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WHITE PAPER ON BANGLADESH ECONOMY

BIG NUMBERS

- $234b in illicit outflows in 15 years of Hasina's rule
- Project costs were raised by 70% without cost-benefit analysis
- Up to $24b of project investments lost in 15 years to political extortion, bribery, and inflated budgets
- $16b in illicit outflows a year -- 3.4% of GDP
- Over Tk 700,000cr was spent on ADP in 15 years and 40% of the money was plundered by bureaucrats
- $30b was invested in power generation in 15 years: if the kickback was estimated at 10%, the amount would be at least $3b

WHITE PAPER COMMITTEE SAYS

- What started out as crony capitalism evolved into the rise of the oligarchs, manifesting in their stranglehold on political governance and economic management
- These oligarchs influenced and manipulated key facets of the economy to serve their vested interests, concealed by an illusory development narrative sustained by inflated and misleading data
- One of the world's most vaunted development stories of the recent period was built on shaky ground and deep-rooted systemic flaws. Curiously, a number of international partners were enthusiastic subscribers of this false narrative

GDP growth overstated since 1995

STAR BUSINESS REPORT

Bangladesh's economic growth has been overstated since 1995 and the practice of making inflated estimates rose after the fiscal year 2012-13, according to the findings of the white paper panel.

It said Bangladesh was seen as one of the fastest-growing economies but its growth became a "paradox" to many during the tenure of the previous government. But the development narrative was underwritten by "cooked-up" gross domestic product (GDP) growth figures.

"Even this invented hyped-up development story could not hide the stagnating tax-GDP and private investment-GDP ratios and resource paucity for human development sectors, including social protection," the panel said.

"The record of poverty alleviation turned out to be a vain glory. Indeed, as our analysis shows, the data ecosystem of the country became essentially political preference driven," the team wrote in the "White Paper on State of the Bangladesh Economy", submitted to the Chief Adviser yesterday.

From 2013 onwards, the deviation of officially reported growth from predicted growth was, on average, 3.5 percentage points higher than in previous periods, the white paper panel reported

The interim government, which took over in early August following the ouster of the Awami League government, formed the white paper panel at the end of the same month.

The panel, based on consultations with various stakeholders, said there is strong evidence that GDP growth was overstated irrespective of political regimes. But the overstatement itself grew noticeably in the past decade.

The paper said it analysed Bangladesh's GDP growth estimates based on an international panel data set.

"It shows, with the exception of a couple of years in the mid-90s, the corrected growth is lower every year. The difference itself grew larger over time," the paper said, adding that the reported and corrected growth moved in the same direction until 2012-13.

"The divergence increased over the six years thereafter as measured growth increased while corrected growth raced down."

The team, led by Debapriya Bhattacharya, a distinguished fellow at the Centre for Policy Dialogue (CPD), said Bangladesh's average growth rose to 4.2 percent in the 1980s from 3.8 percent in the previous half decade in which growth was most volatile.

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Cost of seven mega projects jumped 70% from initial estimate

Panel finds a whopping Tk 80,569cr lost to cost and time overruns

STAR BUSINESS REPORT

Seven mega projects taken up by the previous government cost Bangladesh Tk 80,569 crore more than initial estimates due to escalating cost and time overruns, according to the final draft of the white paper on the state of the economy.

Construction of those large infrastructures suffered from poor planning, corruption and inadequate governance, ultimately leading them to require more money and miss deadlines.

The projects are the Padma Multipurpose Bridge Project, Multi-Lane Road Tunnel under the Karnaphuli River, Dhaka Mass Rapid Transit Development Project, Padma Bridge Rail Link Project, Dohazari to Cox's Bazar Railway Track, Payra Deep Sea Port and Matarbari Ultra Super Critical Coal-Fired Power Project.

The total of the initial estimates for the projects stood at Tk 114,547 crore, while the final cost reached Tk 195,116 crore.

In the white paper, a chapter titled "Mega Concerns of Megaprojects" says project pitfalls, such as poor planning and corruption, created a "vicious cycle" that forced the nation to pay over 70 percent more for the infrastructures than initially estimated.

The report calls for stronger project evaluation, improved procurement processes and better oversight to prevent misappropriation. Without reforms, it said, these inefficiencies could undermine Bangladesh's development and economic stability.

Mustafizur Rahman, a distinguished fellow at the Centre for Policy Dialogue and a member of the white paper panel, said the cost escalation occurred as many components were added, inflated land prices were shown and purchases were manipulated.

The project costs rose almost 70 percent in the absence of any cost-benefit analysis, he said.

Rahman and his colleagues examined seven large projects out of 29, with over 10,000 crore taka expenditure outlay for each. The total expenses of the 29 large projects stood at $87 billion, or Tk 780,000 crore.

The panel found a number of common features of the projects, including external borrowing on stringent terms, distinct from those Bangladesh had traditionally received.

Repayment periods for numerous mega projects have either started or are set to start in the near future, entailing a significant rise in the country's debt servicing obligations, the report said.

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The report mentions that corruption and irregularities jeopardised the implementation throughout.

Pre-implementation stage

The project preparation and approval phase revealed several weaknesses, including substandard feasibility studies and the absence of a comprehensive work plan during implementation, according to the report.

Projects often proceeded without securing primary land acquisition approval from district administrations, resulting in time and cost escalations.

Additionally, financial ceilings outlined in the government's medium-term budgetary framework were frequently disregarded, baseline data was inadequately collected and exit plans were poorly formulated.

Inaccurate market needs assessments and the influence of "pet projects" driven by vested interests further undermined project viability, it said.

Bureaucratic inefficiencies and delays in obtaining approval from ministries and international funding agencies compounded the challenges, while alternative scenarios were rarely developed.

Implementation plagued by too many tweaks

The implementation phase was plagued by frequent project and cost revisions, non-compliance with schedules and procurement plans, and poor coordination among field-level agencies.

Transparency and accountability in project management were weak, exacerbated by widespread subcontracting that compromised quality. Contractors often requested extensions, leading to significant time and cost overruns.

Fragmentation among implementing agencies further impeded efficient execution.

Project irregularities don't stop even after implementation

In the post-implementation phase, critical gaps included a failure to submit project completion reports to the Implementation Monitoring and Evaluation Division (IMED) within three months, insufficient budget allocation for maintenance and inadequate preservation of infrastructure and equipment, according to the report.

A lack of skilled human resources also necessitated reliance on long-term service agreements with foreign contractors.

Furthermore, the absence of a system for assessing returns on mega projects over time hindered the ability to evaluate outcomes against the goals outlined in Development Project Proposals (DPPs) and Revised DPPs, undermining the long-term sustainability of public investments.

Mega projects with flawed cost-benefit calculations

According to the report, accurate return-on-investment estimates are vital for project

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Remittance rises 14% in November

STAR BUSINESS REPORT

The amount of remittance sent home in November by Bangladeshis living abroad rose 14 percent year-on-year to $2.20 billion, showed Bangladesh Bank latest data.

Industry insiders said Bangladeshi expatriates have been continuously increasing the amount of remittance they have been sending to the country since August.

This upward trend of remittance inflow will create a breathing space and reduce pressure on foreign exchange reserves, they added.

However, November's inflow is 8.16 percent lower than that in October.

The upward trend of remittance inflow will create a breathing space and reduce pressure on forex reserves

Year-on-year, the inflow of remittance fell 3.2 percent in July and then increased 39 percent in August, 80 percent in September and 21 percent in October, data showed.

During the July-November period of this fiscal year, remittance earnings stood at $11.13 billion, up from $8.80 billion in the same period of last fiscal year, as per the central bank data.

In the first five months of this fiscal year, remittance inflow increased by 26.4 percent from the same period of last fiscal year.

Bankers said remittance inflow would increase further in the coming days, since Bangladeshi expatriates' capacity to send money has increased due to falling commodity prices on the global market.

In November, Islami Bank Bangladesh received

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Power and energy: A system designed for corruption

STAR BUSINESS REPORT

No less than $3 billion changed hands as kickbacks in awarding power plant projects during Sheikh Hasina's autocratic rule, according to a white paper on the state of the economy.

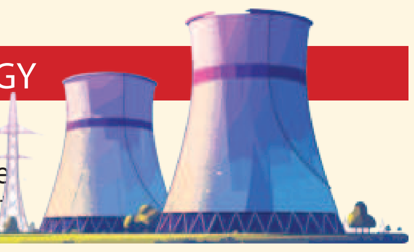
The white paper, submitted to Chief Adviser Prof Muhammad Yunus at his Tejgaon office yesterday, also highlighted irregularities in other areas of the power and energy sector with the tagline "A System Designed for Corruption".

The corruption and nepotism practiced at the top level trickled down to every project, the report said, adding that the paramount allegation of corruption was in awarding power plant projects in the form of commission.

"With an investment of $30 billion in power generation since 2010, at least $3 billion changed hands as kickbacks," the white paper said.

The report estimated that 10 percent of the project cost was spent as commission.

GRAFT IN POWER & ENERGY



- Corruption and nepotism practised at the top level have trickled down to every project
- The sector became a hub of corruption, largely due to a lack of accountability
- 10% of the project cost was commission
- Paramount allegation of corruption was in awarding power plants in the form of commission
- Rooppur nuclear power plant is a 'misadventure' and an overpriced project

The report also termed the 2,400-megawatt (MW) Rooppur Nuclear Power Plant as a "misadventure" and overpriced.

Bangladesh is constructing its first-ever nuclear power plant in Pabna's Rooppur at a cost of $12.65 billion, with Russia providing $11.385 billion as credit.

With an initial expense of $550 million, the total cost amounts to $13.2 billion, the report said.

The unit cost of Rooppur stands at stands at $5,500/kWe, which much higher than a similar power plant in India's Kudankulam, the unit cost of which is $3,350/kWe, the report said.

"In the name of fuel diversification, the choice of nuclear was a misadventure. With the same kind of investment, 6,000 to 8,000 MW of renewable, gas or coal power plants could be installed," the report observed.

The power and energy sector in Bangladesh has become a hub for corruption, largely due to a lack of accountability stemming from the Special Provision Act of 2010, which allowed immunity to both government officials and political leaders, the report said.

The Prime Minister's Office (PMO) is the most powerful political institution in the country.

Throughout the period of the past government, the Ministry of Power, Energy and Mineral Resources (MPEMR) had no full-time minister.

Instead, the Prime Minister held additional responsibility as the Minister for MPEMR since 2009.

Under her leadership, ruling political party members, lobbyists, private business, and independent power producers became major stakeholders in this sector, bypassing due processes.

The report said the previous government portrayed a rosy economic future with hyped up growth figures promising energy security based on imported fuel.

Now, 65 percent of the country's primary energy needs to be imported at an annual cost of $10 billion and by 2030 this will rise to $20 billion. This will put pressure on the foreign exchange reserves.

Terming Bangladesh as a Low-Emitting Energy Poor (LEEP) country, with a per capita energy consumption of just 465 kWh (kilowatt hour) per year compared to the global average of 3,000 kWh, the report said that the deposed Awami League government has disproportionately increased the generation capacity without considering demand.

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