



# Power Crisis:

## What Initiative Bangladesh Needs to Take



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In recent times anywhere in the world, especially in cities, we cannot think about our daily life without electricity. Electricity is required for agricultural production, industrialization, socioeconomic development, as well as service sector operation. But now, like many EU countries, Bangladesh has reached an extreme power supply situation after the Covid-19 pandemic and the recent Russia-Ukraine war. Before going into why such power shortages have occurred, let us know some facts about the power generation, demand, and distribution system.

According to Bangladesh Economic Review 2022, the total number of electricity consumers is 4.19 crore, and the total distribution line is 6.19 lakh kilometers. The total installed electricity generation capacity stood at 25,284 MW, including captive and renewable energy, in FY2022 (up to January 2022). Total net electricity production was 80,423 million kilowatt-hours in FY2021, which was 42,395 million kilowatt-hours in the first six months of FY2022 (up to December 2021). Out of total net generation, 40.02% of power was generated by the public sector, 47.39% from the private sector, 4.10% from the joint venture, and 8.50% from power import. Moreover, the total system loss was recorded at 9.54% in the first seven months of FY2022. In addition, we produce 60.44% of electricity by natural gas in FY2022 (up to December 2021), which is the maximum. Among the total electricity production, 24.33% was produced by liquid fuel, 8.50% was imported, 5.31% by coal, 1.14% by hydro, and the rest was generated by renewable energy (0.29%) in FY2022 (up to December 2021). Further, the report found that in FY2022 (up to February 2022), the total electricity demand was 15,500 MW, and the demand will be 33,000 MW by 2030 and 52,000 MW by 2041. However, the Bangladesh government has set a target to increase installed electricity generation capacity to 40,000 MW by 2030 and 60,000 MW by 2041.<sup>1</sup>

According to the report, all the figures are pretty smart. But, now, people are facing extreme conditions in life and economic activities due to the area-wise power cuts after announcing the 100% electrification by government. For this structural break in electricity production and supply, the government sought to blame the Russia-Ukraine war but energy experts chose to disagree and said that the crisis was always there. However, in thick spots, the power and energy experts have identified three leading causes of recent power failure: wrong policy decisions, inefficiency, and corruption (Hossain, 2022). Now, I am interested in looking inside these three issues to understand why the power sector is in chaos.

First, in 2010, the government quickly introduced the power and energy supply act, which included an impunity offer. Then the government, in unsolicited bids, granted contracts to private investors to build as many as 94 power plants on conditions that set the stage for unabated corruption and making predatory profits in the power sector that appear to have put the entire economy in peril (Hossain, 2022).

Second, since 2009, the government has established 22 power plants either on its own or in joint ventures, which increased the total installed generation capacity by more than fivefold to 25,000MW. This rapid growth of installed electricity generation capacity without the necessary improvements in distribution and transmission networks is one of the main reasons for falling into a baffling situation.

Third, most of the rental, quick rental, and peaking plants are run by fossil fuel. We know that it is difficult for Bangladesh to keep these power plants running by importing fossil fuels. However, the current government in Bangladesh took over the primary energy supply to power plant operators and guaranteed the operators to pay capacity charges if their plants were idled due to fuel shortages, which is one of the main reasons for the current crisis. In FY2022, the government paid Tk.16,785 crore capacity charges to power plants in the first nine months.

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<sup>1</sup> All the information has been taken from the Bangladesh Economic Review 2022: [19\\_BER\\_22\\_En\\_Chap10.pdf \(portal.gov.bd\)](#)

Fourth, the energy shortage in Bangladesh is one of the main reasons for the present situation. Due to the energy shortage, Bangladesh could never use its total installed generation capacity, particularly its gas-fired power plants. According to the Power Development Board, 42 power plants of 4,127 MW could not be commissioned due to a shortage of primary energy (gas and fossil fuel). Before the Russia-Ukraine war triggered the latest global energy crisis, even when the LNG price was at its historic low in 2020, about 40% of the gas-fired power plants remained unused on average (According to PDB data). Bangladesh's coal capacity has also been underutilized due to coal shortages, while the government has suspended operations at a 1,225 MW power plant due to the high prices of diesel, the most expensive primary energy.

Finally, the present reserve shortage has also created a significant problem for purchasing energy (gas, fossil fuel, coal, etc.) from abroad. Besides, the energy price hike due to the Russia-Ukraine war is another issue.

The current crisis is not the outcome of a single mistake but the result of a series of mistakes. It is evident that a power crisis must create in every sector of daily life and the country's economy. First, in daily life, the shortage of power supply affects our education, health (particularly the health of children and the elderly), as well as daily activities. Second, the insufficient power supply affects our business through revenue loss, damaged equipment or inventory, decreased productivity, ineffective customer care, data loss, supply chain ripples, and so on.

Now the concern is what impact the recent power crisis might have on our economy. The immediate effect will be on our export earnings and foreign direct investment (FDI). Bangladesh's main export item is RMG, which already decline after the power shock. According to the Export Promotion Bureau, Bangladesh's RMG exports fell 7.52% in September FY2023 due to production disruption. BGMEA informed that production in many RMG factories had dropped by at least 40% after the gas and electricity supply situation deteriorated sharply. BGMEA also said that Bangladesh's manufacturers had been failing to produce and ship the orders due to the shortage of electricity and gas. Besides, the remittance inflows also declined in this fiscal year (Haque, 2022).

Another major impact will occur in our FDI inflow. We know FDI inflow depends on countries' infrastructure development, law and order, work environment, and so on. Several recent studies acknowledge that the long-term relationship between FDI and economic growth is negative (Saqib et al., 2013; Siddiqui & Iqbal, 2010; Tahir & Khan, 2014). However, the recent power crises further accelerate the negative relationship. Moreover, export and FDI inflow issue will impact our GDP growth. Besides, the inflation rate will increase, and purchasing power will decrease. The balance of payment will be unstable, which will create additional pressure on our foreign reserve, which is already visible.

What is to be done then to meet the power crisis? The Bangladesh government can take short- and long-term policies in this situation. For example, the power and energy supply act to be corrected; a clear energy policy should be formulated; have to improve the distribution and transmission networks; quick rental power plants have to be discontinued from the national grade; the capacity charge has to be stopped. Besides, the major power projects, such as Rooppur Nuclear Power Plant, Rampal Power Plant, etc., should be completed quickly, including transmission infrastructure. Allocations to renewable energy programs (solar energy, biomass-based power plant, and wind energy) should be increased. New gas fields have to be discovered and gas extracted from the fields. Furthermore, the gap must be reduced between the total installed capacity and the maximum power generated; budget allocation should be increased for infrastructure development. Finally, multiple energy sources must be explored for energy security.

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