

BANGLADESH  
Quarterly  
Economic  
Update

September-December 2012

Asian Development Bank

Bangladesh Resident Mission  
Asian Development Bank

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## Asian Development Bank September-December 2012

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BANGLADESH

# Quarterly Economic Update

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## NOTES

- (i) The fiscal year (FY) of the government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2012 ends on 30 June 2012.
- (ii) In this report, "\$" refers to US dollars, and "Tk" refers to Bangladesh taka.

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## MACROECONOMIC DEVELOPMENTS

### Highlights

- GDP growth is expected to be lower in FY2013; anticipated investment did not materialize
- Agriculture growth is expected to increase
- Lower external and domestic demand will depress industry growth
- Services sector growth will be lower due to lower industry and trade activities
- Food inflation is moderating but rising nonfood inflation is a concern
- Revenue outturn is on target
- Electricity shortages are affecting investment and total factor productivity growth
- A better business climate is needed to attract foreign direct investment
- Export and import growth low since the beginning of FY2013
- Higher growth in workers' remittances raised the current account from deficit to surplus

### Sector Performance and Economic Growth

1. In FY2013, gross domestic product (GDP) growth in Bangladesh is expected to be lower than the 6.3% in FY2012, as investment did not increase as planned, growth prospects in the global economy are dimming, and domestic demand is weak. The eurozone's bleak economic outlook, arising from the continuing sovereign debt woes and deleveraging by major banks affected Bangladesh exports to its principal export destination. The looming fiscal cliff in the United States (US) in early 2013, likely leading to a sharp fiscal contraction and consequently a weakening economic recovery, will also affect Bangladesh's export prospects. The steady rise in remittance inflows notwithstanding, domestic demand will remain weak due to continued credit-tightening measures to moderate inflation. Agriculture growth is expected to be higher than last year, aided by government policy support and benefitting from the lower base. Industry growth will slow because of decreasing export growth and subdued domestic demand. Services growth is expected to slow as well, with lower growth in industry and trade activities.

***Weak global growth prospects and domestic demand will lower GDP growth in FY2013***

2. Challenges to macroeconomic management have emerged. While year-on-year headline inflation has been edging down, nonfood inflation remains high, posing major policy challenges. Average annual inflation in FY2013 is projected to decline to 8.5% because of the tightened monetary policy and the expectation that global food and commodity prices will remain stable. The increase in import payments is expected to outpace

***Macroeconomic management challenges emerged***

export growth and as a result, the current account balance in FY2013 is forecast to post a small deficit. Remittance growth will not be adequate to offset the higher deficit in trade and services accounts. The fiscal deficit is expected to be manageable in FY2013, forecast at 5.0% of GDP.

3. Bangladesh faces enormous challenges to achieve the Sixth Five Year Plan (SFYP) target of raising GDP growth to 8% by FY2015.<sup>1</sup> As envisaged in SFYP, investment needs to be quickly raised from the current 25.5% of GDP to 29.6% in FY2013, and 32.5% in FY2015. Infrastructure investment is to be scaled up from 2% of GDP in FY2010 to 4.5% in FY2013, and 6% in FY2015. In particular, tepid investment in core infrastructure, including power, gas, and transport, is a key obstacle to attaining growth targets. A major development challenge is to address the country's massive skills shortage. Another priority is to create better paying jobs for the labor force, which is growing at 3.2% annually, adding close to 2 million new entrants to the labor force each year, including an increasing number of female workers.

***Development challenges include increasing infrastructure investment, developing skills and creating more jobs, attracting FDI, and addressing unplanned urbanization***

4. The growth process needs to be inclusive and the employment composition of sectors rebalanced to shift labor from traditional agriculture and informal services to more remunerative manufacturing and modern services activities. The acute skills shortage constrains economic diversification and seriously affects productivity growth. The country needs larger foreign direct investment (FDI) inflows to scale up overall investment, transfer technologies, improve skills, increase competitiveness, and accelerate productivity growth. Rapid and unplanned urbanization is creating another challenge, straining the already limited capacity of public service delivery and putting pressure on the urban environment.

5. Bangladesh needs to identify new growth drivers. Overdependence on readymade garments and out-of-country worker remittances exposes the economy to significant vulnerability to external shocks. Promoting labor-intensive manufacturing exports and diversifying domestic economic activities are vital for developing dynamic growth drivers.

***Bangladesh needs to identify new growth drivers***

6. The country is at high risk from climate change. Expanding capacity to cope with the effects of climate change and to mitigate its adverse effects requires that climate change priorities be mainstreamed into development programs and activities. Bangladesh continues to face major economic governance challenges, which need to be addressed to increase opportunities

***Climate change priorities must be mainstreamed***

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<sup>1</sup> Government of Bangladesh. 2011. *Sixth Five Year Plan FY2011–FY2015, Accelerating Growth and Reducing Poverty, Part-1: Strategic Directions and Policy, Framework*. Dhaka.

and prospects for more rapid, inclusive, and sustainable economic growth.

## **Agriculture**

7. Agriculture growth, if normal weather prevails, is expected to rise briskly from the previous year's low base and in response to more intensive government policy support, especially for input supply and extension services. As the government steps up rice procurement drives to increase food stock and, in the process, gives price support to growers, better procurement prices and more access to credit will also help enhance crop production through encouragement to farmers.

***Agriculture growth is expected to rise briskly in FY2013***

8. The FY2013 food-grain production target of the Department of Agriculture Extension (DAE) is 35.7 million tons (summer rice crop, *aus* 2.4 million tons; monsoon rice crop, *aman* 13.3 million tons, winter rice crop, *boro* 19.0 million tons, and wheat 1.0 million tons), 2.5% higher than FY2012's actual production of 34.9 million tons. DAE's FY2013 target for *aus* production is 2.37 million tons with a cultivated area of 1.15 million hectares. The *aus* crop was cultivated from mid-March to mid-June and harvested from mid-July to mid-September. Although the harvest is complete, official *aus* production estimates are not yet available. The *aus* cultivation area target is expected to be achieved. Production likely fell marginally short of target due to drought and tidal submergence in some areas, but remains at the trend level responding to the government incentives. To boost *aus* cultivation, the government provided special incentives supplying high-yielding variety seeds and fertilizers to benefit farmers with at least 0.13 hectares of cultivable land. Prospect of *aman* also looks good, as it has so far experienced favorable weather condition.

***FY2013 food-grain production is targeted to rise to 35.7 million tons from actual production of 34.9 million tons in FY2012***

9. SFYP envisages more rapid structural transformation by further reducing agriculture's share in GDP to 15.5% by FY2015, while ensuring food security for a growing population. It identifies several challenges. A major concern is the fast-declining land base (by 1% of total land per year) caused by rapid urbanization, river erosion, and salinity intrusion. This is exerting growing pressure on scarce land resources. Depleting soil health is also a problem. Dominance of cereal production, particularly an overemphasis on rice, indicates a clear lack of diversification. Absence of modern production-contract farming and value chains are barriers to commercialization. Another cause for low productivity and lack of diversification is poor farm and nonfarm linkages. Despite modest progress, lack of adequate financing remains a key concern. Putting a viable crop insurance system in place is a much-needed, yet complex problem. Appropriate technology, particularly to cope with flood, drought, salinity, and climate change concerns is not yet in place.

***Agriculture faces key challenges***

10. Notwithstanding its decline in GDP share, from more than 50% in the 1970s to 17.5% in FY2012, agriculture continues to play a vital role in the economy and in providing food security. About 48% of the total labor force is directly employed in agriculture. In addition, rural nonfarm and informal services are directly and indirectly linked with agriculture. Its importance in poverty reduction is evident from the fact that agriculture is primarily a rural activity and 83% of the country's poor live in rural areas.

***Agriculture continues to play a vital role in the economy***

11. Given the twin challenges of increasing agricultural productivity while structurally reducing its share of GDP, SFYP contemplates medium-term strategies to boost productivity in agriculture (footnote 1, paras. 65–80). The focus is on intensifying cereal production, and diversifying within and outside the agriculture sector. It emphasizes diversifying into high-value crop, and boosting noncrop activities, including livestock, poultry, and fisheries, which have higher income elasticity of demand compared with cereals. A private-sector-friendly incentive regime is envisaged to increase efficiency in resource use. SFYP seeks to continue input subsidies on fertilizer and irrigation water. However, it plans to adopt a more flexible approach to rice pricing by better balancing farmer and consumer interests. Higher public spending to support irrigation schemes, research and extension services, improved farm-to-market roads, and provision of electricity to rural areas is expected to be made possible by partly redirecting subsidy financing into these activities. Greater access to finance is emphasized for diversification and productivity growth. SFYP also seeks to produce to scale, increase quality and standards to meet export demand, and improve trade logistics such as building cold storage facilities. While scaling up productivity will be more skills and capital intensive, SFYP seeks to boost foreign partnerships and FDI inflows in the agriculture sector.

***SFYP seeks to increase agriculture productivity focusing on cereal production intensification and crop diversification***

12. Crops dominate the agriculture sector, accounting for about 60% of sector value added. Average growth in the crop subsector increased from 2% annually during the 1970s and 1980s, to about 3% during the 2000s. Cropping intensity increased from 148% to 181%, which is similar to other South Asian countries, but lower than countries like the People's Republic of China, the Philippines, Thailand and Viet Nam (footnote 1).

***Crop subsector dominates agriculture value added***

13. Rice accounts for about three-fourths of total cultivable land. Production rose more than three-fold from 11 million tons to 35 million tons during FY1972–FY2012. Average annual growth increased from 2.8% during the 1980s to 3.5% since FY1991, largely due to diversification into high-yielding variety rice production technologies. Supported by steady input supplies and price deregulation, incremental rice production was mostly driven

***Rice production occupies a major share of total cultivated land***



by expanding irrigated *boro* rice in the dry season and partially displacing production of low-yielding, rain-fed *aus* rice.

14. Despite notable progress, agriculture sector is still characterized by low yields per hectare and low labor productivity. During FY1974–FY2010, average annual employment growth in agriculture was 1.5% compared with 4.6% in manufacturing and 5% in services; corresponding employment elasticity in agriculture is estimated at 0.5% compared with 0.8% in manufacturing and 0.9% in services.<sup>2</sup> Because of the faster decline in share of agriculture’s value added in GDP than share in total employment, labor productivity in agriculture grew by 0.9% during FY1981–FY2010, compared with 2.9% in manufacturing and 1.1% in services. Due to this productivity gap, real wage in agriculture grew by only 0.3% per year during FY1980–FY2009 compared with 2.6% in manufacturing and 0.6% in services (footnote 1). Inefficient input use, including land, water, and fertilizer is a major cause of low productivity. SFYP identifies acceleration in productivity growth as the major challenge for agriculture.

***Low labor productivity and yield in agriculture***

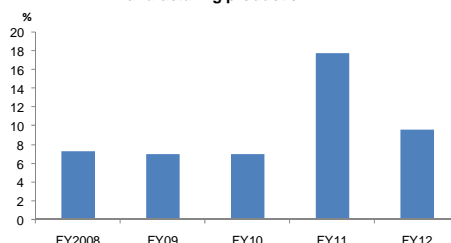
## Industry

15. Subdued external and domestic demand will slow industry growth in FY2013. The unresolved sovereign debt crisis in the eurozone and uncertain US recovery, and their spillover effects on Bangladesh’s other export destinations, including India, Japan, People’s Republic of China and Republic of Korea will slow Bangladesh exports, affecting export and linked domestic industries. Continued credit-tightening measures will weaken domestic demand. In addition, expected upward adjustment of power and gas prices will increase production costs. Industry sector growth is expected to be significantly lower than in FY2012.

***Lower industry sector growth projected***

16. The quantum index for medium- and large-scale manufacturing industries rose by 13.5% in FY2012 (Figure 1). The major industrial group—jute, cotton, apparel, and leather—grew by 19.2%; chemicals, petroleum, and rubber production by 7.5%; food, beverages, and tobacco by 3.4%; fabricated metal products by 8.6%; paper and paper products by 4.9%; and nonmetallic products by 2.5%. Wood products, including furniture, declined by 4.1% and basic metal products by 1.7%.

Figure 1. Growth of medium- and large-scale manufacturing production

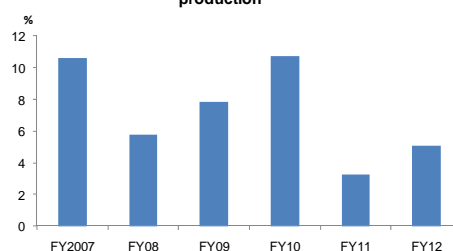


***The quantum index for medium- and large-scale manufacturing rose by 13.5% in FY2012***

<sup>2</sup> S. Ahmed. 2012. The Employment Challenge. *The Financial Express*. 16 May. Dhaka.

17. The general index for small-scale manufacturing rose by 5.1% in FY2012 (Figure 2). Food, beverages, and tobacco grew by 9.9%; while textiles, leather, and apparel contracted by 0.5%. Metal products and machinery rose by 8.4%; chemicals, rubber, and plastic by 3.1%; basic metal industries by 53.7%; paper, printing, and publishing by 8.6%; and other manufacturing industries by 55.7%. Nonmetallic products decreased by 3.7%, and the production of wood and wood products by 1.9%.

Figure 2. Growth of small-scale manufacturing production



**The general index for small-scale manufacturing rose by 5.1% in FY2012**

18. SFYP's envisaged structural transformation significantly hinges on diversification of the manufacturing base, the labor absorption rate, and productivity growth. From FY1980 to FY2012, manufacturing's share in GDP rose from 13.7% to 17.7%, the employment share increased from 8.7% to 12%. The average annual growth rate steadily rose from 2% in the 1980s, to 5% in FY1991, 6.9% in FY2001, 7.6% in FY2010, and 9.8% in FY2012. A World Bank study reports that notwithstanding significant growth in total factor productivity (TFP) in manufacturing during 1993–2003, Bangladesh lags far behind in cross-country TFP comparison.<sup>3</sup> The current single-digit sector growth rate will be inadequate to attain the SFYP targets of increasing the sector share of GDP to 25% and employment share to 16% by FY2015.<sup>4</sup>

**Structural transformation hinges on diversification, employment generation, and higher productivity growth**

19. To fuel continued dynamism in manufacturing, acceleration of TFP growth is vital. The World Bank study stresses that infrastructure shortages need to be quickly addressed to boost TFP growth. It reports that a 1% rise in the number of power outages in a year lowers average firm productivity by 10%. Firms with more educated, professional, and skilled production workers are found to have higher TFP growth. FDI is a major driver of TFP growth; it catalyzes technology transfer, facilitates greater integration, and supports skills development. The study found that foreign-owned firms have 10% higher TFP growth than domestic-owned firms. Bangladesh needs to liberalize its trade regime, remove anti-export biases, and more closely integrate with the global economy to boost TFP growth. Research and development capacity, another productivity driver, needs increased investment. Law and order also needs to be improved.

**Increasing TFP growth requires higher electricity production, skills development, healthy FDI inflow, more research and development, trade liberalization, and better law and order**

<sup>3</sup> A. M. Fernandes. 2006. Firm Productivity in Bangladesh Manufacturing Industries. *World Bank Policy Research Working Paper*. No. 3988. Washington D.C: World Bank.

<sup>4</sup> S. Ahmed. 2012. Implementation of the Sixth Five Year Plan Macroeconomic Framework. *The Financial Express*. 7 October. Dhaka.

## **Services**

20. The services sector can play a very important role in boosting economic growth and accelerating poverty reduction. In addition to becoming a dynamic growth driver, positive spillover to other sectors, particularly synergy between industry and services, can increase the economy's growth potential. The sector supports inclusive growth, as the labor absorption rate is highest in services. In addition to creating jobs, services growth contributes to faster poverty reduction by improving health and education, enabling people to be more productive, and improving quality of life. Considering growing uncertainty in the global economy, rebalancing the domestic economy toward formal services can enhance economic resilience. Recent unprecedented technological advancement has facilitated cross-border trade in services. Bangladesh can benefit from expanding opportunities in global trade in services.

***Vital role of services sector in accelerating economic growth and poverty reduction***

## **Economic Growth**

21. Increasing investment is essential to boost medium-term growth prospects. A slowdown in export growth will affect capacity expansion of export and linked industries. The growth in import of capital goods has significantly slowed; capital machinery imports contracted by 14.1% in FY2012. FDI inflows will be affected by lack of available land and shortages in electricity and trade logistics infrastructure. The prolonged downturn of the global economy, which dampened the country's export growth prospects, highlights the need for rebalancing sources of growth, i.e., increasing investment and expanding capacity for production aiming at the domestic market. To enhance private investment in line with the SFYP target, higher investment is needed to reduce electricity shortages.

***Investment needs to be raised to boost growth prospects***

22. Bangladesh faces enormous challenges in scaling up infrastructure investment. Private investment, in particular, including FDI is important for increasing investment in electricity, transport, and trade logistics. In absolute terms, private investment during FY2011–FY2015 is estimated at Tk10.4 trillion, which constitutes 77.2% of total planned investment. To attain the SFYP goal of increasing electricity generation capacity from 4,699 megawatts in FY2011 to 11,457 megawatts by FY2015, an investment of \$15 billion will be required, including \$10 billion of private investment. Additional investment representing about 3%–4% GDP will be required annually in the transport sector.

***Challenges are enormous for higher infrastructure investment***

23. Financing this huge investment is a major challenge. The government expects to mobilize a large part of the financing from domestic resources through sustained tax reforms and higher private savings. Healthy remittance inflows will be a major driver in boosting national savings. In addition, attracting FDI has been

***Financing higher infrastructure investment requires acceleration in domestic savings, healthy remittances, and FDI inflows***

emphasized along with mobilizing more external assistance. SFYP aims to raise the national savings rate by 2.1% annually, bringing the savings–GDP ratio to 32.1% by FY2015. Gross national savings actually declined from 30% in FY2010 (SFYP benchmark) to 28.8% in FY2011 mainly because of slower remittance growth, and then rose to 29.4% in FY2012. The gross domestic savings–GDP ratio has also fallen from 20.1% in FY2010 to 19.3% in FY2011, although it increased slightly to 19.4% in FY2012.

24. SFYP emphasizes the need to scale up private investment in infrastructure by boosting public–private partnerships (PPPs) (footnote 1). It targets increasing private investment through PPPs to 6% of GDP by FY2015 from 2% in FY2011. Public investment through PPPs is targeted to rise by 1% of GDP bringing public investment up to 7.5% of GDP by FY2015. The government created the Bangladesh Infrastructure Financing Facility with initial funding of \$230 million to finance PPP projects. The facility will finance infrastructure projects from its own fund, issuing infrastructure bonds, allowing domestic and international institutional investors to invest in infrastructure projects, and increase the facility’s capital base by budgetary subventions.

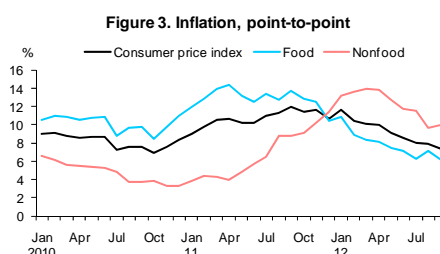
***Boosting PPPs to scale up private investment in infrastructure emphasized***

25. To boost private investment in infrastructure, appropriate policies and institutions are key to providing incentives to domestic and international investors. Based on international best practice, measures are needed to develop primary and secondary bond markets to support long-term infrastructure financing. Investment in private infrastructure will require an efficient and transparent regulatory system.

***Appropriate policies and institutions are vital for fostering higher private investment in infrastructure***

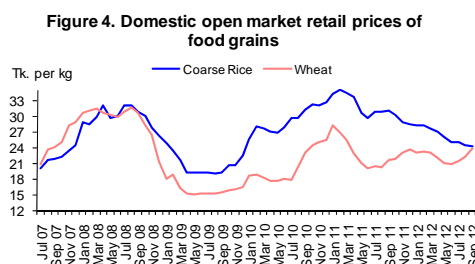
## Inflation

26. Year-on-year inflation, measured by the consumer price index (CPI) with FY1996 as the base year, declined steadily from the second half of FY2012 settling at 8.6% by year-end in June 2012 and easing further to 7.4% in September (Figure 3), down from 12.0% in September 2011. Stable rice prices because of the previous year’s good *boro* harvest, and slower growth in the government’s FY2013 first quarter net bank borrowing following major repayment of loans to the banks, contributed. Food inflation fell to 6.2% in September 2012 from 13.8% in September 2011, but nonfood inflation rose to 10.0% in September 2012 from 8.8% in September 2011 mainly due to increased power tariffs, house rents, and transportation costs.



***Stable rice prices and lower first quarter borrowing by the government from the banking system contribute to lower inflationary pressure***

27. Urban inflation continued to be higher than rural inflation. Urban inflation was 8.5% in September 2012 compared with 12.3% in September 2011, while rural inflation was 6.9% in September 2012 compared with 11.9% in September 2011.



**Urban inflation continued to be higher than rural inflation**

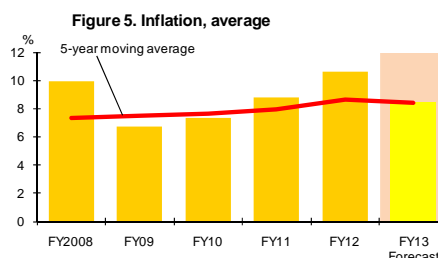
28. The average retail price of the main staple food, rice (coarse), declined to Tk24.27/kilogram (kg) in September 2012 from Tk30.93/kg in September 2011, while the price of wheat rose to Tk23.80/kg in September 2012 from Tk21.56/kg in September 2011 (Figure 4), as a number of major agricultural exporters experienced drought, resulting in decreased global supplies.

**Price of coarse rice declined, but wheat price rose**

29. Bangladesh Bank continued to follow a restrained monetary policy to moderate nonfood inflation, while ensuring adequate credit flows to the economy's productive sectors to stimulate growth. It provided the banks with the liquidity support facility and special repurchase agreements with high interest rates. It also remained more vigilant in ensuring the commercial bank's credit-deposit ratio was maintained within permissible limits and strengthened supervision for discouraging unproductive and speculative uses of credit. To keep food prices stable, the government procured rice from the domestic market and distributed food grains to the poor and vulnerable through nonmonetized channels.

**To slow down inflation, the central bank followed tight monetary policy and strengthened bank supervision; the government distributed food through nonmonetized channels**

30. Annual inflation is expected to moderate from 10.6% in FY2012 to 8.5% in FY2013 (Figure 5). The recent upward power tariff adjustment and anticipated further upward adjustment in domestic fuel and energy prices will increase nonfood inflation in the coming months, but overall inflationary pressures are expected to moderate in FY2013 with food prices easing due to a likely good domestic crop harvest subject to normal weather, and as the central bank's tighter monetary policy takes hold.



**Annual inflation is expected to moderate to 8.5% in FY2013**

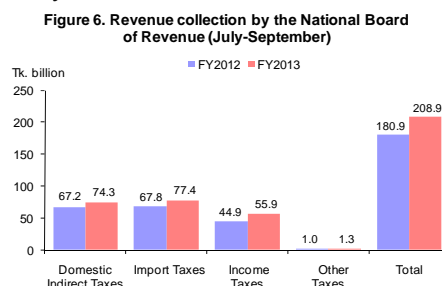
31. In July 2012, Bangladesh Bureau of Statistics started reporting a new CPI series using FY2006 as the base year (reporting of the existing CPI series using FY1996 as the base year is provided in parallel, to avoid confusion for users, likely until

December 2012), fully migrating to the new series from January 2013. To reflect changing consumption patterns, new items are included in the rural and urban consumption baskets, and revised weights, based on the Household Income and Expenditure Survey 2005, were introduced.

32. According to the new base year, overall inflation in September 2012 slowed to 5.0% from 12.7% in September 2011, with food inflation falling sharply to 1.8%, from 14.9% in September 2011, but nonfood inflation increased to 10.2%, from 9.3% in September 2011. Urban inflation was 5.9% in September 2012 and rural inflation 4.5%. With revised consumption baskets and their weights, food inflation under the new base year eased reportedly due to higher weights being assigned for rice than under the old base year.

## Fiscal Management

33. Revenue collection broadly remained on track as intakes by the National Board of Revenue during July–September of FY2013 grew by 15.5% (Figure 6) compared with 15.3% in the year earlier period. Collection from income tax increased by 24.5%, close to (25.0%) the previous year's collection.



**Revenue collection remained on track**

34. Growth in indirect taxes slowed to 10.6% in July–September of 2013, from 13.1% during the same period of 2012. The decrease (5.7%) in supplementary duty, from 15.8% growth in the previous year accounted for the decline. Domestic value-added tax grew strongly by 19.9% up from 10.8% in the previous year. Collections from excise duty rose by 82.7% and turnover tax by 17.9%, however these taxes have little impact on overall revenue collection because of their very small bases.

**Growth in domestic indirect tax collection slowed**

35. Collection from import-based taxes increased by 14.2% during July–September of 2013 compared with 12.1% in the previous year. Collection from customs duty rose by 10.6% down from 18.9%. Value-added tax at the import stage rose by 21.6%, sharply higher, up from 0.7%. Collection from supplementary duty grew by 5.5% compared with 29% during the same period of the previous year.

**Overall collection from import-based taxes grew**

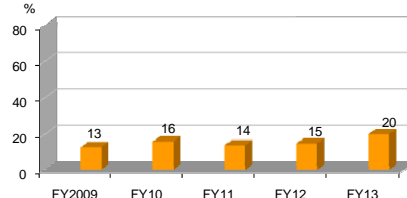
36. Annual development program (ADP) implementation needs to be expedited, although recently progress has been made. During July–October of 2013, 20% of total ADP was utilized (Figure 7), higher than 15% during the same period of 2012.

**ADP implementation needs to be expedited**



Foreign-aided project utilization improved from 7% to 17%, while the rate of locally funded project implementation remained unchanged at 21% as in the last year. Among the top 10 ministries and divisions, accounting for 72% of total ADP allocation, Power Division had a 35% utilization rate, followed by the Roads Division at 28%, the Ministry of Primary and Mass Education with 27%, the Ministry of Education with 24%, the Local Government Division at 22%, Energy and Mineral Resources at 19%, the Ministry of Water Resources with 17%, the Ministry of Health and Family Welfare at 13%, the Ministry of Railways with 9%, and the Ministry of Industries at 4%.

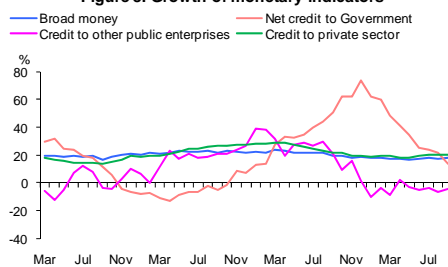
Figure 7. ADP implementation (July–October)



## Monetary and Financial Developments

37. Because of the central bank's restrictive monetary policy, broad money (M2) growth moderated to 18.2% year-on-year in September 2012 (Figure 8), from 19.6% in September 2011, although remained higher than the FY2013 M2 growth target of 16.5%. Despite monetary contraction measures, the higher than targeted M2 growth resulted from high growth in net foreign assets (27.8%, compared with the 0.8% decline in September 2011) because of slower growth in import payments and higher remittance inflows. Domestic credit growth moderated to 17.8% from 26.2%, and also remained lower than the annual target of 18.6% in FY2013. The growth in private credit slowed, but was higher than the annual target (19.9%, against the target of 18.0% and actual growth of 22.0% a year earlier). Growth in net credit to the government was lower at 13.9% in September 2012, compared with 50.4% in September 2011.

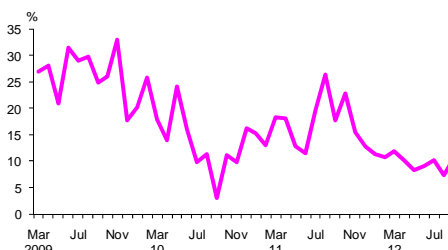
Figure 8. Growth of monetary indicators



**Money supply growth was slightly higher than the annual target**

38. Reserve money grew slowly by 10.5% year-on-year in September 2012 (Figure 9); down from 17.7% in September 2011, due to the sharp fall in the central bank's net domestic asset growth, although net foreign assets grew strongly. Despite 19.2% lending

Figure 9. Growth of reserve money



**Reserve money growth slowed**

growth to the deposit money banks, net domestic assets of the central bank declined by 29.8% in September 2012 from the high growth of 138.6% in September 2011, due to the decline (by 2.4%) in net claims on the government. With strong remittance growth and the foreign exchange reserve building up because of lower import payments, growth in net foreign assets of the central bank rose to 30.6% in September 2012, from 6.1% decline in September 2011. The reserve money multiplier rose to 5.4 at the end of September 2012, from 5.0 at the end of September 2011.

39. In conducting monetary policy, Bangladesh Bank undertakes regular auctions of Treasury bills of different maturities with appropriate adjustments in their yields, and repo and reverse repo operations to regulate the growth of liquidity in the banking system. Increasingly, the interest rates of Treasury bills are representing market conditions. The weighted average yield on 91-day Treasury bills was 11.1% in September 2012, significantly up from 7.7% in September 2011. The yields on 182-day bills rose to 11.4% from 8.3%, and 364-day bills to 11.4% from 8.7% during the same period.

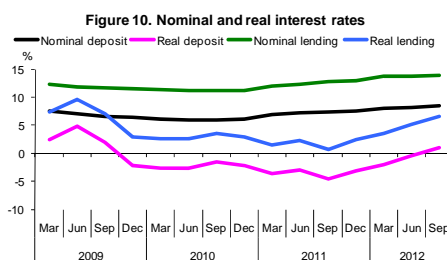
40. The interbank call money rate has remained stable since the beginning of FY2013, despite *Eid* festivals in August and October 2012. This was due to the central bank's timely support for the day-to-day liquidity position. On a weighted average basis, the interbank call money rate was 9.4% in October 2012, down from 15.0% in June 2012.

***Weighted average interbank call money rate remained stable***

41. Despite monetary tightening, excess liquidity of scheduled banks remained high at Tk453.1 billion at the end of September 2012, although declining slightly from Tk456.8 billion at the end of June 2012. The higher lending rates of commercial banks and sluggish business environment reduced demand for credit, contributing to a buildup of excess liquidity in the banking system. The outstanding borrowing of the government through sales of national savings directorate certificates rose to Tk644.3 billion at the end of October 2012 from Tk640.3 billion a year earlier, partly offsetting the recent decline in net credit to the government from the banking system.

***Excess liquidity in the banking system remained high***

42. The weighted average lending rate rose to 13.9% at the end of September 2012, from 12.7% at the end of September 2011. The deposit rate rose to 8.4%, from 7.4% in the same period (Figure 10), becoming positive in real terms because of lower inflation. The interest rate spread of the banking system rose to 5.5% in September 2012

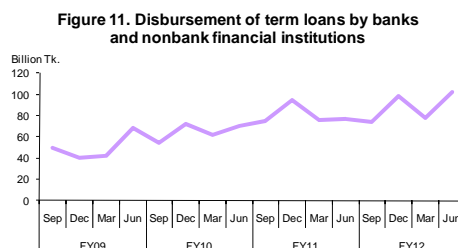


***Interest rate spread widened***



from 5.3% in September 2011, indicating continuing inefficiencies and market segmentation in the current banking system.

43. The disbursement of industrial term lending in FY2012 stood at Tk352.8 billion, 9.7% higher than in FY2011 (Figure 11). While disbursement to large industries declined by 0.2%, disbursement to medium-sized industries increased by 37.8%, and to small and cottage industries by 6.7%. In FY2012, the share of large industries in total disbursement of industrial loans declined to 62.1% from 68.3% in FY2011, but the share of medium-sized industries rose to 31.1% from 24.8%.

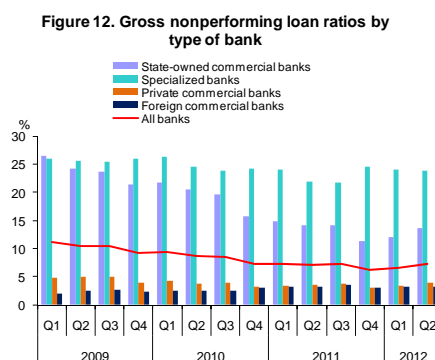


**Disbursements increased for industrial term loans, but decreased for loans to large industries**

44. Loans to agriculture and SMEs are given priority, in line with Bangladesh Bank's policy directives. Of the Tk141.3 billion targeted for credit disbursement to agriculture and nonfarm rural activity, Tk33.3 billion (23.6% of total target) was disbursed during the first four months of FY2013, with growth of 10.5% over the corresponding period of FY2012. Similarly, outstanding loans to SMEs reached Tk931.5 billion in June 2012, representing 28.4% growth over June 2011. The ratio of SME loans to total loans in the banking system rose to 21.8% in June 2012, from 20.1% in June 2011.

**Loans for agriculture and SMEs increased**

45. The financial soundness indicators show marginally weakened performance for the banking system in FY2012. The ratio of gross nonperforming loans (NPLs) to total loans in the banking system rose to 7.2% at the end of June 2012 (Figure 12), from 7.1% at the end of June 2011. Although the gross NPL ratio for state-owned commercial banks declined to 13.5% at the end of June 2012 from 14.1% at the end of June 2011, the gross NPL ratio for other banks increased. In FY2012, the gross NPL ratio for private banks rose from 3.5% to 3.8%, for specialized banks from 21.8% to 23.8%, and for foreign banks from 3.1% to 3.2%. The net NPL ratios for all banks increased from 1.3% at the end of June 2011 to 1.7% at the end of June 2012.



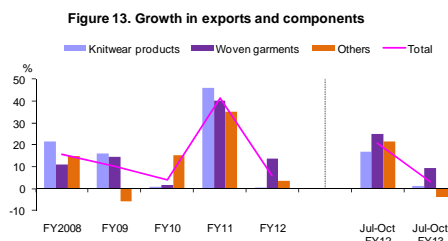
**Financial soundness indicators marginally weakened**

46. Progress has been made in complying with Basel II requirements, although the finance sector in Bangladesh is still

susceptible to credit and market risk and global economic shocks. While banks showed resilience to macroeconomic shocks, such as from exchange rate and interest rate changes, loan quality and banking governance deteriorated, and credit and liquidity risks increased significantly, especially in state-owned commercial banks. The central bank has been taking steps to maintain stability by strengthening its supervisory and enforcement capacity. However, vulnerabilities in the finance sector need to be addressed to ensure sector soundness and to reduce systemic risks. In particular, rules regarding loan loss provisioning need to be tightened and the reporting requirements of all types of financial institutions strengthened.

## Balance of Payments

47. Export performance has been weak since the beginning of FY2013. After growing slowly year-on-year by 4.3% in July 2012, exports sharply declined by 17.9% in August before recovering, and growing by 31.3% in September. Year-on-year export growth again slowed down to 6.3% in October. Export growth of 3.1% during the first



**Exports grew by only 3.1% during July–October 2012**

four months of FY2013 is much slower compared with the year earlier period (20.8%) (Figure 13). Fragile recovery in the US economy and eurozone sovereign debt problems, compounded by the effects of financial deleveraging, held down demand for low-end garment products from Bangladesh. The fall in per unit prices following the decline in raw material prices, including of cotton, contributed to slower export growth.

48. Garment exports—accounting for 79.2% of total export earnings—rose by only 5.0% during July–October of 2012, down from 20.6% during the same period of 2011. Growth was low for both the US and eurozone markets. Overall, export earnings from woven garments rose by 9.5%, and knitwear exports by 1.1%. Woven exports to the US declined by 0.5%, and knitwear exports increased by 4.4%. On the other hand, woven exports to the EU rose by 11.5%, but knitwear exports declined by 6.5%.

**Garment exports rose by only 5.0% during July–October 2012**

49. Among other major export items, earnings from agricultural products (10.8%) and jute goods (3.0%) maintained notable growth, although export earnings from most other items declined: frozen food (27.4%), chemical products (39.2%), leather (2.7%), raw jute (16.2%), and engineering products (9.5%).

50. Bangladesh has been trying to improve its trading relationships with several potential trade partners by signing free

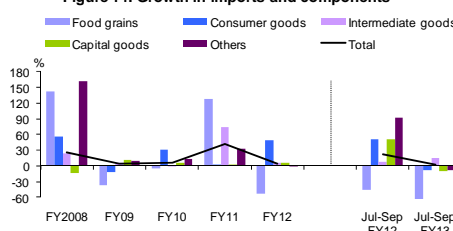
trade agreements. It has signed a memorandum of understanding with Iran to boost trade, commerce, and investment. Malaysia has asked Bangladesh to hold a first round of negotiations for a free trade agreement. Bangladesh also started preparations to seek duty- and quota-free facilities for its exports to the Kingdom of Saudi Arabia. A new economic zone is to be developed with support from the Department for International Development of the United Kingdom, the International Finance Corporation, and the World Bank. Bangladesh asked Japan to set up a Bangladesh–Japan friendship economic zone to improve trade relationships.

51. Attaining the annual export target of \$28.0 billion (15.3% growth over FY2012) will be a challenge. The reduction in profit margins due to lower per unit garment prices and higher production costs due to rising interest rates and power tariffs could place garment exporters at a disadvantage. Recent real depreciation of taka will however increase competitiveness of Bangladesh in the world market.

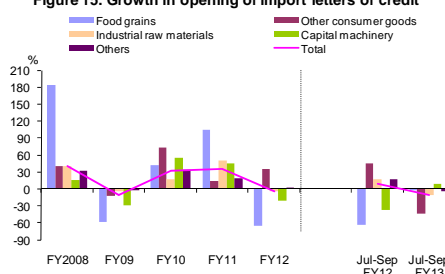
***Attaining the annual export target will be a challenge***

52. Import payments (recorded by customs) grew by only 2.0% during July–September 2012 over the corresponding period of 2011 (Figure 14) due to a sharp decline in imports of capital machinery and food grains. Imports of capital machinery, an important requirement for export industries, declined by 13.6%. Lower export growth due to the global economic slowdown reduced the import of inputs for export industries; the decline in commodity prices in the world market and the central bank's monetary tightening measures also contributed to slower growth of import payments. In addition, food-grain imports fell by 68.3% due to the larger domestic food stock. Among consumer goods, imports of edible oil fell by 1.9% and sugar by 32.7%. Among intermediate goods, high growth was maintained for imports of petroleum products (50.1%); fertilizer (12.4%); raw cotton (48.8%); and iron, steel, and other base metals (22.8%). However, the import of yarn declined by 5.7%, while textile and articles thereof rose marginally by 0.1%. The decline in capital machinery imports and export processing zone imports (19.9%) indicates that economic activities may not strengthen in the short term.

**Figure 14. Growth in imports and components**



**Figure 15. Growth in opening of import letters of credit**



***Imports rose by only 4.6% during July–August 2012***

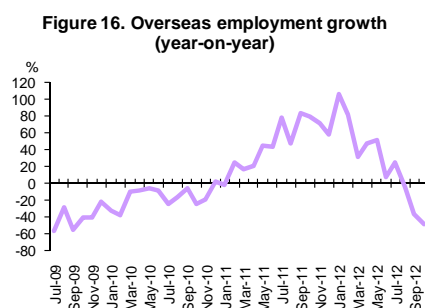
53. During the first quarter of FY2013, the total value of import letters of credit (L/Cs) opened declined by 10.9% (Figure 15) because of a decline in L/Cs for consumer goods including food grains (down by 36.8%), industrial raw materials (by 11.6%), and petroleum products (by 11.8%). L/Cs rose for import of capital machinery (by 9.2%), for machinery of miscellaneous industries (by 6.3%) and for intermediate goods (by 1.0%).

***Import letters of credit declined sharply***

54. The growth of remittance inflows was high at 24.9% during the first 4 months of FY2013 over the corresponding period of FY2012. Despite the ongoing global economic slowdown, Eid festivals in August and October 2012, high sale of three Bangladesh government bonds (Wage Earner Development Bond, US Dollar Investment Bond, and US Dollar Premium Bond) for expatriate Bangladeshis, and large outflows of Bangladeshi workers to middle-eastern countries in 2011 resulted in the recent high growth of remittances through official channels.

***Remittance inflows grew by 24.9% during July–October 2012***

55. Out-of-country jobs for Bangladeshi workers fell by 18.5% in July–October of 2012 (Figure 16) indicating likely slowdown in remittance inflows in the remaining months of FY2013. A total of 169,271 Bangladeshis found jobs outside the country during this period compared with 207,563 during the corresponding period of 2011, because of a sharp fall in recruitment in the United Arab Emirates (by 54.0%) and Oman (by 13.1%). Two major destination countries for Bangladeshi workers, Saudi Arabia and Malaysia, have recently not been recruiting large numbers of Bangladeshi workers. However, Singapore absorbed a total of 19,717 Bangladeshi workers during the period, a growth of 13.0% over the corresponding period of 2011.



***Out-of-country job growth for Bangladeshi workers slows***

56. Net FDI inflows into Bangladesh and net foreign assistance grew strongly in the first quarter of FY2013. Net FDI rose to \$450.0 million in July–September 2012, up from \$350.0 million in July–September 2011. Net foreign assistance rose to \$334.7 million in July–September 2012, significantly higher than \$121.4 million in July–September 2011. FDI and foreign aid into Bangladesh nonetheless remain low, which put pressure on the foreign exchange reserves. The government needs to improve the business climate to attract higher FDI and encourage greater private participation in infrastructure development, including through PPPs to mobilize resources needed to close wide infrastructure gaps.

***FDI and foreign aid into Bangladesh grew in July–September 2012***

57. The trade deficit widened slightly to \$2.0 billion in July–September 2012, from \$1.9 billion in July–September 2011 because of the larger growth in imports compared with exports, and also on a higher import base. Despite rise in trade, service, and the primary income deficit during this period compared with the same period a year earlier, the higher growth in workers’ remittances raised the current account to a surplus of \$135.0 million, from a deficit of \$8.0 million in the corresponding period of 2011.

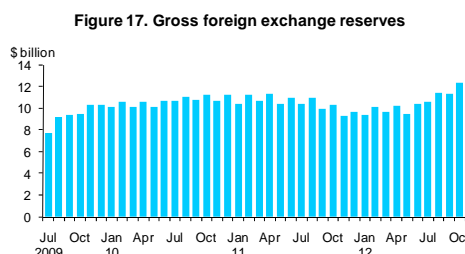
***Current account moved to a surplus because of higher growth in remittances***

58. The combined capital and financial accounts recorded a surplus of \$1.0 billion during July–September 2012, significantly higher than the surplus of \$427.0 million in July–September 2011 because of higher FDI and medium- and long-term loans. As a result, the overall balance showed a surplus of \$1.1 billion in July–September 2012, a significant rise from the deficit of \$99.0 million in the corresponding period of 2011.

***Overall balance rose***

59. According to the Global Competitiveness Index<sup>5</sup> (GCI) 2012–2013 of the World Economic Forum, Bangladesh recorded the steepest fall in its competitiveness since 2003–2004 due to weakening of the performance of public sector institutions, poor infrastructure, deteriorating economic stability, and finance sector efficacy. Bangladesh’s rank dropped to 118 (out of 144) in the GCI 2012–2013 from 108 (out of 142) in the GCI 2011–2012. Its overall competitiveness score declined by 2.1% during the period. Of the twelve pillars, only three showed growth: market size, higher education and training, and health and primary education. While three pillars remain unchanged (business sophistication, infrastructure development, and goods market inefficiency), decline has been observed in the remaining six pillars. The report identified weakening in the stability of the macroeconomic environment and a deterioration of the legal and administrative framework.

60. Gross foreign exchange reserves of Bangladesh Bank rose to \$12.3 billion (just over 3 months of imports) at the end of October 2012, from \$10.3 billion a year earlier (Figure 17). Despite import growth being higher than export growth, foreign reserves rose because of the central bank’s purchase of foreign exchange from the commercial banks and higher inflow of remittances.

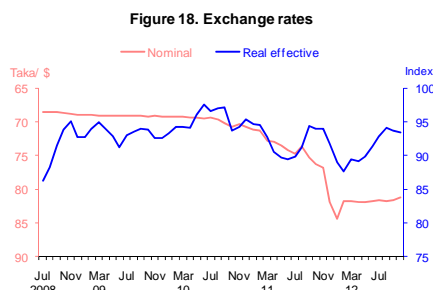


***Gross foreign exchange reserves rose***

<sup>5</sup> World Economic Forum. 2012. *The Global Competitiveness Report 2012-2013*. Geneva.

## Exchange Rate

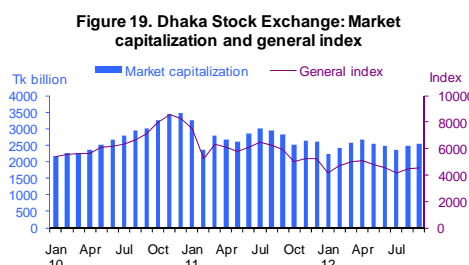
61. The weighted average nominal (taka-dollar) exchange rate depreciated from Tk76.2 = \$1.0 at the end of October 2011 to Tk81.2 = \$1.0 at the end of October 2012 (a depreciation of about 6.2%) (Figure 18), although taka remained stable against dollar since February 2012. Taka depreciation occurred mostly in late 2011 and early 2012, due to higher import demand, especially for fuel imports for fuel-based power projects and lower remittance growth. In October 2012, the nominal effective exchange rate depreciated by 4.8% year-on-year. Because of the higher decline in domestic inflation compared with its trading partners, Bangladesh's real effective exchange rate depreciated by 0.6% in October 2012, indicating gains in export competitiveness.



***Both nominal exchange rate and real effective exchange rates depreciated***

## Capital Market

62. The subdued trend in major stock market indicators continued in FY2013 with significant price corrections. The Dhaka Stock Exchange (DSE) general index declined by 10.8% by the end of October 2012 from the end of October 2011, reaching 4,493.9 points (Figure 19). The market price-earnings ratio declined from 13.4 in October 2011 to 13.0 in October 2012, reflecting continuous price corrections in the market. DSE market capitalization rose slightly by 0.7% to Tk2,508.8 billion by the end of October 2012, from Tk2,525.4 billion a year earlier.



***Major stock market indicators remained subdued***

63. The Chittagong Stock Exchange (CSE) selective categories index largely followed the trends of the DSE index. The CSE index declined by 5.8% by the end of October 2012 from a year earlier, and CSE market capitalization remained the same between the two periods.

64. Measures to restore investor confidence in the stock market continue without any immediate impact. The government announced various measures in the FY2013 budget to restore investor confidence, including the mandatory holding of company

shares by individual sponsor-directors equivalent to 2.0% of paid-up capital. In July 2012, the Securities and Exchange Commission asked all merchant banks, brokerage firms, and other financial institutions to compensate small investors affected by the 2010–2011 stock market downturn. Authorities strengthened the surveillance system, and plan to introduce demutualization in the DSE and CSE during FY2013 to enhance transparency and accountability in stock market operations.



## SPECIAL TOPIC: ADB ASSISTANCE FOR THE AGRICULTURE AND NATURAL RESOURCES SECTOR<sup>6</sup>

### Sector Performance, Problems, and Opportunities

65. **Overview.** Agricultural development and sustainable rural natural resource management are critical for poverty reduction in Bangladesh. About 75% of the population and 83% of the poor live in rural areas. Agriculture generates close to half of employment, contributes 17.5% of the GDP, and provides a secure supply of food to the whole population. Fostering agricultural development and sustainable natural resource management has been taking on increased importance as policymakers grapple with climate change and with sudden spikes in global and domestic food prices.

66. **Rural infrastructure to transform traditional agriculture.** Growth drivers in rural areas are shifting from rice cultivation to high-value agricultural commodities and off-farm employment. Transforming subsistence to commercial agriculture is key to improving rural livelihoods, boosting rural economic growth, and contributing to long-term food security. The Government of Bangladesh promotes diversification in agriculture by fostering private sector-led agribusiness and improving rural infrastructure. The latter includes developing farm-to-market roads, providing access to affordable power, developing rural growth centers including marketplaces with women's sections, and building rural water supply and sanitation infrastructure. With climate change risks increasing, the provision of climate-resilient rural infrastructure assumes growing importance. In addition, rural institutions need to be developed to help ensure that better market access brings improved livelihoods and more rapid social development. All these issues have important gender-equality dimensions, and households headed by women can benefit. Accordingly, the provision of rural infrastructure has been linked with efforts supported by the government and development partners to foster increased local community participation in decision making, enhance gender equity, ensure proper operation and maintenance (O&M) of rural assets, build technical skills and local government capacity, and raise awareness of rural road safety concerns. The participation of beneficiaries in small-scale irrigation and the broader sustainability of rural infrastructure are threatened by heavy dependence on central government budget transfers to meet maintenance requirements. Such transfers have been sufficient to meet only about half of the upkeep and routine maintenance of rural roads.

67. **Sustainable management of water resources.** Strengthening of integrated and strategic water resource management is urgently needed. This includes flood management and erosion control, improved and adaptive participatory water resource management, and strengthened policy implementation. Recurrent floods and aggravated riverbank erosion are major problems and causes of poverty. Other water resource management problems include temporal variation in discharges (i.e., alternating flooding and winter drought), drainage congestion, drought, salinity intrusion in coastal areas, cyclones and tidal surges, arsenic contamination of groundwater, overexploitation of groundwater, and chemical and fertilizer contamination of water. In addition, the irrigation network is characterized by inefficient water utilization, inadequate maintenance, and a large backlog of needed repairs. Intertwined is the impact of climate change on the incidence and severity of disasters, necessitating more attention to managing disaster risk and adapting to climate change, including measures to control flooding and erosion. More effort is required to foster community participation, including of women and the private sector, in the sustainable

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<sup>6</sup> This chapter is based on ADB. 2011. *Country Partnership Strategy: Bangladesh, 2011–2015*. Manila.



management of water resources, building on success registered in small-scale water resource projects.

68. **Institutional capacity and coordination constraints.** Several ministries and agencies are involved in agriculture, rural development, and natural water resource management, including Bangladesh Water Development Board; the Local Government Engineering Department; the Ministry of Agriculture; the Ministry of Fisheries and Livestock; the Ministry of Local Government, Rural Development, and Cooperatives; and Ministry of Water Resources. Under the ministries are outreach and extension agencies, research institutes, and organizations responsible for technology dissemination. The division of authority across agencies, capacity constraints, and lack of coordination hampers the delivery of high-quality services. The various ministries and departments for agriculture and natural resources have very limited experience with projects that would promote private sector participation in service delivery other than through nongovernment organizations and civil society groups.

### **Government's Sector Strategy**

69. SFYP recognizes the need to increase agricultural productivity, foster crop diversification, and boost public spending on rural infrastructure (footnote 1). The plan indicates that more rapid progress in improving farm-to-market roads and the increased availability of rural power will be achieved by refocusing agricultural spending away from subsidies and into rural infrastructure. The plan emphasizes improving the enabling environment for agribusiness development by enhancing the scale of production, focusing on quality and standards for export markets, and developing private trade logistical assets such as cold storage facilities.

70. Sustainable water resource management is a priority for environmental protection under the plan. The government's strategy for water resource management rests on three principles: (i) ensuring the rational management and optimal use of water resources to reduce vulnerability to flooding, drought, riverbank and coastal erosion, and drainage congestion; encouraging the wider use of surface water; rationalizing groundwater use; improving access of the poor to water and common resources; and expanding the availability of clean water for health and hygiene; (ii) conserving aquatic and water-dependent ecosystems; and (iii) undertaking institutional reform of water sector agencies in line with the National Water Policy and National Water Management Plan, to achieve efficient and integrated water management and sustainable O&M, including stakeholder participation to ensure benefits for the poor, women, and other excluded groups.

### **ADB Sector Experience and Assistance Program**

71. Until the 1980s, ADB support aimed to enhance food production by helping the government expand farmers' access to improved inputs such as fertilizers and seeds. The emphasis broadened during the 1990s to include crop production, livestock, rural credit, social forestry, and related water resource management and rural infrastructure. Water sector assistance contributed to establishing a policy and institutional framework for robust and comprehensive participatory water management, including policies to foster sustainable O&M cost recovery and irrigation service charge collection by water management associations. These interventions contributed to agricultural and rural growth and were in line with government efforts to diversify sources of rural growth. They

contributed to the sustainability, market orientation, and pro-poor impact of public policies; and provided opportunities to promote gender equality and women's empowerment.

72. In several areas, however, progress in the sector has fallen short. Despite significant efforts by ADB and other development partners, access for rural households to institutional credit remains low, key sector institutions do not perform as expected, local governments provide insufficient support for the O&M of rural transport, and stakeholder participation is not firmly entrenched in public programs. Rural environmental concerns have become more serious in recent years, as reflected in widespread arsenic contamination in tube-well water, worsened deforestation, soil erosion, and land degradation.

73. Several development partners provide assistance to agriculture, rural development, and natural resource management. This underscores the need to position ADB assistance carefully to complement support provided by the government, other development partners, nongovernment organizations, and the private sector. The major development partners in the sector are the Danish International Development Agency, the Department for International Development of the United Kingdom, the European Union, the Food and Agriculture Organization, German development cooperation through GIZ and KfW, the International Fund for Agricultural Development, the International Rice Research Institute, the Japan International Cooperation Agency, the Netherlands, the United Nations Development Programme, the United States Agency for International Development, the World Bank, and the World Food Programme. For water resource management, the World Bank is a major development partner, and its recent assistance centered on preparation of the National Water Management Plan, rehabilitation of water management infrastructure, and riverbank protection. The Netherlands has been a major cofinancier with ADB for water management, supporting physical, institutional, and associated socioeconomic and environmental improvement initiatives. Recently, the World Bank and the Netherlands initiated the Water Management Improvement Project to rehabilitate major schemes and improve O&M and institutional strengthening of the Bangladesh Water Development Board by adopting participatory water management principles.

74. ADB will help the government improve food security and rural livelihoods by boosting productivity, connectivity, and climate change resilience. While support for inclusive rural growth will be provided in several sectors, ADB support to agriculture and natural resources will focus on two major areas: rural infrastructure development and water resource management. Both are highlighted as high priorities in SFYP (footnote 1). The former is critical for fostering agricultural commercialization and widening rural livelihoods, and the latter is essential for mitigating disaster risks and adapting to the environmental dangers posed by climate change. ADB assistance will be substantially more focused than in previous years and will build on subsectors where ADB has a positive performance record and where other external assistance is limited.

75. Rural infrastructure development supporting the emphasis of SFYP on boosting rural productivity, adding value, and fostering rural transformation will be a key area of ADB support. This will build on ongoing initiatives for agribusiness, rural livelihoods, and rural infrastructure development. ADB will provide assistance to develop rural infrastructure and build institutions that can ensure its sustainable O&M. Support will target the ultra-poor, women, and excluded groups, as well as provide for social groups vulnerable to climate change, and support gender-directed extension services. Building the capacity of local governments will be emphasized in the financing, planning, design, implementation, and

O&M of rural infrastructure. The aim is to ensure participatory, transparent, climate resilient, and gender-directed service delivery.

76. The second phase of the Chittagong Hill Tracts Rural Development Project will provide assistance for rural infrastructure in one of the poorest regions of the country. It will draw on community plans and priorities, and emphasize building local institutions involved in rural development. Support for micro agribusinesses in this project will bolster the link between rural infrastructure development and agricultural commercialization.

77. Climate change considerations will be mainstreamed in ADB support to help Bangladesh follow a path of agricultural development that is more climate-resilient. Assistance is provided for coastal climate-resilient infrastructure development in 2012, with financing from the Climate Investment Funds. ADB will help the Ministry of Environment and Forests and other line agencies, including ministries of agriculture and water resources, implement the Bangladesh Climate Change Strategy and Action Plan. With other development partners, ADB will support the Pilot Program for Climate Resilience under the Climate Investment Funds to help the country pilot ways to integrate climate risks. Assistance will introduce climate-resilient measures in infrastructure improvement in coastal towns, rural infrastructure improvement, and small-scale water resource management addressing the gender issues of climate change. Capacity building will help Bangladesh prepare and implement flood-management investment programs to reduce vulnerability to water-related disasters and manage climate change knowledge.

78. Developing efficient and integrated sustainable water resource management is essential to boosting agricultural productivity and diversifying rural livelihoods. Through the Irrigation Management Improvement Investment Program, ADB assistance will build on the National Water Management Plan, which adopts the basic principles of integrated water resources management, sustainable service delivery through sustainable O&M, and full participation of water users in water resource management support activities. In parallel, ADB assistance will support the National Adaptation Program of Action and the Bangladesh Climate Change Strategy and Action Plan, which emphasize flood control and erosion risk reduction.

79. A programmatic approach will be adopted to mitigate riverbank erosion through the Flood Protection and Riverbank Erosion Risk Management Investment Program. This is built on breakthroughs achieved in erosion mitigation using geotextile bags for underwater sections of eroded riverbanks for ongoing ADB projects and scale up the use of this pioneering technology with standardized disaster-mitigation approaches and tools for predicting erosion risks. As reducing riverbank erosion and flood risk is a long-term challenge in Bangladesh to be addressed in phases, support for mitigating riverbank erosion will be provided through programmatic approaches that combine assistance for physical works and capacity building in government agencies and private contractors. The first subprogram of a longer-term assistance program for erosion management and flood control will aim to reduce erosion risks and bolster the climate resilience of households in the Jamuna–Ganges basin.

80. ADB will also support integrated water resources management by helping improve the efficiency and sustainability of large irrigation command areas, in terms of (i) increased coverage of irrigated areas through the practice of rotation, (ii) targeted collection of irrigation service charges, and (iii) sustainable O&M of the schemes. ADB assistance will develop new institutional models, such as using an independent operator to manage large

irrigation command areas to improve system management and maintenance, and the collection of irrigation service charges. This will combine support for irrigation system rehabilitation with institutional reforms and capacity building that foster community participation and clearly delineated PPPs. ADB's private sector operations will consider financial support for agribusiness, food processing, fertilizer, agriculture logistics including warehouses, water resource management, and tourism-related infrastructure.

## About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two thirds of the world's poor. Around 903 million people in the region live on \$1.25 or less a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.