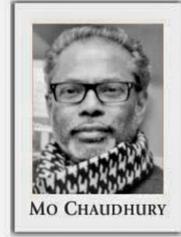


# What should we do with a sovereign wealth fund?



MO CHAUDHURY

**T**HE Government of Bangladesh (GOB) has just approved setting up a sovereign wealth fund (SWF) to channel government funds into projects considered vital for the country. A SWF is typically owned and supervised by the central bank or the finance ministry. Sovereign Wealth Fund Institute data indicates that more than two third of \$7 trillion funds globally is resource related (mainly oil, gas and mining). China SWFs are an exception, drawing upon huge trade surplus.

The most common mandate of a SWF is to earn superior return on "excess" foreign exchange (FX) reserves by investing abroad and seeking diversified FX returns while minimising the risks of home currency appreciation and a sluggish economy. SWFs for internal development finance are a small minority at best [World Bank Group, 2014: Sovereign Wealth Funds and Long-Term Development Finance]. Many emerging economies are instead obtaining development finance from the foreign investment of rich SWFs abroad [V. Fotak, X. Gao and W. Megginson, 2016, A Financial Force to be Reckoned With? An Overview of Sovereign Wealth Funds]. In fact, many of the home-oriented SWFs became "conduits for corruption, patronage and financial mismanagement" [National Resource Governance Institute, 2015, Six Reasons Why Sovereign Wealth Funds Should Not Invest or Spend at Home]. Yet, India launched its maiden SWF in 2015 for internal project finance, but met only limited success in attracting private participation.

Intriguingly, most SWFs are set up in countries with authoritarian governance [Fotak et al, 2016]. Also very few developed economies have a SWF. The USD 10 billion SWF will be an entity managed by the finance ministry,

with five instalments of \$2 billion from the FX reserves of Bangladesh Bank (BB) and paid for by new GOB borrowing. This will reduce BB's FX reserves by 33 percent over five years and simultaneously reduce money circulation outside BB by about BDT 80,000 crore.

First, the main rationale cited for funding the SWF with BB's FX reserves is the ready availability of "matching" FX funds requirement of projects when they are financed with FX loans from foreign banks. It is not clear, however, why the GOB could not obtain the necessary FX from BB in an expedient manner if and when needed. If \$10 billion FX is with

use of the SWF funds. It is also not apparent how this mechanism would enhance the returns on BB's FX reserves, an often cited reason for central bank's involvement in a SWE.

Third, it is debatable whether SWF is necessary and the best way to finance Bangladesh's infrastructure projects. This is clearly not the chosen means of development finance for most emerging economies (not resource-based) and the vast majority of SWFs worldwide do not invest much in development projects at home. It is not known how the financed infrastructure projects would generate revenue, be profitable and thus pay back the SWF's investment with return in

billion. While the Russian agency will provide a loan, the rate is not concessional. Additionally, GOB has to pay Russia for ongoing consulting, nuclear fuel purchase and waste management using FX. It will be undesirable if the BB's FX reserve ultimately ends up in countries such as Russia with little FX earnings prospects for Bangladesh from there to replenish the reserve.

Sixth, given the miserable performance history of state managed enterprises, especially the financial institutions, the nation is better off with a BB owned and managed SWF if there is to be one. Except for the electronic fund transfer mishap, BB has provided stable and able financial leadership in the rather turbulent sea of politicisation, patronage, graft, scams and crashes. Further, empirical evidence indicates that the performance of SWFs deteriorate with political leadership involved in governance [S. Bernstein, J. Lerner, and A. Schoar, 2009, The Investment Strategies of Sovereign Wealth Funds, Harvard Business School Working Paper].

To conclude, the enviable \$30 billion plus FX reserves of BB was built on the back of Bangladeshi labour toiling under a punishing desert sun in the Mid-East and inadequately compensated young females risking and sometimes losing their lives in some unsafe RMG factories. They have duly earned the first right to any beneficial use of this reserve. It is also in the nation's interest to keep nourishing the golden geese. It is thus only fair and strategically prudent to create a BB owned and managed SWF that will invest in ventures such as pension, insurance, housing and education schemes for the low-income wage earners abroad and RMG workers at home and their families, state of the art manufacturing facilities for the smaller RMG factories under a lease and buyback plan, and the like.

The writer is Professor of Practice, Finance Department at McGill University, Canada. Email: mo.chaudhury@mcgill.ca, mochaudhury@gmail.com

*The enviable \$30 billion plus FX reserves of BB was built on the back of Bangladeshi labour toiling under a punishing desert sun in the Mid-East and inadequately compensated young females risking and losing their lives in some unsafe RMG factories. They have duly earned the first right to any beneficial use of this reserve.*

the SWF, the idle amount needs to be invested in a liquid form so that it can be tapped easily. But there is no reason to believe that the SWF managers would earn better return on such liquid investments than BB. Meantime, BB would lose access to this \$10 billion for its policy implementation.

Second, as the domestic banking sector would mainly purchase the planned Treasury Bonds issuances by the GOB for this purpose, loanable funds will end up diverted to the SWF from the private sector clients. Further, to the extent the GOB is unable to raise and repay the funds due to budgetary pressure and market circumstances, BB will end up remaining invested in the SWF, but without any control over the

excess of the GOB's borrowing cost. Fourth, the prospective power projects may, in principle, generate revenue and are bankable. But the past track record indicates that the private corporate partners end up reaping excessive benefits at the cost of the Republic and the users. Unless the experience reverses, it might not be prudent to draw down BB's FX reserves to this end.

Fifth, there is a history of huge cost overruns in the infrastructure and power projects of Bangladesh. The estimated cost of the key Padma Bridge has already gone up by more than 200 percent. The Rooppur Nuclear Power project is not yet fully finalised with the Russian agency and its estimated cost has already soared from about \$2-\$3 billion to around \$12

## Rising road crash casualties

*It has reached a crisis point*

**D**EATH and injury in the road are a disturbingly regular phenomenon. Despite this, we are shocked to read a report published in this paper according to which about 600 people have been killed in road crashes in the last 43 days. This translates into 17 deaths a day, which is no less than a crisis that calls for remedial measures on an urgent basis.

Road crash involves multiple actors and, there is no denying, is a complex issue. From vehicles drivers to pedestrians, not to mention the traffic police, everyone has a fair share of blame in this ever growing menace. Flagrant violation of the basic traffic laws is the norm in the streets. It is even worse in the motorways where faulty road-designs and risky activities along the roads such as makeshift stalls and bazaars make the roads unsafe. On top of it all are unfit vehicles with headlights, tail-lights, side-view mirrors missing. And these jalopies are allowed to run long distances and are marshalled by motorists with near-nonexistent ideas on public safety, let alone traffic rules.

It is shocking that laws regulating vehicle control has not been updated in the last three decades. That it has not been amended even after so many casualties in the highways is pathetic. Licensing system, while being simplified, has to be made foolproof so as to ensure that potential drivers are fully skilled. The traffic police department has to punish errant motorists and unfit, overloaded vehicles. Road side bazaars have to be relocated and crossings secured.

## No paediatric intensive care unit at DMCH!

*Why this gross oversight?*

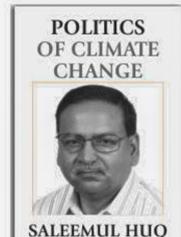
**A**S if the tragedy of an infant losing most of his family members in a terrifying accident was not enough. One and a half year old Tasfir Alam Rabbi, even after surviving the road crash in Narsingdi that killed his mother who was carrying him on her lap, could not stay alive because the largest public hospital in the country DMCH, did not have the necessary medical unit to treat him. It was an astounding revelation that Dhaka Medical College Hospital does not have a paediatric intensive care unit that most probably could have saved little Rabbi's life.

This pathetic truth we had to find out through the death of this hapless child who had been taken to this hospital and then kept waiting with his relatives who were eventually informed that it did not have the necessary facilities and hence the child should be taken elsewhere. But by the time Rabbi's relatives took him to a private clinic in Mohammadpur, his condition had deteriorated further and a few hours later, he passed away.

It is unthinkable that any child in such critical condition will have to be turned away from a hospital. It is unbelievable that for decades, no one, not even the hospital's successive directors, noticed this gross inadequacy. A paediatric department of any hospital must have an intensive care unit, more so if it is one that is government-run and where the majority of patients are rushed to for emergency care.

The morbid reality is that accidents or serious medical conditions will bring in infants and children to the country's most well known hospital. There is no excuse for it not to be fully equipped to treat them and this is something that needs immediate government attention.

# Making the energy transition in Bangladesh and around the world



SALEEMUL HUQ

**O**N the last day of the 22nd Conference of Parties (COP22) of the United Nations Framework Convention on Climate Change (UNFCCC) in Marrakech,

Morocco in November 2016, the 48 most vulnerable countries in the Climate Vulnerable Forum (CVF) made a unilateral declaration that they intended to shift to 100 percent renewable energy by 2050 without any preconditions. This remarkable show of leadership from the most vulnerable countries counteracted the previous gloom that had followed the results of the presidential elections in the US. Thus, the Marrakech meeting ended on a much more positive note than when it started.

The challenge of transition will not be faced only by CVF countries, but by every other country hoping to be a part of this change. The transition required is for all people and countries to stop their dependence on fossil fuel based energy, and instead shift to renewable energy over the next few decades.

There are three major fossil fuels, each with varying degrees of pollution. The most polluting by far is coal, which is used primarily for generating power in big multi megawatt (MW) power plants from which the electricity is then distributed to both domestic and industrial consumers by a grid of large and smaller electricity lines. The second most polluting fossil fuel is petroleum which is used mostly for transport vehicles using Internal Combustion Engines (ICE), which number in hundreds of millions around the world as well as for aviation and shipping. The third and least polluting of the three fossil fuels is natural gas which can be used to power electricity generation or also for vehicles through compressed natural gas (CNG), or domestic cooking by gas cylinders or pipes.

The transition from fossil fuels will have to take a phased approach with coal to be targeted first as a matter of priority, and then petroleum, finally followed by natural gas. Thus, we could aim to phase out coal by 2020 to 2025, petroleum by 2030 and natural gas by 2050.

Let us take coal first. Already renewable energy (including both wind as well as solar) have become price competitive with coal globally and even President Trump will find it impossible to find investors for coal mines where he has promised the

miners to get them their jobs back (unless he invests his own money in coal mines which is quite unlikely).

At the same time, the use of solar energy is spreading very quickly, with a combination of improved efficiency of solar cells and enhanced storage capacity so that the solar energy captured during the day can be used during the night, thereby solving the intermittency problem of sunlight only being available during the day.

This has created a virtuous cycle in terms of green job creation all over the world. Even in the US, there were more jobs created last year in solar energy alone compared to all three fossil fuel industries. So even if President Trump dislikes the Obama measures to support renewable energy in the US, he will not be able to stop the job creation by the industry

major ICE vehicle manufacturer around the world is investing in EVs. At the same time the aviation industry is developing planes that can run on bio-fuels instead of petroleum.

Bangladesh is a founding member of the CVF and Prime Minister Sheikh Hasina was in fact the third chair of the Forum, and we remain a key member of the group. Hence, Bangladesh needs to develop a strategy to fulfil its commitment to go 100 percent renewable by 2050. The timeline is key, as it allows us several decades to phase out of fossil fuels and make the shift to renewable energy.

In Bangladesh, we already have the fastest growing solar home system (SHS) dissemination in the world, with around five million households already connected to the system, supplying

quality of life, particularly for children who can comfortably study at night, and women who can visit the latrine at night. In many decades of following a centralised power generation and delivery by grid lines, we failed to reach the poorest and most remote areas which are now being reached by SHS.

The second major innovation was the institutional design of private-public-partnership (PPP), where the Infrastructure Development Company Limited (IDCOL) is the PPP mechanism for providing cheap loans to a few dozen private sector companies and NGOs who provide the units to households against a loan. Both then collect loan repayments in installments and also provide after sales service in case anything goes wrong with the systems. Thus, Bangladesh is well placed to



which will be supported by individual states even if the Federal Government withdraws its support.

In the case of China, which is already the world leader in solar energy, there is a huge planned expansion of investments of several hundred billion US dollars over the coming years in solar energy, while they have accelerated their plans to phase out coal despite having huge coal reserves left.

Thus, the transition from coal is well on its way across the world.

With regard to petroleum, the transition will require the shift from ICES to Electric Vehicles (EVs), which is beginning to happen in a small way at the higher price range of cars and buses but will rapidly become more competitive as prices of EVs come down. Already, every

electricity to around 20 million, mostly poor people living in rural areas of the country. This rapid expansion of SHS has been assisted by geographical and institutional factors. The geography of Bangladesh, with thousands of villages spread across myriads of rivers and streams, means that taking grid electricity is relatively expensive while the demand in each village is only a few kilowatts (KW). On the other hand, SHS with its distributed systems is relatively cheap for each household to afford and delivers small amounts of electricity per household as per their need for light and few household appliances only.

Nevertheless, the provision of even lighting only at the household level in rural areas is in itself a major boost to

build on these small SHS system and go to the next level of bigger systems that can supply mini-grids to markets and industries and even to big array systems in the future that can supply to the main grid over time. However, Bangladesh will have to take the time to wean itself off the fossil fuels it is currently using. First coal has to go, even if the proposed Rampal project actually goes ahead (and if it is possible to reconsider then perhaps it would be smart to do so). The future of coal based power generation is coming to an end, so locking ourselves to an obsolete technology will not be in our own long term interests.

The writer is Director, International Centre for Climate Change and Development at the Independent University, Bangladesh. Email: Saleemul.huq@ied.org

## LETTERS TO THE EDITOR

letters@thedailystar.net

### February 14: The Valiant Day

February 14 should be a day of mourning for the valiant who sacrificed lives on the first day of the spring in 1983. I am talking about the martyrdom of Selim, Delower, Dilip Saha and Kanchan, who were shot with bullets and crushed under police vans while protesting against the anti-people education policy of the then tyrannical janta. Their martyrdom paved the way to form an all-party alliance of students based on the 10-point demand for a scientific, secular, democratic, one channel education policy that finally ousted the brutal regime of the time.

There used to be a small memorial for those martyrs near "Shikkha Bhaban", which was later replaced. If a monument cannot be built, there should at least be a name plate where we can pay our respects with flower wreaths.

We must remember and salute these valiant spirits who sacrificed their lives for our development.

Rezaul Amin  
 Social Activist, Dhaka

### Repair our damaged road

We, the inhabitants of Ilisha, Banshkhali upazila under Chittagong district are suffering from poor road conditions in the areas between Gunagori and the Musharraf Ali Mia Bazaar. The damaged road makes it extremely difficult for students and working professionals to travel, and sometimes even causes CNG vans to turn over and cause road crashes.

We strongly urge the authorities to take steps to repair the damaged road.  
 Md. Towfiqul Islam  
 Ilisha village