3.8 million SHSs have been installed that generate a total of 135MW of electricity and benefit 13 million people. However, about 50 million rural Bangladeshis still lack electricity, prompting IDCOL to commission the financing of six million SHSs by 2017. As recently as 2014, the World Bank, spurred by the success of the SHS program, offered the government USD 78.4 million to finance 480,000 SHSs.

However, the ongoing political turmoil in Bangladesh has taken a toll on the programme. Customers are unable to operate their businesses due to strikes and blockades, and therefore unable to make their monthly instalments. As a result, customers are returning about 2-3 percent of the total SHSs installed each month—a figure that has decreased in turn, as SHS operators are unable to get them to the customers because of the turmoil. According to one SHS operator, it used to implement more than 4000 SHSs per month on average, whereas now it installs 2400 systems a month because of the turmoil. Unlike Bangladesh's flagship RMG industry, where (despite the turmoil at home) the end-users are mostly abroad in turmoil-free nations, the SHS business is gridlocked. For both customers and operators are equally affected by the turmoil.

IDCOL operates through its 47 partner organisations (POs) that sell SHSs to off-grid customers, as well as implementing, maintaining, and often assembling them. POs demand a 10-15 percent payment upfront from the customers upon installation, and collect the rest on a monthly basis that extends up to three years. POs are responsible for collecting instalments, which, as mentioned, is problematic during political turmoil.

Almost all of the main components of SHSs, including the solar panel, are manufactured locally, although there



PHOTO: PRABIR DAS

are players that assemble the system while importing most of the components from China. Regardless, each SHS and its constituents must meet the standards mandated by IDCOL to ensure quality control. POs are either vertically integrated in that they manufacture or assemble their own SHSs or they purchase them from dedicated manufacturers and assemblers.

Although SHSs are generally accompanied by 20-year guarantees, occasional repairs are common, which has encouraged POs to gradually set up more and better customer response teams, particularly in remote areas. The most recent development includes a call-centre for customer concerns.

The current government is a strong advocate of solar power, and as a result, the industry has been a big beneficiary of its support. Directly, the government allows companies to import solar panels free of duties, provides loans and grants to POs through IDCOL and even offers refinancing options. Further, companies that manufacture solar modules or those that use solar modules to contribute solar power to the national grid are privy to tax benefits and feed-in tariffs. Indirectly, the government lends its weight to POs to help them navigate the socio-political nuances of rural municipalities; it also ensures that IDCOL is not tangled in red tape—a fact that has contributed considerably to the programme's success.

As mentioned, IDCOL provides loans to its POs at competitive rates, and even small grants to small households to mitigate the burden of financing SHSs. Since the central bank's promise to offer single digit interest rate loans to companies working toward a green economy, IDCOL has reduced its rates as well to remain competitive.

The market for SHSs and solar powered possibilities in general is limitless. Close to four million SHSs have been installed since 2003, which brings the total number of

beneficiaries to only 13 million. In addition, an estimated 45 million city dwellers have the opportunity to harness solar power and contribute to the national grid in exchange for government subsidies, similar to the UK's Clean Energy Cash Back Scheme. In fact, with rapid advancements in technology, solar panels are becoming smaller as their generating capacities get bigger, making it easier than ever before to mount solar panels in seemingly unaccommodating places. Besides powering households, possibilities extend to solar irrigation pumps, solar industrial parks, commercial roof top panels, street lighting, and solar powered BTS among others.

Of course, there are obstacles to these possibilities, such as collection problems and cheap, unreliable alternatives that are flooding the market. Collecting instalments is often problematic due to political turmoil, poor harvests, difficult customers as well as collection agents. Alternatives in the form of cheap but low-end solar modules are detrimental to the market. Such alternatives are offered for a one-time payment with no post-purchase support. Because they are relatively cheaper, these packages appeal more to customers, who are primarily poor rural inhabitants unlikely to see past the low price point until it is too late. In the short run, these packages could potentially squeeze out small, but legitimate companies that focus on quality and customer care.

Environmentally, the solar power technology has zero carbon footprint. And economically, a population of 160 million offers enormous demand for solar modules because of their price point, efficiency, and ability to alleviate, even if marginally, the broader problem of electricity in the LDC.

The writer is an Economic Affairs and Trade Adviser at the Royal Norwegian Embassy.

CROSSWORD BY THOMAS JOSEPH

ACROSS

1 Appropriate

7 Gush forth

11 SEAL's employer

12 Choir voice

13 Jon Hamm series

14 Bad writer

15 Settle in advance

17 Pulls along

20 Verdi pieces

23 Wall St. debut

24 Drywine

26 For every

27 Trip segment

28 Obtained

29 Annoying

31 One, for Juan

32 Manicure targets

33 Start the bidding

34 Taken" star

37 Perimeter

39 Luke's mentor

43 Lacking slack

44 Place

45 Guitar boosters

46 Transferred, as in

DOWN

1 Total

2 Mexneighbor

3 Neither Dem, nor rep.

4 Packs down

5 At any time

6 Unit of force

7 African expanse

8 Emphasizing

9 Series-ending abbr.

10 Stir-fry vessel

16 Pitcher Satchel

17 Easy two-pointer

18 Verdi work

19 Producing

21 Make amends

22 Squelch

24 Nearly

25 Dress edge

30 Winter showers

33 Kept in reserve

35 Auctioneer's cry

36 Bassoon's kin

37 Greek vowel

38 Riverstopper

40 Gum mass

41 Saloon supply

42 Homer's neighbor

CRYPTOQUOTE

PEJJOE W OJJZ ZGWQ KN PJJ NPSWCOG PJ
AG AGQKGLGZ, CJPEKCO KN PJJ NPSWCOG
PJ EWLG EWXXGCGZ.

- PEJHWN EWSZB

5-19

Yesterday's Cryptoquote: ACQUIRING A DOG MAY BE

THE ONLY OPPORTUNITY A HUMAN EVER HAS TO

CHOOSE A RELATIVE

A XYDIBAAXR is

LONGFELLOW

One letter stands for

another. In this sample, A

is used for the three L's, X

for the two O's, etc.

Single letters,

apostrophes,

the length

and formation of the

words are all hints.

Each day the code letters are

different.

5-19

Yesterday's answer