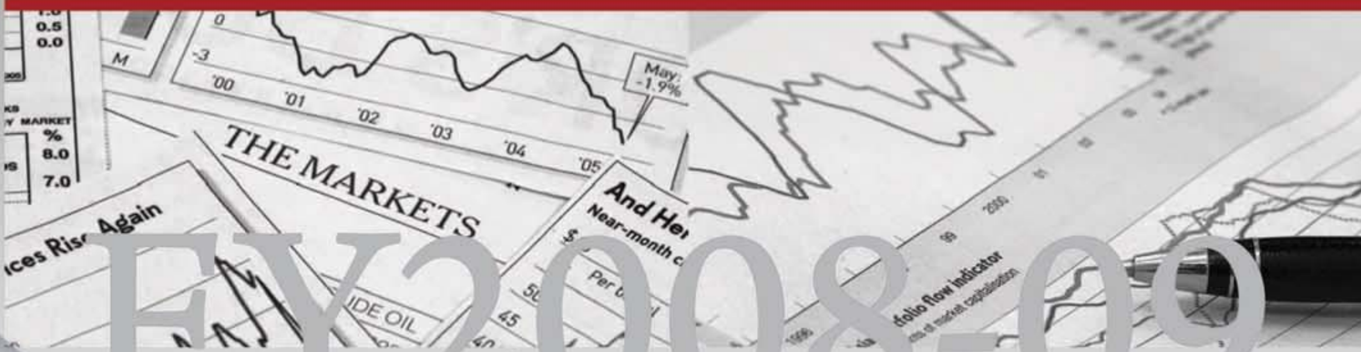

FY2008-09

State of the Bangladesh Economy in FY2008-09 and Outlook for FY2009-10

Centre for Policy Dialogue (CPD)

State of the Bangladesh Economy in FY2008-09 and Outlook for FY2009-10

CENTRE FOR POLICY DIALOGUE (CPD)
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Centre for Policy Dialogue (CPD)
House No. 40/C, Road No. 11 (new), Dhanmondi R/A
Dhaka 1209, Bangladesh
Telephone (8802) 8124770, 9141703, 9141734
Fax (8802) 8130951
E-mail info@cpd.org.bd
Website www.cpd.org.bd

The Centre for Policy Dialogue (CPD), established in 1993, is mandated by its Deed of Trust to service the growing demand originating from the emerging civil society of Bangladesh, for a more participatory and accountable development process. CPD seeks to address this felt need through organisation of multistakeholder consultations and dialogues, by conducting research on issues of critical national and regional interests, through dissemination of knowledge and information on key development issues, and by influencing the policymaking process in the country. At the core of CPD's activities lies its dialogue programme. The dialogues are designed to provide a forum for constructive engagement and discussion on key relevant issues, and to come up with specific recommendations to redefine the policies and for ensuring their effective implementation. The recommendations are then placed before current and prospective policymakers of the country as inputs to the decision making process. Some of the major research programmes of the CPD include *Macroeconomic Performance Analysis*, *Agriculture and Rural Development*, *Eradication of Poverty*, *Trade*, *Regional Cooperation and Global Integration*, *Investment Promotion*, *Infrastructure and Enterprise Development*, *Climate Change and Environment*, *Human Development and Social Protection*, and *Development Governance*, *Policies and Institutions*. CPD actively networks with other institutions within and outside Bangladesh which have similar interests and also regularly participates in various regional and international fora where interests and concerns of developing and least developed countries are discussed. CPD's current publication list includes more than 350 titles including Books, Monographs, Occasional Papers, Dialogue Reports and Policy Briefs. CPD outputs are available for sale at the Centre and also in selected bookstores in Bangladesh. CPD publications and other relevant information are also regularly posted on CPD's website www.cpd.org.bd

The views expressed in this volume are those of the CPD IRBD 2009 team members and do not necessarily reflect the views of the CPD.

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CPD IRBD 2009 Team

Professor Mustafizur Rahman, Executive Director, CPD was in overall charge of preparing this report as the Team Leader.

Dr Debapriya Bhattacharya, Distinguished Fellow, CPD provided useful guidance to the team and made key contributions to the various chapters of the present volume.

Lead contributions were obtained from *Dr Uttam Deb*, Head, Research Division; *Dr Fahmida Khatun*, Additional Director, Research; *Dr Khondaker Golam Moazzem*, Senior Research Fellow; *Mr Kazi Mahmudur Rahman*, Senior Research Associate; *Mr Syed Saifuddin Hossain*, Senior Research Associate; *Mr Md Ashiq Iqbal*, Senior Research Associate; *Mr Towfiqul Islam Khan*, Senior Research Associate; and *Mr Asif Anwar*, Senior Research Associate.

Competent research assistance was received from *Ms Nafisa Khaled*, Senior Research Associate; *Ms Suparna Hasan*, Senior Research Associate; *Mr Hasanuzzaman*, Senior Research Associate; *Ms Zeeshaan Rahman*, Senior Research Associate; *Mr Subir Kanti Bairagi*, Research Associate; *Mr Md Tariqur Rahman*, Research Associate; *Mr Tapas Kumar Paul*, Research Associate; *Mr Muhammad Al Amin*, Research Associate; *Mr Ashiqun Nabi*, Research Associate; *Ms Sharmin Chowdhury*, Research Associate; *Ms Nusrat Jahan*, Research Associate; *Mr Kishore Kumer Basak*, Research Associate; *Mr Mazbahul Golam Ahamad*, Programme Associate; *Ms Afrin Islam*, Programme Associate; *Ms Kaniz Tasnima*, Programme Associate; *Ms Rumana Islam*, Programme Associate; *Ms Nahita Nishmin*, Programme Associate; *Mr Shouro Dasgupta*, Research Intern; *Mr Bastian Tornes*, Research Intern; and *Ms Laura Jepson*, Research Intern.

Preface

The present volume titled "State of the Bangladesh Economy in FY2008-09 and Outlook for FY2009-10" has been published as part of CPD's flagship research project *Independent Review of Bangladesh's Development (IRBD)* which was initiated in 1995. As readers familiar with CPD publications would know, through this particular publication CPD continues its long tradition to present, on an annual basis, an analysis of the Bangladesh economy by way of tracing the performance of major macroeconomic indicators. The current volume is the nineteenth published under the IRBD series. The underlying vision of the IRBD exercise, as was stated by the architect of this initiative CPD's Chairman *Professor Rehman Sobhan*, was to "promote informed debate and constructive criticism of various policies pursued in Bangladesh with a view to contributing to policymaking in the country." Indeed, this publication embodies a wide spectrum of activities undertaken as part of the IRBD initiative including periodic reviews of the country's macroeconomic performance, issue-based dialogues, brainstorming sessions and discussions which were organised by the CPD during July 2008 - June 2009 period. Views, comments and critical perspectives of different groups of stakeholders participating in those events have thus contributed to and informed what has been presented in the various sections of the present volume.

Chapter 1 of the volume presents a comprehensive review of the behaviour of key macroeconomic indicators of Bangladesh during FY2008-09. An attempt has been made to analyse and explain their trends and dynamics to identify the driving factors and establish causal relationships. As is known, governance of the economy in FY2008-09 was shared both by the caretaker government and the newly elected government. Global economic crisis also had important implications for the increasingly globalising economy of Bangladesh. The analyses presented in this section have considered these developments and made an attempt to capture the attendant distinctive features and their implications for the economy. The chapter also presents a number of emerging challenges confronting macroeconomic management by the newly elected government over the next fiscal year of 2009-10.

An analysis of the various proposals in the national budget for FY2009-10 has been presented in Chapter 2. As in earlier years, CPD has carried out a detailed examination of the various components of the budget including resource mobilisation and tariff rate restructuring, investment incentives, sectoral allocations and annual development programme (ADP). The analysis makes an attempt to capture the impact of various incentives and budgetary initiatives on macroeconomic performance during the upcoming fiscal year.

Prior to the presentation of the national budget for FY2009-10 by the Hon'ble Finance Minister in June 2009, CPD prepared a set of proposals for the Ministry of Finance, Government of Bangladesh. The CPD proposals focused on such issues as fiscal measures, agriculture and rural development, development of the manufacturing sector, energy and infrastructure, social sectors, development administration, and public-private partnership (PPP). These proposals are presented in Chapter 3 of the current IRBD volume.

In August 2009, CPD conducted a study to highlight a number of key macroeconomic challenges which the government was likely to face in implementing the various measures proposed in the national budget for FY2009-10. This paper titled "Delivering on Budget FY2009-10: A Set of Implementation Issues" is included as Chapter 4 of the current volume. The key areas dealt within the document are growth prospect and budget implementation, domestic resource mobilisation, foreign resource inflow, ADP implementation, PPP, and financing of the budget deficit.

The CPD study titled "Recent Monetary Policy Statement of Bangladesh Bank (July 2009): An Analytical Commentary" constitutes Chapter 5 of the current IRBD volume. The paper undertakes a critical analysis of the Monetary Policy Statement of the Bangladesh Bank announced in July 2009, and examines various steps taken by the Bangladesh Bank to control inflation and money supply, and stimulate the economy.

In addition to the core sections, the IRBD volume is accompanied by four annexes. First two of these are reports on dialogues on the proposed national budget for FY2009-10 held in Dhaka and Chittagong respectively on 20th and 16th of June, 2009. Annex 3 is a report that documents procedures of a dialogue held on 12 August 2009 titled "Implementation Challenges of the Budget FY2009-10." Finally, Annex 4 presents a list of important economic news appearing in various national dailies during the period of 1 January to 31 December 2009 which will provide the readership with a flavour of the evolving economic policies and events of the recent past.

Acknowledgement

The present volume owes its publication to many who have contributed in various ways and in different capacities. I would like to mention in this connection the valuable contribution made by *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD and immediate past Executive Director, CPD for his contribution to this volume, particularly Chapter 4 and 5. The CPD IRBD team members have all worked with a sense of purpose and dedication and the various chapters in this volume reflects the high quality of their efforts. As on previous occasions, this volume has benefited greatly from contributions, in the form of access to relevant data and information, criticism and feedbacks received from researchers, members of the academia, leading policymakers, political leaders and members of the parliament, government officials, business leaders, and representatives from grassroots and civil society organisations. On behalf of the IRBD team, I would like to sincerely thank all of them individually and collectively for their time, insights and ideas which have added significant value to the work presented here.

The CPD team also gratefully acknowledges the support it has received, in accessing relevant data and information, from concerned officials belonging to a number of institutions including the Bangladesh Bureau of Statistics (BBS), Bangladesh Bank, National Board of Revenue (NBR), Export Promotion Bureau (EPB), Planning Commission, Tariff Commission, Dhaka Stock Exchange (DSE) and Petrobangla.

I would also like to put on record our deep appreciation for support and cooperation received from members of the print and electronic media of the country.

Special words of appreciation are due to CPD's Dialogue and Communication Division headed by *Ms Anisatul Fatema Yousuf*, Director, CPD, for their hard work in organising various events, including dialogues and workshops, as part of the IRBD preparation exercise. Contribution of the CPD Administration and Accounts Division in facilitating organisation of IRBD-related research and dialogue activities is sincerely appreciated.

PREFACE

Taking this opportunity, the IRBD team members would like to acknowledge their debt to the following CPD officials: *Mr Avra Bhattacharjee*, Senior Documentation and Publication Officer, for designing the cover page and getting the present IRBD volume in pre-printing format within a tight schedule; *Mr Fazley Rabbi Shakil*, Publication and Print Associate, for providing able assistance in desktop publishing; *Ms Nazmatun Noor*, Senior Dialogue Associate, for copy editing of the manuscript; *Mr AHM Ashrafuzzaman*, Senior System Analyst, for his technical support, and *Mr Md Hamidul Hoque Mondal*, Senior Administrative Associate, for his valuable secretarial support.

Finally, on behalf of the IRBD team, I would like to most sincerely thank *Professor Rehman Sobhan*, Chairman, CPD for his continuing support and wise guidance which has been an inspiration to all of us at CPD, in all these years. It is satisfying to note that by publishing this volume the CPD family has been able to establish another milestone along the road that *Professor Sobhan* had first laid down many years back to take this civil society initiative forward.

Mustafizur Rahman
Executive Director
Centre for Policy Dialogue (CPD)

February 2010
Dhaka

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Acronyms

ACU	Asian Clearing Union
ADB	Asian Development Bank
ADP	Annual Development Programme
AGOA	African Growth and Opportunity Act
AIS	Agricultural Information Service
AIT	Advance Income Tax
API	Active Pharmaceutical Ingredient
ATV	Advanced Trade VAT
BADC	Bangladesh Agricultural Development Corporation
BAPEX	Bangladesh Petroleum Exploration & Production Company
BARC	Bangladesh Agricultural Research Council
BBF	Better Business Forum
BBS	Bangladesh Bureau of Statistics
BCAS	Bangladesh Centre for Advanced Studies
BCIC	Bangladesh Chemical Industries Corporation
BCS	Bangladesh Computer Samity
BDT	Bangladesh Taka
BEPZA	Bangladesh Export Processing Zone Authority
BEA	Bangladesh Economic Association
BERC	Bangladesh Energy Regulatory Commission
BFIDC	Bangladesh Forest Industries Corporation
BGFC	Bangladesh Gas Field Company
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BGTB	Bangladesh Government Treasury Bond
BIDS	Bangladesh Institute of Development Studies
BIIF	Bangladesh Infrastructure Investment Fund
BIISS	Bangladesh Institute of International and Strategic Studies
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral, Technical and Economic Cooperation
BINA	Bangladesh Institute of Nuclear Agriculture
BJMC	Bangladesh Jute Mills Corporation
BKB	Bangladesh Krishi Bank
BMET	Bureau of Manpower, Employment and Training
BOGMC	Bangladesh Oil, Gas and Mineral Corporation
BOI	Board of Investment
BOO	Build-Own-Operate
BOOT	Build-Own-Operate-Transfer

ACRONYMS

BOP	Balance of Payment
BOT	Build-Operate-Transfer
BPC	Bangladesh Petroleum Corporation
BPDB	Bangladesh Power Development Board
BRRI	Bangladesh Rice Research Institute
BRTC	Bangladesh Road Transport Corporation
BSB	Bangladesh Shilpa Bank
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSEC	Bangladesh Steel and Engineering Corporation
BSFIC	Bangladesh Sugar and Food Industries Corporation
BSP	Bangladesh Sanchay Patra
BSRS	Bangladesh Shilpa Rin Shangstha
BSTI	Bangladesh Standards and Testing Institution
BTCL	Bangladesh Telecommunications Company Limited
BTMA	Bangladesh Textile Mills Association
BTMC	Bangladesh Textile Mills Corporation
CACP	Commission for Agricultural Costs and Prices
CBI	Caribbean Basin Initiative
CBO	Community-based Organisation
CC	Community Clinic
CCCI	Chittagong Chamber of Commerce and Industry
CD	Customs Duty
CDMP	Comprehensive Disaster Management Programme
CEO	Chief Executive Officer
CHT	Chittagong Hill Tracts
CKD	Completely Knocked Down
CNG	Compressed Natural Gas
CPD	Centre for Policy Dialogue
CPF	Contributory Provident Fund
CPI	Consumer Price Index
CPI	Corruption Perception Index
CPM	Critical Path Method
CPP	Captive Power Plant
CRR	Cash Reserve Ratio
CSE	Chittagong Stock Exchange
CSR	Corporate Social Responsibility
CTG	Caretaker Government
DAE	Department of Agricultural Extension
DAP	Diammonium Phosphate
DCCI	Dhaka Chamber of Commerce and Industry
DCT	Deputy Commissioner of Taxes
DFID	Department for International Development
DPHE	Department of Public Health and Engineering
DPP	Development Project Proposal
DSE	Dhaka Stock Exchange
DSI	All Share Price Index
DSL	Debt Servicing Liability
DF-QF	Duty Free-Quota Free
ECNEC	Executive Committee of National Economic Council
ECR	Electronic Cash Register
EEF	Equity Entrepreneurship Fund
EPB	Export Promotion Bureau
EPZ	Export Processing Zone

ERD	Economic Relations Division
ESP	Essential Service Package
ETP	Effluent Treatment Plant
EU	European Union
FAO	Food and Agricultural Organization
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
FDI	Foreign Direct Investment
FFW	Food for Work
FOB	Free on Board
FPMU	Food Planning and Monitoring Unit
FYP	Five-year Plan
GCR	Global Competitiveness Report
GDP	Gross Domestic Product
GFRP	Global Food Crisis Response Program
GHI	Global Hunger Index
GIS	Geographic Information System
GMT	Greenwich Mean Time
GNI	Gross National Income
GR	Gratuitous Relief
GoB	Government of Bangladesh
G-20	Group of 20
HDI	Human Development Index
HEQEP	Higher Education Quality Enhancement Project
HIES	Household Income and Expenditure Survey
HNPSP	Health, Nutrition and Population Sector Programme
HSC	Higher Secondary Certificate
HYV	High-yielding Variety
ha	Hectare
IBCCI	India-Bangladesh Chamber of Commerce and Industry
ICB	Investment Corporation of Bangladesh
ICOR	Incremental Capital-Output Ratio
ICT	Information and Communication Technology
IDA	International Development Association
IDCOL	Infrastructure Development Company Ltd.
IDF	Integrated Development Fund
IFC-BICF	International Finance Corporation - Bangladesh Investment Climate Fund
IFPRI	International Food Policy Research Institute
IIFC	Infrastructure Investment Facilitation Center
ILO	International Labour Organization
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
INR	Indian Rupee
IOC	International Oil Company
IPCC	Intergovernmental Panel on Climate Change
IPFF	Investment Promotion and Financing Facility
IPO	Initial Public Offering
IPP	Independent Power Producer
IPR	Intellectual Property Right
IRBD	Independent Review of Bangladesh's Development
IT	Information Technology
ITP	Integrated Textile Park
JDCF	Japan Debt Cancellation Fund
JICA	Japan International Cooperation Agency

ACRONYMS

KHR	Cambodian Riel
LDC	Least Developed Country
LGED	Local Government Engineering Department
LGRD	Local Government and Rural Development
LKR	Sri Lankan Rupee
LPG	Liquefied Petroleum Gas
LTU	Large Taxpayers Unit
L/C	Letter of Credit
MBL	Marico Bangladesh Limited
MCCI	Metropolitan Chamber of Commerce and Industry
MDG	Millennium Development Goal
MIS	Management Information System
MLA	Member of Lower Assembly
MP	Member of Parliament
MPO	Monthly Pay Order
MPS	Monetary Policy Statement
MRP	Maximum Retail Price
MSP	Monthly profit bearing Sanchay Patra
MT	Metric Ton
MTBF	Medium Term Budgetary Framework
MTMF	Medium Term Macroeconomic Framework
MW	Mega Watt
MoA	Ministry of Agriculture
MoF	Ministry of Finance
MoFDM	Ministry of Food and Disaster Management
MoHFW	Ministry of Health and Family Welfare
MoLE	Ministry of Labour and Employment
MoP	Muriate of Potash
MoSICT	Ministry of Science and Information and Communication Technology
MoU	Memorandum of Understanding
mmcf	Million Cubic Feet
mmcfd	Million Cubic Feet per Day
mmcm	Million Cubic Metre
mmscfd	Million Standard Cubic Feet per Day
M2	Broad Money
NBFI	Non-bank Financial Institution
NBR	National Board of Revenue
NCB	Nationalised Commercial Bank
NCTB	National Curriculum and Textbook Board
NEC	National Economic Council
NGO	Non-government Organisation
NNP	National Nutrition Programme
NPDA	New Partnership Development Act
NPL	Non-performing Loan
NSD	National Savings Bond
NTB	Non-tariff Barrier
OIC	Organisation of Islamic Conference
OMS	Open Market Sale
OTC	Over-the-Counter
PCB	Private Commercial Bank
PEDP II	Second Primary Education Development Programme
PFDS	Public Food Distribution System
PICKO	Private Infrastructure Investment Center of Korea

PKSF	Palli-Karma Sahayak Foundation
POL	Petroleum, Oil and Lubricant
PPA	Public Procurement Act
PPP	Public-Private Partnership
PPR	Public Procurement Rules
PRSP	Poverty Reduction Strategy Paper
PSC	Public Service Commission
PSI	Pre-shipment Inspection
PSMP	Power System Master Plan
PSP	Pratirakkha Sanchay Patra
QIP	Quantum Index of Production
RADP	Revised Annual Development Programme
RAKUB	Rajshahi Krishi Unnayan Bank
RBM	Result-based Monitoring
REB	Rural Electrification Board
REER	Real Effective Exchange Rate
REHAB	Real Estate & Housing Association of Bangladesh
RMG	Readymade Garments
ROSC	Reaching Out-of-School Children
RPP	Rental Power Plant
RRC	Regulatory Reforms Commission
RoO	Rules of Origin
R&D	Research and Development
SAARC	South Asian Association for Regional Cooperation
SCB	State-owned Commercial Bank
SD	Supplementary Duty
SDF	Social Development Foundation
SEC	Securities and Exchange Commission
SEQAEP	Secondary Education Quality and Access Enhancement Project
SEZ	Special Economic Zone
SGFC	Sylhet Gas Field Company
SIM	Subscriber Identity Module
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary
SRO	Statutory Regulatory Order
SoE	State-owned Enterprise
TAR	Trans-Asian Railway
TBT	Technical Barrier to Trade
TCB	Trading Corporation of Bangladesh
TIN	Tax Identification Number
TFL	Truthful Level
ToT	Terms of Trade
TR	Test Relief
TRIPS	Trade-related aspects of Intelligent Property Rights
TSP	Triple Super Phosphate
TTI	Total Tax Incidence
TVET	Technical and Vocational Education Training
tcf	Trillion Cubic Feet
T-bill	Treasury Bill
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations

ACRONYMS

UNCLOS	UN Convention on the Law of the Sea
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UP	Union Parishad
US	United States
USD	United States Dollar
USDA	United States Department of Agriculture
USITC	United States International Trade Commission
VAT	Value Added Tax
VGD	Vulnerable Group Development
VGF	Vulnerable Group Feeding
VND	Vietnamese Dong
VRS	Voluntary Retirement Scheme
WASA	Water and Sewerage Authority
WEF	World Economic Forum
WFP	World Food Programme
WTO	World Trade Organization

CHAPTER 1

State of the Bangladesh Economy in FY2008-09

1.1 INTRODUCTION

By any measure FY2008-09 was a challenging period for Bangladesh, for several reasons. During the first half of the fiscal year it was the caretaker government (CTG) which was in charge of macroeconomic management of the country; the newly elected government steered the economy over the second half. The global financial crisis, with its attendant challenges and implications, impacted on the performance of the economy through the various transmission channels. High commodity prices of the early months of FY2008-09 were followed by a general collapse in the commodity prices as the crisis deepened and became more encompassing. The government assumed power at a conducive time, when the inflationary pressure experienced in the domestic economy had already started to ease, and export and remittance growth had continued to sustain the momentum in spite of the global economic crisis. However, in managing the economy over the next half of the fiscal year (January-June 2009), the government faced a number of challenges in the form of sluggish investment, increasing export volatility, fall in the number of workers going abroad and the urgency of ensuring food security with a good Boro harvest. A Global Financial Crisis Task Force was set up to provide policy advice in view of the emergent global situation and its impact on the economy. A stimulus package was announced in March 2009, and the design of the subsequent budget (for FY2009-10) also had to take into cognisance the possible implications of the crisis.

The global financial crisis, with its attendant challenges and implications, impacted on the performance of the economy through the various transmission channels

Overall, it may be safely stated that navigating the Bangladesh economy through the turbulent waters of FY2008-09 was, by any measure, a highly challenging task, which was shared by the CTG and the newly elected government. The following sections make an attempt to review how these tasks were addressed, what were the outcomes in terms of performance by major macroeconomic indicators and what were the major emerging challenges that needed to be addressed as the economy moved into FY2009-10.

Navigating the Bangladesh economy through the turbulent waters of FY2008-09 was, by any measure, a highly challenging task

1.2 MACROECONOMIC BENCHMARKS AT THE BEGINNING OF FY2008-09

Consecutive natural disasters and high commodity prices made FY2007-08 a challenging year from the perspective of economic management. Two successive floods were followed by the catastrophic cyclone *Sidr*, posing threat to food security of the country. The situation was further aggravated by a significant hike in prices in the global markets, particularly of food, fuel and fertiliser - three essential items of import for Bangladesh. Global high prices transmitted quickly to the domestic markets in Bangladesh where risk of a price hike was already a concern in the backdrop of apprehensions about lower food production owing to natural disasters. The annual average rate of inflation (12-month annual average consumer price index (CPI), 1995-96 = 100) increased to 9.94 per cent in June 2008 from 7.49 per cent in July 2007.

Consecutive natural disasters and high commodity prices made FY2007-08 a challenging year from the perspective of economic management

Despite the aforesaid adverse developments, Bangladesh economy demonstrated significant resilience with the gross domestic product (GDP) posting a respectable growth rate of 6.19 per cent in FY2007-08. This growth was underpinned by a 6.06 per cent growth in foodgrain production attained in the face of the natural disasters, primarily thanks to the commendable success in the production of Boro, country's major crop. Industrial production, however, registered a modest growth of 6.9 per cent in FY2007-08; 3.1 percentage points lower compared to that of FY2006-07. Stagnation in domestic savings rate remained a major concern as domestic savings as a percentage of GDP continued to hover around 20.3 per cent in FY2007-08, akin to the previous year. At the same time, the gross investment rate declined as per cent of GDP for the second consecutive year, falling to 24.2 per cent in FY2007-08 from 24.5 per cent in FY2006-07. The incremental capital-output ratio (ICOR) increased marginally from 3.8 in FY2006-07 to 3.9 in FY2007-08, implying some fall in capital productivity. Lower levels of domestic investment needs to be seen in tandem with the fall in foreign direct investments (FDI) (by 18 per cent).

Inadequate power supply remained a major bottleneck to investment and business activities in Bangladesh

Fall in investments was underpinned by poor implementation of annual development programme (ADP). In fact, the deteriorating trend of ADP implementation observed in the recent past continued and rate of implementation in FY2007-08 was the poorest ever. In FY2007-08, actual ADP as percentage of GDP stood at only 3.4 per cent. At the same time inadequate power supply remained a major bottleneck to investment and business activities in Bangladesh.

On the other hand, revenue mobilisation was one of the success stories of FY2007-08. Total revenue collection increased significantly by 24.3 per cent over the earnings of FY2006-07. Actual achievement of FY2007-08 was in fact 1.6 per cent higher than the target set in the budget for the fiscal year, a unique record. However, this was accompanied by high expenditure growth due to higher subsidy requirement. Consequently, at the end of the fiscal year, actual deficit stood at 4.9 per cent of GDP, highest since FY1999-00.

External sector of the economy demonstrated robust performance in FY2007-08

External sector of the economy demonstrated robust performance in FY2007-08. Bangladesh's total export earnings during FY2007-08 stood at USD 14.1 billion, registering 15.9 per cent growth over FY2007-08. On the positive side, remittance flow continued to be buoyant, with total inflow during the year amounting to USD 7.9 billion, which was about USD 1.9 billion more than that of FY2006-07 (32.0 per cent growth). Number of workers leaving the country was also significant, easing somewhat the pressure on domestic labour market. Foreign aid flow during FY2007-08 was also significantly higher (by 25.2 per cent) compared to FY2006-07, which however, was primarily underwritten by higher aid inflow in support of disaster rehabilitation efforts.

The extraordinary fiscal (government's earnings and expenditure) and inflationary developments in FY2007-08 distinguished this particular year as an outlier when juxtaposed with recent macroeconomic trends. Performance evaluation of macroeconomic indicators for FY2008-09 ought to take into account the aforesaid distinctive features of FY2007-08 which sets out the benchmark against which the assessment is to be made.

1.3 GROWTH, SAVINGS AND INVESTMENT

In view of the global recession, high inflation during the early months of FY2008-09, low investors' confidence and uncertainties regarding political transition with the change of government in January 2009, this growth rate merits to be accepted as respectable

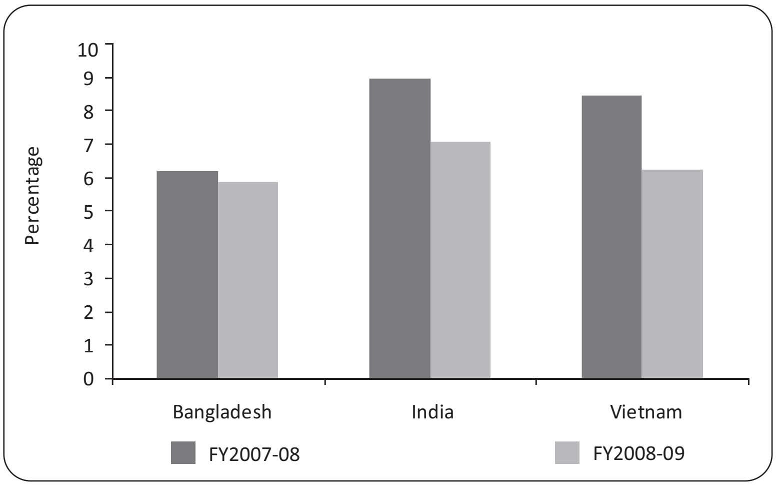
1.3.1 GDP Growth

Preliminary estimates prepared by the Bangladesh Bureau of Statistics (BBS) reports that, GDP is expected to post a growth of 5.88 per cent in FY2008-09. If this actually turns out to be the case, this would be the lowest GDP growth rate of the recent past five years, and will be considerably less (0.62 per cent) than the targeted growth of 6.5 per cent set out for FY2008-09. However, in view of the global recession, high inflation during the early months of FY2008-09, low investors' confidence and uncertainties regarding political transition with the change of government in January 2009, this growth rate merits to be accepted as respectable. As a matter of fact, adverse factors which informed macroeconomic performance in FY2008-09 led to considerably lower GDP growth projections of around 5.0 per cent or even lower by many quarters, including the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank (ADB).

However, a bumper crop harvest, resilience of the service sector, ability to contain deceleration of export growth and sustained high levels of remittance flow helped the economy to attain a near-six per cent growth rate, which was less than the target but higher than expectations.

As is known, global slowdown has affected all Asian economies including the emerging, developing and less developed economies. However, compared to her Asian counterparts, Bangladesh's growth rates declined at a slower pace (by 0.3 percentage point) compared to target rates. In case of, for example, India and Vietnam projected growth rates were lower by higher margins than their previous year's attainment (by 1.9 and 2.3 percentage points respectively) (Figure 1.1).

Figure 1.1: GDP Growth in Asian Countries



Source: Bangladesh Bureau of Statistics (BBS); Ministry of Finance, India; and Ministry of Finance, Vietnam.

Admittedly, any deceleration in the growth rate is likely to have a knock-on impact on the Bangladesh economy in terms of resource mobilisation, poverty alleviation and employment creation. The downward revision in the projected GDP growth for FY2008-09 (from 6.5 to 5.9 per cent) would imply that this would have adverse implications for the number of people coming out of poverty, other things remaining the same. However, using growth elasticity of poverty mentioned in the Second Poverty Reduction Strategy Paper (PRSP II), a GDP growth of 5.88 per cent should still result in 1.76 million people coming out of poverty in FY2008-09. However, this estimation is based on PRSP II, which does not take into cognisance the increase in poverty incidence owing to high inflation of the recent past. Indeed, a number of studies have indicated either deceleration in the pace of poverty reduction (World Bank), or reversal of poverty reduction trends and rise in poverty levels (Centre for Policy Dialogue (CPD)). Following the International Labour Organization (ILO) methodology, with 5.88 per cent growth in GDP, the projected level of employment generation during FY2008-09 should be around 2.0 million. The PRSP II projected that, during 2009-2011, every year on average 1.8 million people would be added to the labour force. Relatively high growth of agriculture in Bangladesh perhaps had a positive impact from labour absorption perspective; on the other hand, lower than projected GDP growth was likely to have adverse impact on labour absorption capacity of the economy than it would otherwise be. However, a note of caution is called for in this context to the effect that the validity of such conjectures should be tested through more in-depth investigation and household level survey.

Relatively high growth of agriculture in Bangladesh perhaps had a positive impact from labour absorption perspective; on the other hand, lower than projected GDP growth was likely to have adverse impact on labour absorption capacity of the economy than it would otherwise be

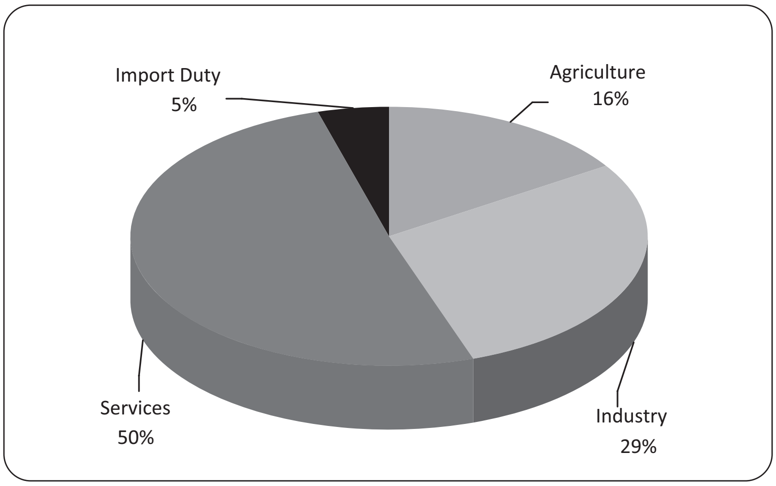
It is pertinent to recall here that, the provisional GDP estimate was also revised downward, albeit by small margin in FY2007-08, from 6.21 per cent to 6.19 per cent. Interestingly, growth rates of agriculture, manufacturing as well as service sectors were revised downward in FY2007-08. However, upward revision made for import duty component of the GDP restrained the fall in GDP growth estimates. In absence of this, the GDP growth rate would have been revised downward by another 0.2 per cent. This is important to note from the point of view that import duty was the only component of GDP that does not have a direct employment effect. This would mean that even though the GDP growth rate estimates did not change in any significant way in FY2007-08, employment generation is perhaps about 0.1 million less than would otherwise be as a consequence of this compositional change.

1.3.2 Sources of Growth

Despite the notably robust performance of country's agriculture sector, as a group, the tangible sectors of the economy[1] posted a moderate growth of 5.38 per cent while intangible sectors recorded a somewhat higher growth of 6.20 per cent. Global recession had an adverse impact on the manufacturing sector of Bangladesh which failed to achieve the projected targets. In the incremental GDP of FY2008-09, industrial sector contributed only 28.8 per cent whereas services sector remained the front-runner with a share of 50.7 per cent. Agriculture sector responded to positive policy initiatives of the government with its contribution to incremental GDP being to the tune of 15.96 per cent (Figure 1.2). Overall, agriculture sector posted an impressive 4.68 per cent growth; more than 1 per cent higher than the target set at PRSP II. Within the agriculture sector, crop sub-sector had posted an impressive 5.93 per cent growth, contributing to ensuring country's food security in the backdrop of the inflationary pressure on prices of food items experienced over in the recent past.

Agriculture sector responded to positive policy initiatives of the government

Figure 1.2: Sources of Incremental Growth



Source: CPD-IRBD estimate.

It is to be noted that the targeted industrial growth of 11.70 per cent in FY2008-09 was significantly higher than the actual growth of 6.78 per cent in FY2007-08. The sector's performance was particularly afflicted by domestic uncertainties and the ongoing economic crisis. Industrial sector as a whole could actually manage a growth rate of 5.93 per cent in FY2008-09. Within the industrial sector, growth rate of the manufacturing sub-sectors (contributing 17.24 per cent in the incremental GDP) experienced significant slowdown, posting a growth of 5.92 per cent in FY2008-09 against 6.78 per cent in FY2007-08. However, good performance of exports helped export-oriented industrial sector to tide over the difficulties to a significant extent, thereby contributing to the overall performance of the sector.

Historically, service sector has consistently experienced a moderately high performance, contributing to its increasing share in Bangladesh's GDP. In FY2008-09, service sector recorded a 6.25 per cent growth, which was lower than the PRSP II target of 6.87 per cent. Among the nine sub-sectors of the service sector, three experienced lower growth performance (wholesale & retail trade; transport & communication and financial intermediaries), while for others the growth rates were higher in FY2008-09 compared to FY2007-08.

Good performance of exports helped export-oriented industrial sector to tide over the difficulties to a significant extent

1.3.3 Per Capita Income

Per capita GDP of Bangladesh was estimated to be about USD 620 in FY2008-09, while per capita gross national income (GNI) was to be about USD 690 in FY2008-09. In Taka terms (1995-96 constant prices) the projected growth would indicate a per capita GDP growth of about 4.5 per cent in FY2008-09 over the preceding year; per capita GNI growth was expected to be higher at 6.7 per cent (primarily attributed to high remittance flow). However, it should be noted here that these averages conceal the fact of worsening income distribution situation in

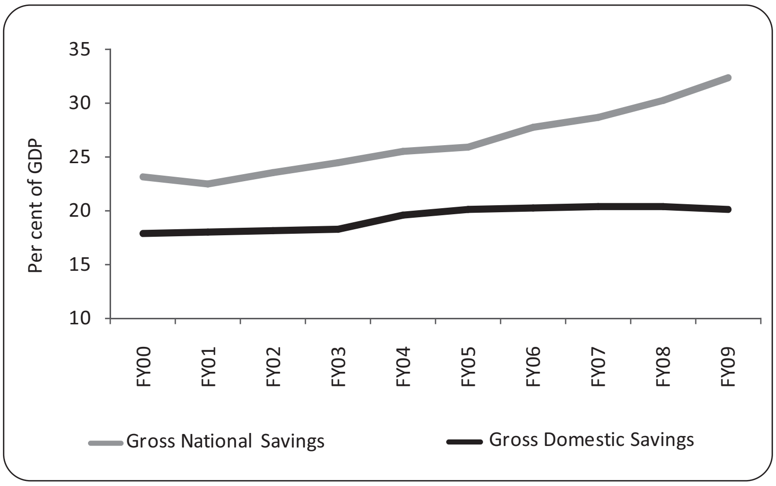
[1]Tangible sectors of the economy include agriculture sector (both agriculture & forestry and fisheries), mining & quarrying and manufacturing. The rest of the sub-sectors are defined as intangible.

Bangladesh. An increase in incremental share of farm sector in GDP may have helped contain the rise in income inequality seen in the past years. However, rising inequality continue to remain a serious problem with regional dimension of the inequality situation exacerbating the problem.[2]

1.3.4 Savings

Stagnating share of domestic savings in the GDP continued to persist in FY2008-09; as a matter of fact, domestic savings as a percentage of GDP somewhat declined from 20.31 per cent in FY2007-08 to 20.02 per cent in FY2008-09 (Figure 1.3). Rising prices of essential items in the first half of FY2008-09, particularly for food items, was perhaps a contributing factor as well.

Figure 1.3: Savings Rate as Percentage of GDP



Source: Bangladesh Bureau of Statistics (BBS).

In contrast, inspired by successive high growth in remittance inflow, national savings rates have registered higher growth in recent times. Share of national savings as percentage of GDP increased further in FY2008-09, to reach 32.36 per cent of GDP, as against 30.21 per cent in FY2007-08, registering a rise to the tune of 2.15 per cent of GDP. It is to be noted that, the gap between national and domestic savings in Bangladesh has been rising in a consistent manner over the recent past. This gap primarily originates from lack of investment demand and limited scope to channel remittances towards investment.[3] A continuation of this trend may result in further deterioration in income distribution, since remittance, whilst poverty alleviating, has also been found to be inequalising.

1.3.5 Investment

In absolute terms, gross capital formation in FY2008-09 would be about Tk. 148,840 crore in nominal terms (Tk. 92,002 crore at constant prices). Growth of gross capital formation made some progress, posting 5.72 per cent in FY2008-09 compared to only 1.80 per cent in FY2007-08. However, this is lower than the general trend which hovers between 8 to 9 per cent. Investment has suffered from both lack of infrastructure and continuing uncertainty in recent times. Ongoing recession also has had an adverse impact on investors' confidence. In spite of growth in absolute terms mentioned above, gross investment as percentage of the GDP has declined for the third consecutive year, recording 24.18 per cent of GDP in FY2008-09 compared to 24.21 per cent of GDP in FY2007-08 (Figure 1.4). This was somewhat lower than the Medium Term Macroeconomic Framework (MTMF) target of PRSP which was set at 24.40 per cent of GDP.[4]

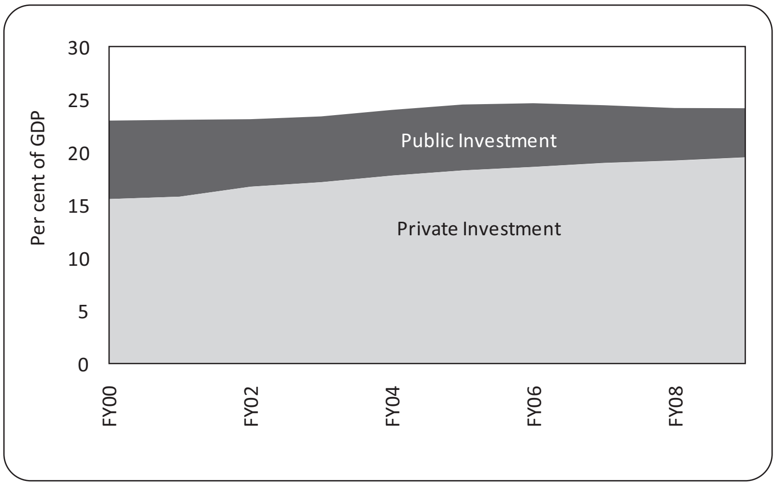
Investment has suffered from both lack of infrastructure and continuing uncertainty in recent times

[2] Gini coefficient of income distribution deteriorated from 0.45 to 0.47 between 2000 and 2005. As is evidenced by many recent studies, spatial inequality has also added another new dimension to this problem.

[3] There is, however, a debate with regard to the actual extent of this gap. Some economists have argued that the practice of including all of the remittance flow as savings is a flawed one, since a part of remittance goes to consumption. If this be it, national savings would be lower than what is generally shown to be the case.

[4] However, given the state of reliability of data on investment, it is hard to say whether these differences are statistically significant numbers. There is thus a need to be cautious in interpreting the relevant data and making conclusions out of those.

Figure 1.4: Investment as Percentage of GDP



Source: Bangladesh Bureau of Statistics (BBS).

Low implementation pace of the ADP is underwritten by low realisation of public investment. Public investment continued to plunge to record a historic low rate of 4.63 per cent of GDP in FY2008-09, lower even compared to the earlier low levels of 4.95 per cent in FY2007-08. Share of private investment in GDP which covers four-fifths of total investment of the country increased marginally to 19.55 per cent in FY2008-09 from 19.25 per cent in FY2007-08.

National savings rate (32.36 per cent) remains higher than the gross investment rate (24.18 per cent), indicating availability of investible surplus. This was estimated to be about Tk. 50,000 crore (more than 8 per cent of GDP). Compared to India and Vietnam, investment scenario in Bangladesh looks rather bleak; these countries invest around 40 per cent of their respective national incomes. Furthermore, the ICOR increased from 3.91 to 4.11 between FY2007-08 and FY2008-09, implying a fall in capital productivity for the third consecutive year. A continuation of this trend would either allude to a higher investment requirement in future to attain same growth rates, or result in lower growth rates if investment levels remained unchanged. Indeed, the need for ensuring higher rates of investment to attain higher GDP growth rate and the necessity of taking adequate measures to raise capital productivity cannot be over emphasised. This also underscores the need for the government to go for higher allocation of resources in large-scale infrastructure development projects which could crowd-in downstream private sector investment. In view of this, the recent moves by the Bangladesh Bank to influence downward revision of lending rate aimed at supporting private investment is a welcome initiative. However, this could also lead to lower interest rate on savings, which could have a dampening effect on domestic and national savings. From policy perspectives, maintaining a realistic spread between lending and deposit rate was an issue of critical importance in this context.[5]

Indeed, the need for ensuring higher rates of investment to attain higher GDP growth rate and the necessity of taking adequate measures to raise capital productivity cannot be over emphasised

Thus, a near 6.0 per cent growth in FY2008-09, in many ways is a respectable performance at a time of heightened global tensions and domestic uncertainties. However, the performance had been characterised by falling domestic savings, failure to translate surplus savings into investment, decelerating aggregate investment that was underwritten by fall in both public and private investment and deteriorating capital productivity. These later features evince the challenges that the Bangladesh economy faces in terms of taking the current growth rates one step higher which is so critical from the perspective of ensuring an accelerated pace of poverty reduction.

The growth performance had been characterised by falling domestic savings, failure to translate surplus savings into investment, decelerating aggregate investment that was underwritten by fall in both public and private investment and deteriorating capital productivity

1.4 PUBLIC FINANCE

Following the exceptional developments in FY2007-08, characterised by natural calamities, high prices, high revenues and high expenditures - leading to higher deficits, FY2008-09 once again turned out to be yet another extraordinary year, albeit somewhat in a reverse order. With no major incidence of natural hazard and with dramatic fall in global commodity prices particularly in the second half of

[5] This is particularly important in view of the persistent significantly large gap between the lending and deposit rates.

the fiscal year, leading to lower expenditure pressure (particularly in terms of import payments and subsidy requirements), FY2008-09 have been a relatively easier year from the perspective of macroeconomic management. However, lower import prices in many cases affected revenue earnings of the government, leading to a revenue shortfall. Budget deficit at the end of the year remained low, primarily because of low ADP implementation which has now become a common feature of the fiscal structure of Bangladesh.

1.4.1 Revenue Receipts

Overall revenue target for FY2008-09 was set at Tk. 69,338 crore, 17.3 per cent higher than the actual revenue of FY2007-08. During the early months of the fiscal year, revenues at the import stage benefited from the then prevailing high prices in the global markets; although prices were sliding, they were still on the high side at the end of FY2007-08 as prices were historically high globally. However, the scenario changed quite radically towards the later months of FY2008-09 when significant fall of prices was observed as a consequence of the global crisis, pulling the price level below to what was at the beginning of FY2007-08. Fuel prices in the global market could be a good example to cite in this regard. At the beginning of FY2007-08 (July 2007), oil price hovered around USD 70/barrel. This price reached its peak at USD 144 in mid-July, 2008 (beginning of FY2008-09). Following this global oil price started to fall and rose up to around USD 35 by the middle of FY2008-09 (end December 2008); prices recovered to reach about USD 70/barrel by the end of the fiscal year. Average price in FY2007-08 was about USD 95/barrel, which was about USD 71/barrel in FY2008-09 (about 34 per cent lower). Such developments in the global markets led to lower than the anticipated revenue collection at the import stage in Bangladesh.

Developments in the global markets led to lower than the anticipated revenue collection at the import stage in Bangladesh

National Board of Revenue (NBR) Revenue at the Import Stage

As was indicated above, revenues at the import stage mostly suffered from lower collection in the form of import duties. Against a target of Tk. 10,862 crore, Tk. 9,351.9 crore of import duty was collected. This implied a shortfall of Tk. 1,666 crore from its target, posting a negative (-) 2.6 per cent growth over the matching figure of FY2007-08 (Table 1.1). The budget aimed for 13.1 per cent higher import duty collection in FY2008-09 over FY2007-08. Compared to import duties, revenue collected from value added tax (VAT) (import) was less adversely affected by falling prices, 8.2 per cent growth was recorded, which was however, lower than the target of 12.6 per cent. VAT (import) collection missed its target by Tk. 375.1 crore. On the other hand, supplementary duty (SD) (import) posted a high growth of 32.9 per cent, surpassing its target by Tk. 219.4 crore.

Table 1.1: NBR Revenues at the Import Stage

Type of Duty	Actual Growth FY2008	Target Growth FY2009	Actual Growth FY2009
Import Total	26.7	13.5	5.2
Import Duty	17.7	13.1	-2.6
VAT Import	34.5	12.6	8.2
SD Import	46.6	20.4	32.9

Source: National Board of Revenue (NBR).

Local Level NBR Revenue

VAT (local) collection went beyond its target

Among the major components, collection of SD (local) fell short of its target by Tk. 1,242.6 crore, achieving a mere 2.9 per cent growth over FY2007-08 in view of the targeted growth of 23.6 per cent (Table 1.2). However, VAT (local) collection went beyond its target by Tk. 284.4 crore, achieving 19.5 per cent growth (against the target of 16.4 per cent), and income tax collection exceeded its target (by a substantial amount of Tk. 804.1 crore) for the second consecutive year. As opposed to 11.1 per cent growth target for FY2008-09, growth attained for

Table 1.2: Targets and Achievements in Local Level NBR Revenues

Type of Duty	Actual Growth FY2008	Target Growth FY2009	Actual Growth FY2009
Local Total	26.2	17.0	14.1
Excise Duty	16.8	17.1	11.2
VAT Local	22.9	16.4	19.5
SD Local	23.8	23.6	2.9
Turnover Tax	-14.7	17.2	-3.1
Income Tax	34.7	11.1	18.0
Travel Tax	35.6	24.9	-6.4
Import Total	26.7	13.5	5.2
Grand Total (NBR)	27.4	14.9	10.7

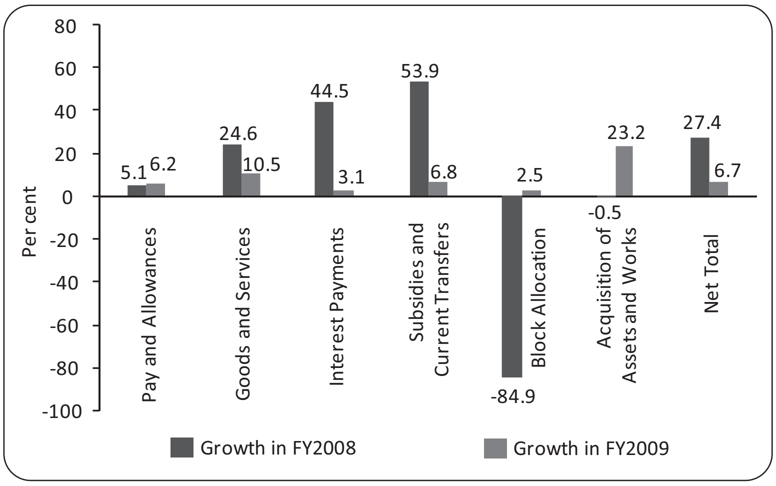
Source: National Board of Revenue (NBR).

Table 1.3: Non-NBR Tax and Non-tax Revenue

Source of Revenue	Actual Growth FY2008	Target Growth FY2009	Actual Growth FY2009
Non-NBR	24.8	-1.0	14.7
Narcotics & Liquor	15.9	-2.0	7.8
Vehicles	24.0	6.4	26.7
Land	19.3	20.5	-4.3
Stamp	26.9	-9.2	15.3
Non-tax Revenue	5.4	14.1	-0.1
Dividend & Profit	24.4	62.2	46.4
Post Office & Railway	-24.3	79.9	24.4
T&T	-8.1	-100.0	-99.7
Interest/Fees/Tolls & Other receipts	6.4	19.6	5.4

Source: Ministry of Finance (MoF).

Figure 1.5: Growth in Revenue Expenditure: FY2007-08 and FY2008-09



Source: Ministry of Finance (MoF).

income tax collection was 18.0 per cent. 0.03 million more individual tax return submissions were recorded in FY2008-09 compared to FY2007-08, taking total number of submissions to 0.67 million.[6]

Non-NBR Tax and Non-Tax Revenues

Non-NBR tax component posted 14.7 per cent growth in FY2008-09 against a negative target of (-)1.0 per cent (Table 1.3); collection exceeded its target by Tk. 364 crore. On the other hand, non-tax component fell short of its target by Tk. 1,560 crore and posted a negative (-)0.1 per cent growth. Original growth target was of 14.1 per cent. Such low non-tax revenue collection was mostly due to the low revenue collection on the account of interest/fees/tolls and other receipts, where a shortfall of Tk. 987 crore was recorded.

Overall, revenue collection during FY2008-09 missed its target by an amount of Tk. 3,170.4 crore (4.6 per cent). However, such a shortfall did not result in a higher deficit since lower expenditure pressure had offset the effect, to a large extent, reinforced by a low ADP implementation.

Revenue Expenditure

Other than interest payments, revenue expenditure in FY2008-09 experienced lower than projected rise for all major indicators. Expenditure on pay and allowances posted 6.2 per cent growth against the original target of 21.6 per cent (Figure 1.5). Subsidies and current transfers also recorded much lower rise of 6.8 per cent compared to its target of 30.2 per cent. This was mostly owing to the fact that subsidy demands for FY2008-09 were calculated in the budget based on the price level that was prevailing during the last months of FY2007-08. In case of block allocations, only Tk. 215.6 crore was spent for which an allocation of Tk. 1,098.1 crore was made in the budget. Goods and services recorded 10.5 per cent growth (target was of 16.5 per cent).

[6] As is known, this is a dismally low figure in a country with 31 million households. Even when the fact of about 40 per cent people living below the poverty line is taken into consideration, Household Income and Expenditure Survey (HIES) results indicate that this number ought to be significantly higher.

Importantly, interest payments were higher than targeted expenditure. In fact, according to the budgetary targets, interest payments were set to decline in FY2008-09 by 7.5 per cent compared to that of FY2007-08. Targets for both domestic interest payments and foreign interest payments were projected to decline in FY2008-09 (by 7.5 per cent and 7.7 per cent respectively) in the budget. Foreign interest payments did come down by (-)4.1 per cent, but domestic interest payments recorded a positive growth of 4.0 per cent. This could perhaps be explained by the high government borrowing from the banking system during FY2007-08 (posting 178.6 per cent growth over FY2006-07) to finance the disaster rehabilitation efforts and higher subsidy requirements.

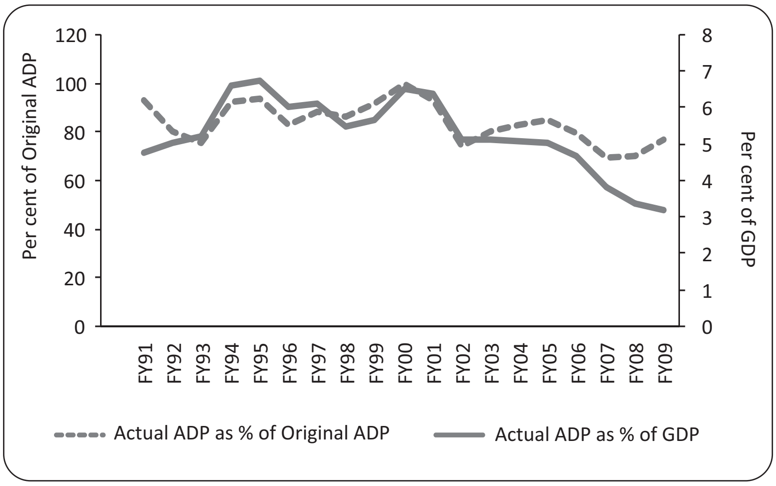
Overall revenue expenditure at the end of FY2008-09 amounted to Tk. 57,431.3 crore, posting a marginal growth of 6.7 per cent, for which a 20.8 per cent growth was projected in the budget. It may be noted in this connection that growth rate of revenue expenditure in FY2008-09 was much lower compared to the average growth recorded during the previous five years (16.7 per cent).

The investment needs emanating from the economy and the implementation capacity of the government appears to be at loggerheads

1.4.2 Annual Development Programme (ADP)

Gradual decline in ADP expenditure as a per cent of GDP and successive failures to achieve reasonable level of ADP implementation have led to the debate as regards the optional ADP target size that Bangladesh should set for herself. The investment needs emanating from the economy and the implementation capacity of the government appears to be at loggerheads. While a trend growth in targets would suggest an ADP of about Tk. 28,000 crore in FY2008-09, a Tk. 25,600 crore ADP was fixed for the year. This was in fact lower than the original ADP of FY2007-08 (of Tk. 26,500 crore). While actual expenditure of FY2008-09 did mark some improvements in achieving absolute growth over FY2007-08, it was not enough to record a real growth (if adjusted for inflation). Consequently, ADP as percentage of GDP fell further to only 3.2 per cent (3.4 per cent in FY2007-08) which happened to be the lowest ever level of performance (Figure 1.6).

Figure 1.6: Trend in ADP Implementation



Source: Implementation Monitoring and Evaluation Division (IMED).

Between FY2000-01 and FY2007-08, actual ADP spending increased by, on an average, 2.6 per cent per year. In FY2008-09, a higher growth of 6.4 per cent was achieved (albeit lower than the average inflation of 6.6 per cent for FY2008-09). Implementation rate also registered some improvement, with 76.8 per cent of the allocated fund utilised in FY2008-09 (this was 69.6 per cent in FY2007-08 and 68.9 per cent in FY2006-07). The size of the realised ADP stood at Tk. 19,668 crore (Tk. 18,455 crore in FY2007-08). It is to be noted that in view of the low implementation rates achieved during the first three quarters of the fiscal year, ADP target was later revised downward to Tk. 23,000 crore (a reduction by 10.2 per cent).

Performance of the Top Five Ministries

The top five ministries/divisions in terms of ADP allocations were Local Government Division, Power Division, Ministry of Communication, Ministry of Health & Family Welfare (MoHFW), and Ministry of Primary & Mass Education.

Table 1.4: Performance of the Top Five Ministries in FY2008-09

Sector	Allocation as % of Total Original ADP	Expenditure as % of Revised Allocation	Expenditure as % of Original Allocation
Local Government Division	20.3	96.1	96.3
Power Division	13.6	82.4	63.4
Ministry of Communication	11.6	77.1	59.4
Ministry of Health & Family Welfare	9.4	76.7	83.0
Ministry of Primary & Mass Education	9.3	97.2	86.7

Source: Implementation Monitoring and Evaluation Division (IMED).

These ministries/divisions were allocated about two-thirds (64.2 per cent) of the total original ADP allocation in FY2008-09. Three of them were able to record higher than average utilisation rates: Local Government Division managed to spend 96.3 per cent of its allocation (Table 1.4); Ministry of Primary & Mass Education and Ministry of Health & Family Welfare also recorded above average utilisation rate of 86.7 per cent and 83.0 per cent respectively.

On the other hand, Ministry of Communication utilised only 59.4 per cent of its allocation. Notably, Power Division spent only 63.4 per cent of its allocation at a time when power crisis emerged as the overriding constraining factor in terms of attracting investments, both domestic and foreign.

Utilisation of Project Aid

Actual ADP of FY2008-09 in quantitative terms remained unacceptably low, particularly in view of the need of the economy and its role in crowding in private investment

Original ADP of FY2008-09 targeted 46.9 per cent (Tk. 12,000 crore) to be financed from project aid. However, in view of the low progress observed in projects with aid component during the initial months, project aid target was subsequently revised downward to Tk. 10,200 crore in the revised ADP (RADP). At the end of the fiscal year, only Tk. 7,913 crore project aid (65.9 per cent of the original target) was utilised. It is to be kept in mind that availability of project aid is subject to periodic review of progress in implementation.

Overall, actual ADP of FY2008-09 in quantitative terms remained unacceptably low, particularly in view of the need of the economy and its role in crowding in private investment. It is also important to note that of the total ADP expenditure, 40 per cent was spent during the last two months of the fiscal year. Rushed utilisation of funds during the end of the fiscal year has been a common feature in ADP implementation of Bangladesh and FY2008-09 was no exception in this regard. This creates a serious concern as regards quality of project implementation in Bangladesh.[7]

1.4.3 Budget Deficit and Financing

High prices were prevailing in the global markets when the budget for FY2008-09 was prepared

As was mentioned earlier, high prices were prevailing in the global markets when the budget for FY2008-09 was prepared. Keeping the high price level in mind, the budget for FY2008-09 projected a deficit of Tk. 30,580 crore (5.0 per cent of GDP). The revised budget for FY2008-09 projected a deficit of Tk. 24,960 crore (4.0 per cent of GDP). However, at the end of the fiscal year, a deficit of Tk. 20,000.4 crore (3.3 per cent of GDP) was observed (Table 1.5), notwithstanding the fact that revenue earnings fell short of its target by 4.6 per cent. This has happened more by default owing to the low ADP utilisation, although lower than projected growth in revenue expenditure also had consequence in this regard.

It may be noted here that the projected deficit for FY2008-09 in the original budget was 42.5 per cent higher compared to the actual deficit of FY2007-08. But the actual deficit was in fact lower than that of FY2007-08 (by 6.9 per cent).

[7]The pace of disbursement of project money generally accelerates following the review exercise carried out in March. Experience indicates that the review exercise ought to be carried out after six months, around January, to enable the policymakers to make mid-course corrections.

In financing the deficit, government had to rely mostly on domestic sources as foreign financing was not available to the tune that was originally anticipated. Of the projected Tk. 6,346.0 crore in grants and Tk. 11,456.7 crore as loan, only Tk. 1,273.5 crore (20.1 per cent of the target) in grants and 6,149.7 crore (53.7 per cent of the target) in loans were actually realised. After adjusting for amortisation payment of Tk. 4,665.4 crore, net foreign financing stood significantly lower at Tk. 2,757.9 crore, compared to the budgetary target of Tk. 13,582.0 crore. The realised net amount was only 20.3 per cent of the target and was (-)68.1 per cent lower compared to the actual net inflow of FY2007-08.

However, in order to offset the low inflow of aid the government was not required to take recourse to higher borrowing from domestic sources (bank and non-bank), since the overall expenditure requirement was low. Actual borrowing from the banking and non-banking sources were more or less aligned to the targets. Consequently, a compositional change took place in deficit financing, with domestic sources contributing 86.2 per cent to the total financing (59.8 per cent in FY2007-08) whilst the share of foreign financing declined to 13.8 per cent (40.2 per cent in FY2007-08) (Figure 1.7).

It may be expected that the declining trend in foreign debt (as percentage of GDP) observed over the last several years will be supported by the lower share of foreign financing in FY2008-09. However, the fact remains that a significant amount of the aid was not realised owing to the low implementation of ADP. This remains, as was mentioned earlier, a serious concern, particularly at a time when stimulating domestic demand was argued to be the best way to deal with the adverse consequences of the ongoing global economic crisis.

1.5 MONETARY SECTOR

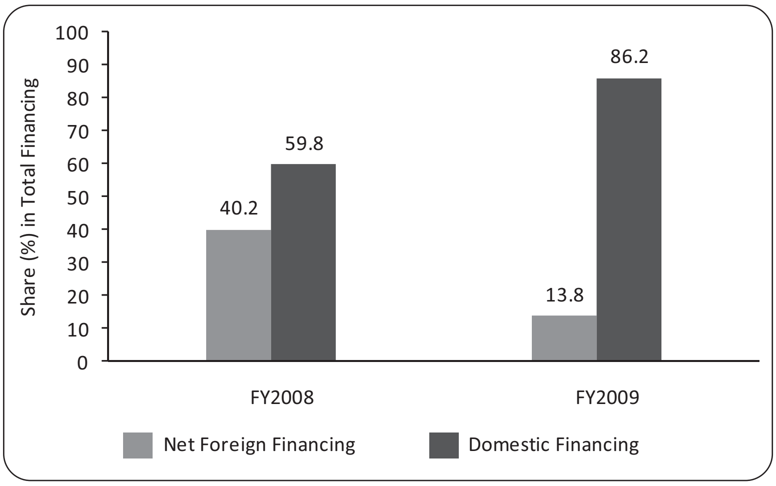
Though the rate of inflation has been showing a benign trend in recent times (Figure 1.8), underwritten largely by falling commodity prices in the global market, keeping the growth momentum on track in view of the global economic meltdown

Table 1.5: Budget Deficit and Sources of Financing

Sources	FY07	FY08	B09	FY09
Net Foreign Financing	3336.9	8639.9	13582.0	2757.9
Grant	1085.8	2413.1	6346.0	1273.5
Loan	6288.6	10599.3	11456.7	6149.7
Amortisation	4037.5	4372.5	4220.8	4665.4
Domestic Financing	15400.4	12854.3	17041.1	17242.6
Non-Bank Borrowing	4281.2	2500	3500.0	3504.4
Bank Borrowing	11048.6	10329.5	13498.0	13606.4
Sale of Assets	70.7	24.8	43.1	131.8
Total Financing	18737.3	21494.2	30623.0	20000.4
Total Financing as % GDP	4.0	4.0	5.0	3.3

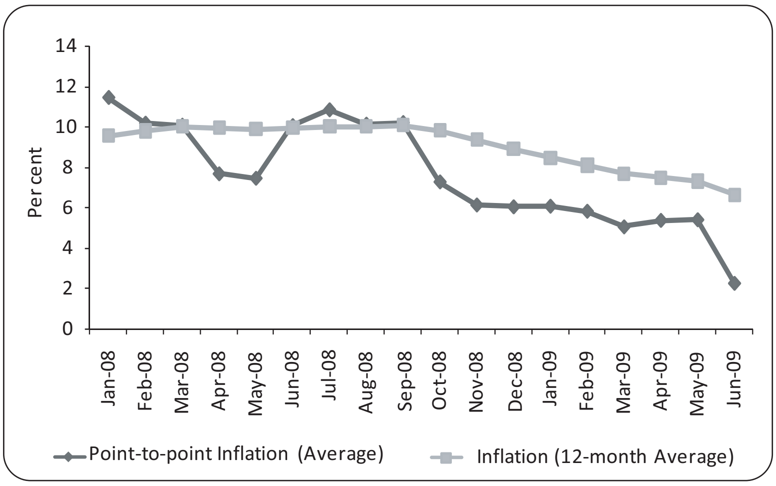
Source: Ministry of Finance (MoF).

Figure 1.7: Structure of Deficit Financing: FY2007-08 and FY2008-09



Source: Ministry of Finance (MoF).

Figure 1.8: Inflation Rate



Source: Bangladesh Bank.

continues to remain a daunting task for the policymakers. In order to tackle this, monetary policy will need to focus mainly on three major areas. First, ensuring higher credit to the productive sectors; second, managing the interest rate in a manner that is able to maintain real interest rates stable for both lenders and depositors; third, balance the apparently conflicting interests of exporters and importers through prudent management of the exchange rate regime. In addition to these, efforts have to be made to keep the inflation rate contained to avoid erosion of income and contraction of purchasing power of the common people. Monetary policy measures using various tools such as Repo, Reverse Repo, cash reserve ratio (CRR) and statutory liquidity ratio (SLR) have to be undertaken in a prudent manner to facilitate growth.

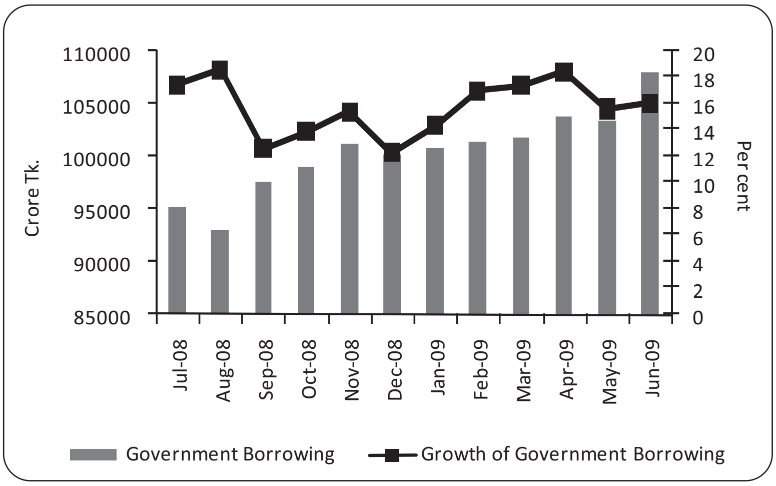
Efforts have to be made to keep the inflation rate contained to avoid erosion of income and contraction of purchasing power of the common people

Some of the trends observed in the monetary sector during the FY2008-09 are highlighted below.

1.5.1 Low Credit Expansion may Dampen Investment Scenario

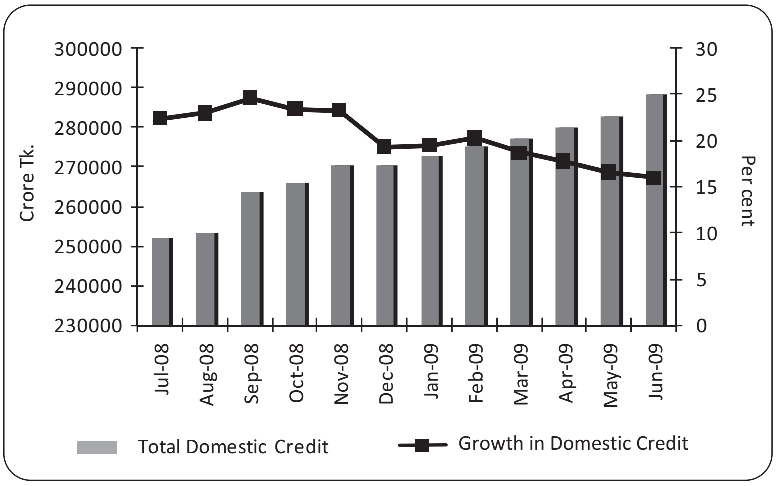
In the backdrop of the global financial crisis and the resulting international economic downturn, domestic credit to various sectors has slowed down. Though total domestic credit increased by 16.03 per cent during FY2008-09 this growth is lower than FY2007-08 (20.91 per cent) (Figure 1.9). The private sector credit has taken a significant hit as total private sector credit grew only at 14.62 per cent during FY2008-09, compared to a growth of 24.94 per cent during the same period of FY2007-08. Net credit to the public sector, also grew at a lower rate during FY2008-09 than FY2007-08 (Figure 1.10; Table 1.7).

Figure 1.9: Government Borrowing



Source: Bangladesh Bank

Figure 1.10: Domestic Credit



Source: Bangladesh Bank

In terms of sectoral credit disbursement, agriculture sector posted a positive but lower growth (8.2 per cent for FY2008-09 against 62.13 per cent during FY2007-08) (Figure 1.11). Given the emphasis of Bangladesh Bank on agricultural credit and instructions to the commercial banks to increase disbursement of agricultural credit it is expected that agricultural credit will show improvements in the next fiscal year. Industry sector has also experienced a major downturn as disbursement of term loan posted a negative growth by (-)0.88 per cent during FY2008-09 as opposed to a growth rate of as high as 62.58 per cent in FY2007-08. Disbursement of working capital decreased significantly by 12.67 per cent during FY2007-08 compared to 26.96 per cent in FY2008-09 (Figure 1.12). Low demand for industrial term loan will have a major setback on the industrial development of the country during the current fiscal year. Lack of confidence among the business community due to the global financial crisis coupled with lack of infrastructural support, particularly inadequate power supply have contributed to this decline in industrial term loan.

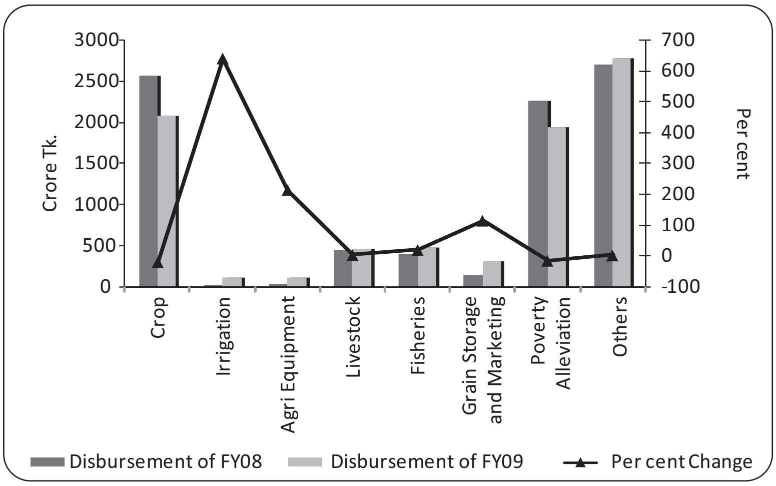
Lower demand for domestic credit has resulted in excess liquidity in scheduled banks which amounted to Tk. 34,762.08 crore as of end June 2009 (Figure 1.13), which is 167.64 per cent higher compared to end of June 2008. The increase of excess liquidity during FY2007-08 and FY2006-07 was 9.04 per cent. The lack of demand for cash from the banking channel is reflected through the historic low call money rate which went to as low as 0.25 per cent at a point of time during FY2008-09. In June 2009, the weighted average rate of call money was 1.71 per cent compared to 9.74 per cent in June 2008. The excess liquidity situation has been compounded by several factors in the face of the ongoing global financial crisis.

Firstly, a large share of the bank credit in Bangladesh goes towards letter of credit (L/C) opening. Prices of all main commodities have gone down in the global market since September 2008, which would imply that less money would be required to import the same amount. This has reduced the requirement for import credit. Secondly, because of the financial crisis the business community has been prone to taking conservative steps with regard to business decisions. This is evident through the decline of L/C opening for capital machineries. Thirdly, government expenditure during FY2008-09 has also been low.

1.5.2 Capping of Interest Rate to Improve Investment

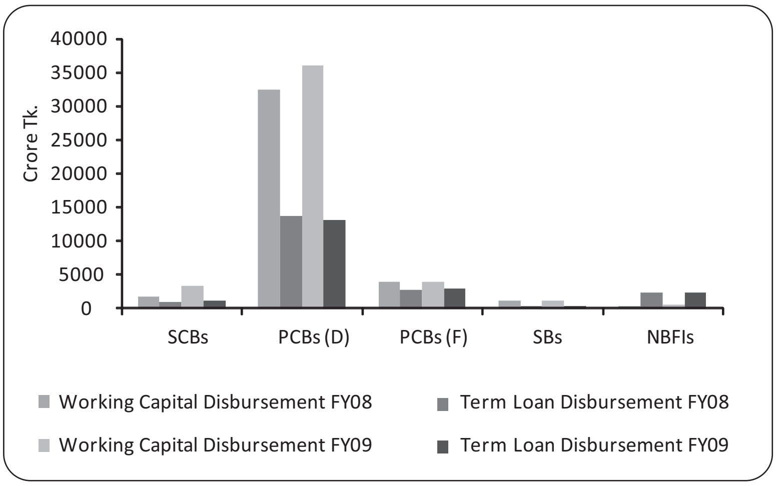
In line with its objective of providing adequate credit for production-oriented activities, the Bangladesh Bank has reduced the Repo and Reverse Repo in March 2009 by 25 basis points to 8.5 per cent and 6.5 per cent respectively from 8.75 per cent and 6.75 per cent respectively in December 2008. As is known, the Bangladesh Bank has recently asked the commercial banks to limit the lending rate to within 13 per cent from an

Figure 1.11: Agricultural Credit



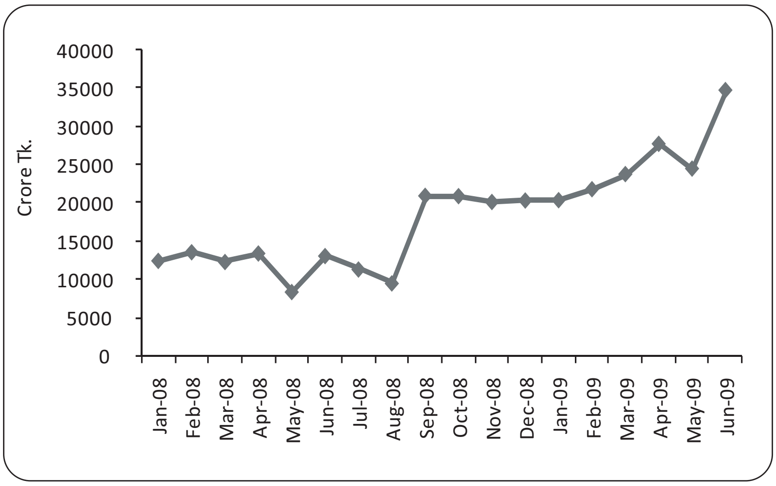
Source: Bangladesh Bank.

Figure 1.12: Industrial Loan



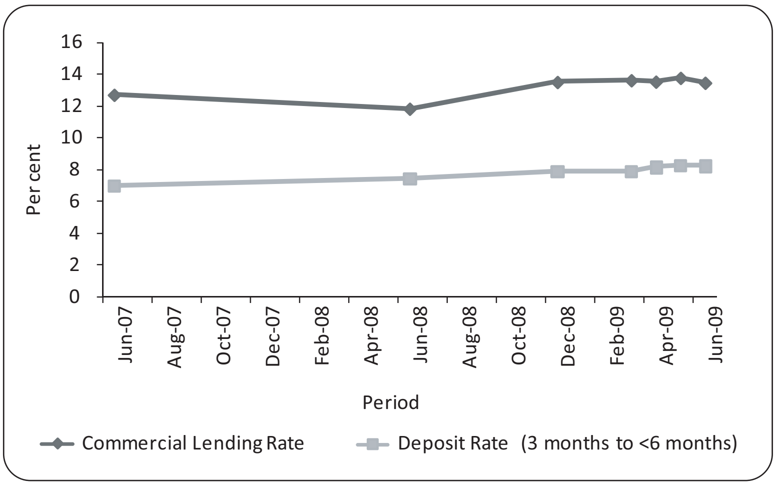
Source: Bangladesh Bank.
Note: SCB: State-owned Commercial Bank; PCB: Private Commercial Bank (D&F: Domestic & Foreign); SB: Specialised Bank; NBFI: Non-bank Financial Institution.

Figure 1.13: Trends in Excess Liquidity



Source: Bangladesh Bank.

Figure 1.14: Monthly Trends of Lending and Deposit Rate



Source: Bangladesh Bank.

Figure 1.15: Real Rate of Interest

Source: Bangladesh Bank.
Note: NSD: National Savings Bond.

Table 1.6: Weighted Average Interest Rate of Government Long-term T-bill*/ Bonds and Inflation

Period	BGTB**		NSD		Inflation Rate (12-month Average)	Real Rate of Interest on BGTB		Real Rate of Interest on NSD	
	5 - Year	10 - Year	3 - Year	5 - Year		5 - Year	10 - Year	3 - Year	5 - Year
June 2006	10.60	12.09	10.00	12.00	7.16	3.44	4.93	2.84	4.84
June 2007	10.60	12.14	11.50	12.00	7.20		4.94	4.30	4.80
July 2008	10.60	11.72	11.50	12.00	10.00	0.60	1.72	1.50	2.00
December 2008	10.60	11.72	11.50	12.00	8.90	1.70	2.82	2.60	3.10
March 2009	10.60	11.72	11.50	12.00	7.69	2.91	4.03	3.81	4.31
April 2009	9.97	11.68	11.50	12.00	5.36	4.61	6.32	6.14	6.64
May 2009	10.60	11.70	11.50	12.00	7.32	3.28	4.38	4.18	4.68
June 2009	10.60	11.70	11.50	12.00	6.66	3.94	5.04	4.84	5.34

Source: Bangladesh Bank.
Note: *T-bill: Treasury Bill; **BGTB: Bangladesh Government Treasury Bond.

average rate of 15.5 per cent for all sectors, except for consumer and credit card loans. However, the desired effect of this policy on spread may not be realised as it is apprehended that commercial banks may make a move towards reducing interest rates for fixed deposits in order to keep the interest rate spread same for making up their anticipated cut in profits. As a matter of fact, even after the instruction of the Bangladesh Bank, average lending rate in commercial banks was 13.46 per cent in FY2008-09 and the interest rate spread stood at 5.2 per cent, a rate higher than FY2007-08 (4.36 per cent). The monthly trend of lending and deposit rate is shown in Figure 1.14. On the other hand, the real rate of interest on various types of deposits are having insignificant increase due to inflation as well as cuts in bank rates on deposits (Figure 1.15; Table 1.6).

The reasons for high lending rates include inefficiencies in the financial system, market segmentation and lack of competition. Apart from these supply-side problems, high interest rate can also be linked to high demand for corporate loans. If equity finance could be encouraged through policies that stimulate and encourage capital markets, demand for loanable funds would be reduced with favourable effect on lending rates. Other factors responsible for high lending rates include inflationary pressure and loan default risks, particularly in a country such as Bangladesh where non-economic factors also play a role in non-performing loans (NPL). Though growth in NPL is slightly lower in FY2008-09 (10.50 per cent) than in FY2007-08, the percentage of NPL to total outstanding loan is still 13.02 per cent as of June 2009, a slight decline from 13.96 per cent of June 2008 (Table 1.7).

As is well known, interest rate is only one of many tools in the arsenal of the monetary policy to boost investment. This policy instrument cannot be successful without supportive fiscal and institutional policies. Effective tax measures are important and so is a business-supportive environment, which includes among others, supportive infrastructure and a stable political environment for attracting both foreign and domestic investment. An earlier Independent Review of Bangladesh's Development (IRBD) report (CPD 2007) noted that the correlation between interest rate and investment was not significant. Along with capping of lending rates, emphasis should also be put on reducing the interest rate spread, which is still about 5 per cent, one of the highest in the world. The idea of fixing a floor on deposit rates needs to be carefully examined not only to protect the small depositors, but also to keep large depositors attracted towards the banking system. Otherwise, banks could face credit crunch in the future as depositors may look for better investment opportunities such as capital market and real estate for higher returns.

1.5.3 Exchange Rate Manipulation is Not a Feasible Option

Stability of the exchange rate of Bangladesh Taka (BDT) with the United States Dollar (USD) since June 2006 has given rise to concern among a segment of the business community, particularly exporters (Figure 1.16). Exporters argue that competitiveness of Bangladeshi products in the global market is being undermined at a time when most other currencies have seen significant depreciation of their exchange rate vis-à-vis USD. The BDT has indeed in the recent past, appreciated (via a lower percentage fall against the USD) in relation to a number of currencies including Vietnamese Dong (VND), Cambodian Riel (KHR), Sri Lankan Rupee (LKR) and Indian Rupee (INR) (Figure 1.17). However, the real effective exchange rate (REER) of BDT appears to have been stable over the same period (Figure 1.18).

The call for depreciation needs to be considered carefully since export and import elasticities are important considerations that need to be taken into account in deciding on whether a depreciation of BDT will actually have positive overall impact on trade and current account balance. Research has also shown that Bangladesh's imports exhibit higher price elasticity than exports (Razzaque 2004). Hence, as a result of depreciation of the BDT, ceteris paribus, imports would fall

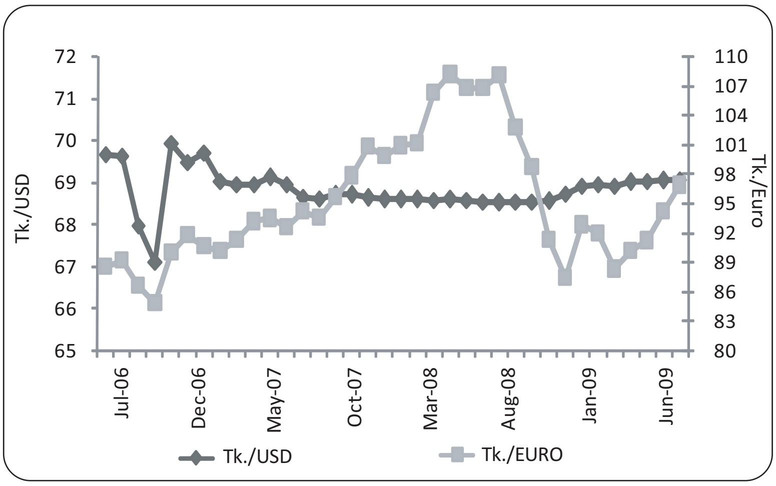
Table 1.7: Changes of Monetary Sector Variables

(in Per cent)

Indicator	FY2007-08	FY2008-09
Inflation rates (June)		
Point-to-point	10.04	2.25
12-month average	9.94	6.66
Growth in money supply (July-June)		
Broad money (M2)	17.48	19.17
Reserve money	19.78	31.45
Demand deposit	15.46	14.10
Time deposit	17.11	21.42
Excess liquidity	-9.9	167.64
Growth in credit (July-June)		
- Domestic credit	20.91	16.03
- Credit to public sector	30.16	24.04
- Credit to private sector	24.94	14.62
Growth in agricultural credit (July-June)		
Disbursement	62.13	8.20
Recovery	28.39	39.54
Growth in industrial credit (July-June)		
Term loan	62.58	-0.88
Working capital	26.3	12.67
Share of NPLs in all banks (June)	13.02	10.50
Interest rates(June)		
- Lending rate	11.82	13.46
- Deposit rate	7.46	8.26
- Spread	4.36	5.2
- Call money rate (June average)	9.74	1.71
Exchange rate (June average)		
BDT/USD	68.52	69.05
BDT/EURO	106.7	96.78
BDT/INR	16.0	19.5

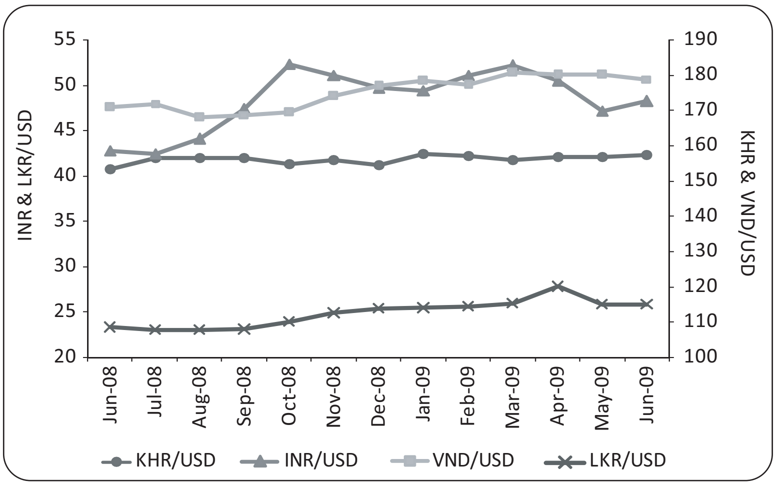
Source: Bangladesh Bank.

Figure 1.16: Movements of BDT: July 2006 - June 2009



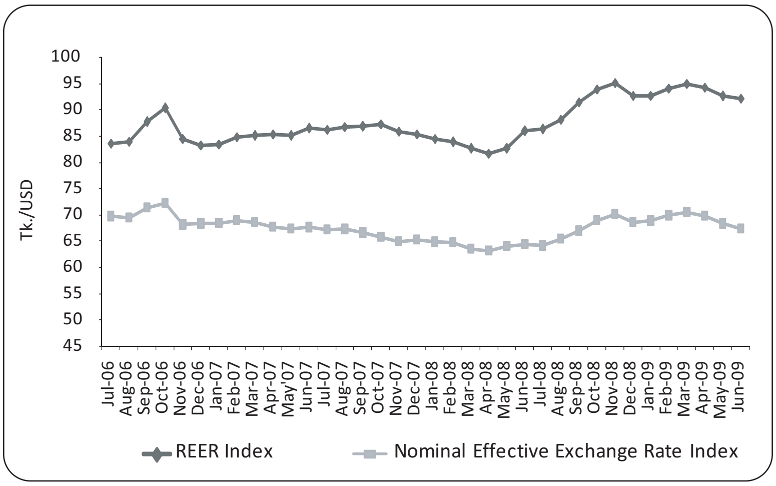
Source: Bangladesh Bank.

Figure 1.17: Movements of Other Regional Currencies against the USD: FY2008-09



Source: www.oanda.com

Figure 1.18: Nominal and Real Effective Exchange Rates



Source: Bangladesh Bank.

A moderate expansionary monetary policy may be pursued, as low inflation rate appears to have given a leeway at the moment

but exports may not register comparable rise (Panagariya *et al*. 1996). It would appear that, instead of pursuing policies that would lead to depreciation of the BDT, other policies including fiscal and monetary measures that stimulate export-oriented activities and enhance their competitiveness, should be given more emphasis by the policymakers. This could be in addition to what has already been announced by the government in April 2009 in its stimulus package of Tk. 3,424 crore which includes extension of payback period of bank loan from 90 to 120 days for the exporters, and increase the amount of borrowing from USD 1 million to USD 1.5 million from the Export Development Fund. In June 2009, the government has also announced a stimulus package of Tk. 5,000 crore in the national budget of FY2009-10 with the expectation to revive the dynamism of the affected sectors such as the readymade garments (RMG), frozen food and leather.

1.5.4 Future Monetary Policy Stance

The overall outlook for the monetary sector looks gloomy as monetary aggregates do not bode well for the health of the banking sector and the economy. In view of a slowdown in investment scenario as evident, particularly from low credit flow to the productive sectors including agriculture and industry, and high excess liquidity in the banking system, a moderate expansionary monetary policy may be pursued, as low inflation rate appears to have given a leeway at the moment. However, global commodity and fuel prices are expected to rise as the large economies are preparing for a kick start in the coming months when some of the benefits of huge stimulus packages will begin to show up in the horizon. Therefore, future monetary policy stance should strive to maintain price stability, improve the observed slowdown in economic activities, and promote growth through making all out efforts to utilise the idle money in the financial channels by way of making bank loans less costlier, and constant monitoring of the growth of money supply and movements of the exchange rates.

1.6 REAL SECTOR

1.6.1 Agriculture

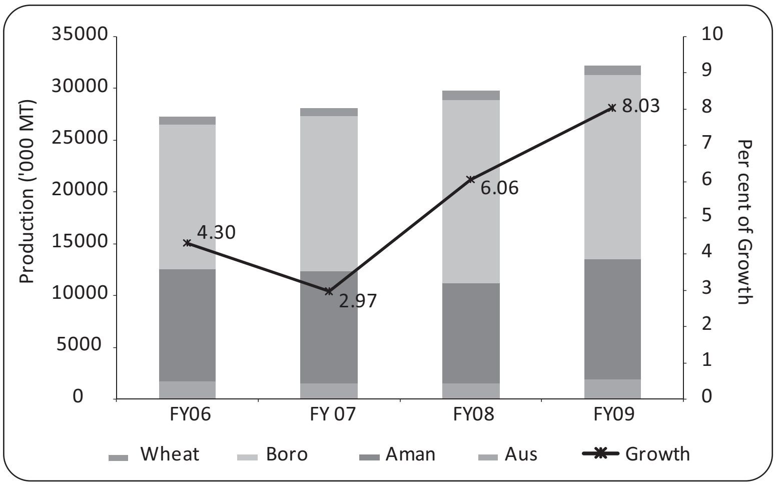
In FY2008-09, Bangladesh agriculture had experienced four major developments: (i) production in foodgrains recorded highest level but farmers had to sell Boro rice at lower than their cost of production; (ii) fertiliser supply situation improved in Bangladesh and price of fertiliser decreased in international market; (iii) adverse impact on domestic milk production as a consequence of import surge due to decline in international price of milk powder; and (iv) meat production increased but egg production posted a decline.

Production in foodgrains recorded highest level

Production of Foodgrains and Profitability in Rice Production

In FY2008-09, total production of foodgrains (rice and wheat) was 32.2 million metric tonnes (MT), which was the highest level of production in Bangladesh's history (Figure 1.19). According to the BBS, production of Boro rice in FY2008-09 was 17.8 million MT while production of Aman and Aus rice was 11.6 million MT and 1.9 million MT respectively. On the other hand, production of wheat was 0.85 million MT in FY2008-09. Production of total foodgrains and rice were respectively 8.0 and 8.2 per cent higher than that of the previous year (FY2007-08). Higher production of foodgrains in FY2008-09 was primarily underwritten by the good harvest of rice over all the three paddy seasons (Aus, Aman and Boro) as well as wheat.

Figure 1.19: Estimated Production of Foodgrains in FY2008-09



Source: Bangladesh Bureau of Statistics (BBS).

Though in terms of production it was a good year, it was a bad year for Boro rice growers in terms of profitability. During the harvesting period, farm-level price of coarse rice and paddy was so low that farmers had to sell their paddy at lower levels than the cost of production. Farm-level visit by a team of CPD researchers in mid-May 2009, in selected areas of Naogaon, Rangpur, Bogra and Mymensingh, revealed that at the then prevailing market price of paddy, farmers' loss was about Tk. 1,700 - Tk. 4,000 per acre (Table 1.8).[8] Other major findings of the field visit are: (i) estimated cost of per kg production of Boro rice varied between Tk. 11.73 and Tk. 12.75, depending on the type of the Boro paddy (Hybrid or high-yielding variety (HYV)) and method of irrigation (electricity-operated or diesel-operated). Cost of production was higher for diesel-irrigated Boro rice compared to electricity-irrigated Boro rice. Estimated weighted average cost of production of Boro paddy was Tk. 12.49 per kg and Boro rice was Tk. 20.14 per kg; (ii) farmers were selling wet paddy to the traders. In terms of dry paddy equivalent, farmers were obtaining Tk. 10.00 to Tk. 11.67 per kg by selling hybrid paddy, Tk. 11.67 to Tk. 12.50 per kg for BR 28 paddy and Tk. 14.06 per kg for BR 29 paddy; (iii) average price of coarse paddy (Tk. 10.85 per kg) at the farm-level was lower than the average production cost of paddy (Tk. 12.49 per kg).

During the harvesting period, farm-level price of coarse rice and paddy was so low that farmers had to sell their paddy at lower levels than the cost of production

[8]The team discussed with relevant stakeholders including farmers, traders, millers and local food procurement officers to elicit the required information.

Table 1.8: Cost of and Return from Boro Rice in FY2008-09

Input Use	HYV Boro Rice		Hybrid Boro Rice	
	Diesel-irrigated (Tk.)	Electricity-driven (Tk.)	Diesel-irrigated (Tk.)	Electricity-driven (Tk.)
Seed	600.00	600.00	1320.00	1320.00
Fertiliser	4308.00	4308.00	5225.00	5225.00
Manure	400.00	400.00	400.00	400.00
Pesticide	500.00	500.00	860.00	860.00
Human labour	10600.00	10600.00	11720.00	11720.00
Land cultivation (bullock/power tiller)	1800.00	1800.00	1800.00	1800.00
Irrigation	4000.00	2000.00	4000.00	2000.00
Interest on operating capital	1110.40	1010.40	1266.25	1166.25
Land rent	6000.00	6000.00	6000.00	6000.00
Total cost (Tk./acre)	29318.40	27218.40	32591.25	30491.25
Production cost of Paddy (Tk./kg)	12.75	11.83	12.54	11.73
Production cost of Rice (Tk./kg)	20.53	19.13	20.21	18.97
Yield (kg/acre)	2300	2300	2600	2600
Paddy Price (Tk./kg) in mid-May 2009	12.00	12.00	11.00	11.00
Gross Return (Tk./acre)	27600.00	27600.00	28600.00	28600.00
Net Return (Tk./acre)	(-)1718.40	381.60	(-)3991. 30	(-)1891.30

Source: CPD Field Survey, 2009.
Note: The conversion rate of paddy to rice was calculated at 1 kg paddy = 0.65 kg rice and milling cost (including parboiling) was calculated @ 0.60 Tk./kg.

To safeguard the interests of the farmers and meet procurement need of rice for public food distribution system (PFDS), the Ministry of Food and Disaster Management (MoFDM) fixed the procurement price at Tk. 14 per kg for paddy and Tk. 22 per kg for rice. These were reasonably fair price considering cost of production and prevailing market price. However, the government had only a limited success in this regard. In FY2008-09, government was able to procure 14.82 lakh MT foodgrains (14.48 lakh MT as rice and 0.34 lakh MT as wheat), which was 66.5 per cent higher than the previous year's procurement of 8.7 lakh MT. The achievement rate was 111 per cent vis à vis 69.5 per cent of previous fiscal (FY2007-08). The government set a target to procure 12.5 lakh MT (11 lakh MT as rice and 1.5 lakh MT as paddy) of Boro rice for the current season. During 1 May to 30 June 2009, about 7.15 lakh MT of Boro rice had been procured. In view of the gaps between the procurement price and the price received by farmers, there is a renewed need to identify institutional mechanisms so that direct procurements can be made at farm-gate. Whether farmers could be co-owners of rice mills through cooperatives so that they could be in a position to reap the benefits of procurement by the government from mills, is one area which needs to be explored further. Establishment of private godowns for use by farmers on a payment basis may also be considered. Perhaps this could be another area of public-private partnership (PPP). Modalities aimed at closer involvement of local government institutions could be another possible avenue. Since the issue of the gap between procurement price and farm-gate price is likely to be a recurring problem in years ahead as well, perhaps time has come to explore possible avenues to address this issue through broad based consultations involving government and all other relevant stakeholders.

There is a renewed need to identify institutional mechanisms so that direct procurements can be made at farm-gate

Fertiliser Availability and Price of Fertilisers

There was no major complaint with regard to fertiliser availability in FY2008-09. Price of fertiliser was of concern to farmers at the beginning of the fiscal year. Between May and December 2008, farm-level prices of all types of fertilisers increased significantly. Over this period, price of Urea and triple super phosphate (TSP) more than doubled while price of muriate of potash (MoP) rose by 1.5 times. Because of high price, farmers have used lower quantity of non-urea fertiliser in the Aman season. Under this circumstance, on 14 January 2009, the newly elected government fixed the price of TSP, MoP and diammonium phosphate (DAP) at Tk. 40, Tk. 35 and Tk. 45 per kg respectively, which implied a high level of subsidy. This was a very timely decision that was aimed at providing subsidy on non-urea fertiliser to promote balanced

Table 1.9: Supply of Fertiliser in Bangladesh

(in Lakh MT)

Type of Fertiliser	FY2004-05	FY2005-06	FY2006-2007	FY2007-08	FY2008-09
Urea	25.23	24.61	25.27	26.68	24.00
TSP	4.20	4.36	3.40	4.61	2.00
DAP	1.71	1.30	1.15	2.50	0.50
MoP	2.60	2.91	2.30	4.01	1.50
Total	33.74	33.18	32.12	37.80	28.00

Source: Department of Agricultural Extension (DAE).

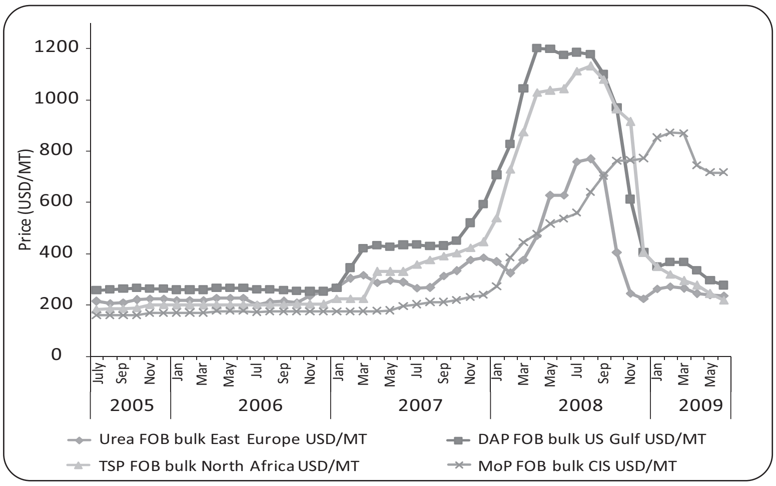
fertiliser use and reduce the cost of production. The government was able to implement the decision at the field level, and farmers were able to obtain fertiliser at the declared prices. This had positive impact on production of Boro rice and wheat in FY2008-09.

Total supply of fertiliser in FY2008-09 was 28 lakh MT comprising 24 lakh MT of urea, 2 lakh MT of TSP, 0.5 lakh MT of DAP and 1.5 lakh MT of MoP (Table 1.9). Use of all types of fertilisers was substantially lower in FY2008-09 than any year during the last five years. Exorbitantly higher prices of fertilisers prevailing during the first half of FY2008-09 had a negative impact on fertiliser use. Since non-urea fertilisers (TSP, MoP, DAP) are used as basal and large quantity is used for potato and winter vegetables, reduction in non-urea prices had limited scope to increase use of such fertilisers immediately. A large number of Boro farmers also planted Boro rice by mid-January. Therefore, they also did not have any scope to use the non-urea fertilisers. All these factors together explain reduction in fertiliser use in FY2008-09.

Farmers were able to obtain fertiliser at the declared prices

International prices of all types of fertilisers except MoP declined substantially between July 2008 and June 2009 (Figure 1.20). During this period, price of urea, TSP and DAP decreased by 69 per cent, 80 per cent and 77 per cent respectively. On the other hand, price of MoP increased by 28 per cent. In June 2009, international prices of a metric ton of Urea, TSP, DAP and MoP were USD 238, USD 220, USD 278 and USD 718, respectively. Thus, after rapid and high escalation of prices of urea, TSP, and DAP in 2007 and 2008, prices have reverted back to the level of 2006, but price of MoP continues to remain high. At the current international prices, cost of importing fertilisers (including freight and insurance) will be about Tk. 19.7 per kg for urea, Tk. 18.5 per kg for TSP, Tk. 22.45 per kg for DAP, and Tk. 52.6 per kg for MoP. Considering the positive developments of fertiliser price in the international market, the government may consider further reduction in administered price of non-urea fertilisers. This would contribute towards balanced fertiliser use and reduced cost of production, which will be helpful for increased production, food security and keeping prices of agricultural products at an affordable level.

Figure 1.20: International Price of Fertilisers (Urea, DAP, TSP and MOP): July 2005 - June 2009



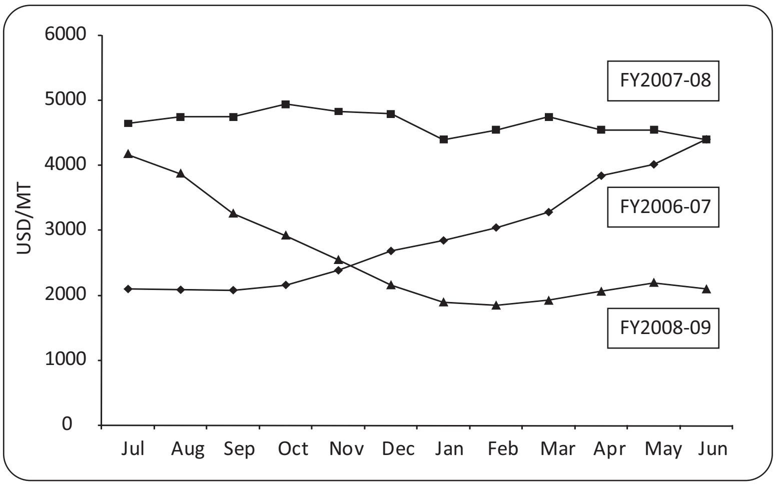
Source: Commodity Markets Review, World Bank.

Milk Production

In FY2008-09, milk production in Bangladesh was around 2.29 million MT, which was 13.0 per cent lower than that of FY2007-08 albeit insignificantly, at 0.3 per cent higher than that of FY2006-07. International price of milk powder decreased significantly in FY2008-09, which has had an adverse impact on domestic milk producers. During July to June of FY2008-09, average price of milk powder declined by 50 per cent (from USD 4,175 to USD 2,100 per MT) (Figure 1.21). Bangladesh's major import of milk products are: sweetened milk powder (HS 040210) and non-sweetened (HS 040221) milk powder. In FY2008-09, quantity of import of sweetened and non-sweetened milk powder was 11,190 and 19,240 MT (i.e. 107 per cent and 53 per cent higher than that of FY2007-08). In value terms, import of sweetened milk powder in FY2008-09 was 35 per cent higher than

International price of milk powder decreased significantly in FY2008-09, which has had an adverse impact on domestic milk producers previous year, however this was 18 per cent lower for non-sweetened milk powder. To understand the adverse impact of the above, one needs to take note of the import surge in the early months (January-March) of 2009 rather than the total import for the whole fiscal year. During the third quarter (January-March) of FY2008-09, Bangladesh's import of sweetened milk powder was 5,270 MT (5.3 times of import in comparable period of FY2007-08). On the other hand, import of non-sweetened milk powder was 5,500 MT (61 per cent higher than the import during comparable months of 2008). In FY2008-09, total operative tariff rate for import of sweetened milk powder was 33 per cent (against 37 per cent in FY2007-08) and for non-sweetened milk powder it was 77 per cent (against 78 per cent in FY2007-08). This sudden and high import at low prices has created problem for domestic milk producers and companies.[9] Farmers reported that milk prices in April 2009 have fallen below their productions cost (Tk. 35 per litre), however, buyers would like the prices to be even lower.

Figure 1.21: International Price of Full Cream Milk Powder: July 2006 – June 2009



Source: International Dairy Market News Reports, United States Department of Agriculture (USDA).

In mid-May 2009, a team of CPD researchers visited Sirajganj area and held discussions with dairy farmers, feed sellers, officials from Milk Vita and other companies. Major findings from the field visit were: (i) farmers enjoyed good business in 2007 and 2008 due to high demand for liquid milk originating from high international price and melamine scare; however, they were facing difficulties due to lack of demand for their milk; (ii) demand for milk by consumers and sweetmeat industry declined due to availability of low cost milk powder; (iii) companies have reduced both quantity of purchase and price (Tk. 4 to 6 per litre) of milk; (iv) feed cost in March-April 2009, against that of March-April 2008, has indeed fallen by about 15 per cent. Some options to support the milk producers and milk industry under the current circumstances are: (i) withdrawal of existing 15 per cent VAT on production of milk powder; (ii) review of import duty on milk powder to make a balance between producer and consumer interests; (iii) better technical support to farmers through Livestock Department by appointing additional number of livestock officers (veterinarians and animal husbandry specialists) in intensive milk production areas; and (iv) supply of medicines and vaccines at a subsidised rate. In this context, measures taken in the national budget of FY2009-10 are indeed welcome. These are: (i) introduction of an additional 5 per cent regulatory duty on imported milk powder; (ii) withdrawal of 2.5 per cent SD applicable on the processing of liquid milk to convert into powdered milk; (iii) fixing of tariff value for powder milk at Tk. 100 per kg, which will result Tk. 15 per kg as VAT on production of milk powder instead of existing Tk. 50 per kg as VAT. Hopefully, these will benefit the dairy sector.

Farmers enjoyed good business in 2007 and 2008 due to high demand for liquid milk originating from high international price and melamine scare; however, they were facing difficulties due to lack of demand for their milk

Meat and Egg Production

In FY2008-09, meat production was 10.84 lakh MT which was 4.2 per cent higher than that of FY2007-08 and FY2006-07. On the other hand, total production of egg was 46,961 lakh pieces, which was 17.0 per cent lower than that of FY2007-08

[9]In April 2009, hundreds of Bangladeshi dairy farmers poured milk onto highways to protest against these falling prices.

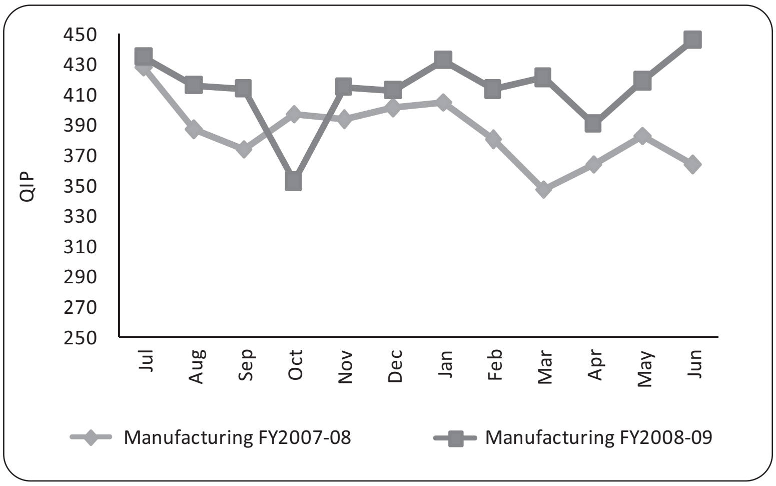
and 12.5 per cent lower than that of FY2006-07. This declining trend was mainly due to the prevalence of bird flu. Big poultry farms have been able to learn the techniques to manage bird flu for layer birds, but small farms failed to adapt to the bird flu and stopped production of eggs in their farms since they were unable to cope with this virulent disease. Another factor was that many bank branches declined to provide loans to the affected producers.

1.6.2 Industry

Growth of Industrial Sector during FY2008-09

For the industrial sector, FY2008-09 was a year full of anxieties, tension and apprehension. The effect of the global financial crisis on the Bangladesh economy started to be felt in the first half of FY2008-09; this was coupled with political uncertainties during the run up to the National Election in December 2008. Growth of the industrial sector during FY2008-09, according to the Bangladesh Economic Review 2009, was 5.92 per cent, reflecting a growth slowdown of the sector by approximately 1.5 per cent compared to the previous year. However, growth of manufacturing industries estimated on the basis of the quantum index of production (QIP) as reported in the *Industrial Production Statistics* of the BBS, showed an acceleration of growth for both large and medium-scale manufacturing industries (from 6.9 per cent in FY2007-08 to 7.4 per cent in FY2008-09) and small-scale industries (from 5.8 per cent in FY2007-08 to 7.8 per cent in FY2008-09).[10]

Figure 1.22: QIP of Large and Medium Scale Manufacturing Industries



Source: Bangladesh Bureau of Statistics (BBS).

Table 1.10: Fluctuation of Production in the Manufacturing Sector

Industry	Standard Deviation					
	FY2007-08			FY2008-09		
	July - December	January - June	July- June	July- December	January- June	July- June
Manufacturing (QIP)	18.2	19.9	21.8	28.2	18.7	23.7
Garments (Million Tk.)	3983.3	3226.6	4614.9	6097.5	3419.8	5099.3
Jute Textile (MT)	1481.8	2996.3	2361.1	2710.1	8681.9	6134.5
Cement (MT)	8362.8	18042.9	16052.9	1224.4	11363.0	7857.6

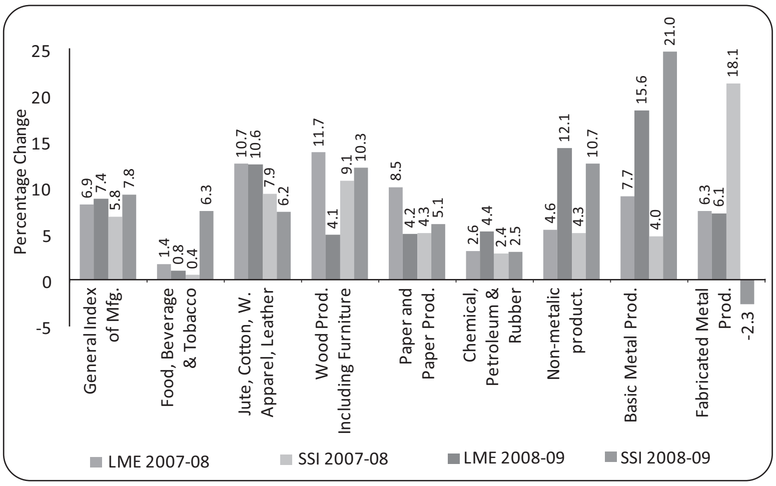
Source: Estimated from BBS (2009).

Industrial production experienced fluctuating fortunes during FY2008-09 (Figure 1.22; Table 1.10). Analysis of disaggregated data indicates that production in manufacturing sector in FY2008-09 experienced higher level of fluctuation compared to the previous year.[11] Fluctuations in production were relatively higher in July-December 2008, perhaps due to the deepening impact of the global financial crisis in the first half of the fiscal year. Major export-oriented industries, particularly the RMG sector, saw high fluctuation in the first half of FY2008-09. Jute textiles, another export-oriented product, also faced similar variations during the second half of FY2008-09. On the other hand, production of cement, a local market-based product, experienced lower levels of variations in production. A high volatility of product demand in the international market during FY2008-09 had adversely affected production of export-oriented products as well as investment in FY2008-09.

[10]Part of the difference in the growth estimates could be explained by the use of projected data for several months in the Bangladesh Economic Review 2009 and the use of index values for estimating QIP in the Industrial Production Statistics.

[11]Standard deviation of manufacturing production in FY2007-08 was 21.8 which increased to 23.7 in FY2008-09.

Figure 1.23 Changes in Production of LMEs and SSIs in FY2008-09 over FY2007-08 (Based on QIP)



Source: Estimated from BBS (2009).
Note: LME: Large and Medium Enterprise; SSI: Small-scale Industry.

Table1.11: Public and Private Investment

Indicator	FY2006-07	FY2007-08	FY2008-09
Investment (billion Tk.)			
Total investment	1155.9	1321.3	1486.9
Public	257.3	270.4	284.9
Private	898.6	1050.9	1202.0
Percentage change			
Total investment	12.8	14.3	12.5
Public	3.2	5.1	5.4
Private	15.9	16.9	14.4
ICOR	3.81	3.91	4.11

Source: Estimated from the MoF (2009).

Performance of Selected Industries during FY2008-09

According to the QIP, production of large and medium-scale industries has registered a relatively low level of growth in FY2008-09 (7.4 per cent) compared to that of small-scale industries (7.8 per cent) (Figure 1.23). A number of large and medium enterprises have either experienced marginal deceleration in the production (jute, cotton or clothing apparel) or a substantial fall in the production (wood products, paper and paper products and fabricated metal products). Small-scale industries, on the other hand, have registered a substantial rise in production during FY2008-09 (basic metal products, food beverages and tobacco, wood products including furniture, paper products and non-metallic products). However, there was no specific trend in the level of performance of different categories of industries (in terms of size) during the volatile period of FY2008-09.

Contribution of manufacturing sector to the GDP has stagnated as a share of GDP (17.77 per cent in FY2007-08 and 17.78 per cent in FY2008-09). A deceleration in the growth of private investment in FY2008-09 (14.4 per cent against 16.9 per cent in FY2007-08) corroborates the decline in industrial production and its decreased contribution to GDP. A gradual rise of the ICOR over time (4.11 in FY2008-09, 3.91 in FY2007-08, 3.81 in FY2006-07 and 3.74 in FY2005-06) is indicative of the decreasing level of capital productivity (Table 1.11). Investment by large and medium enterprises, with major share in total investment, appears to have remained stagnant resulting in their unchanged level of contribution to GDP. Public investment at its current level (Tk. 28,490 crore in FY2008-09), with lower focus on development of physical infrastructural facilities (most importantly development of energy and the power sector), has resulted in a situation whereby low capacity utilisation in industrial enterprises has emerged as a pervasive problem.

Major service-related industries have registered deceleration of growth

Services Sector

Services sector contributing 49.7 per cent of the GDP was able to maintain a growth rate over 6 per cent in FY2008-09 (6.25 per cent); the sector's growth was, however, low compared to the previous year (6.49 per cent). The deceleration of growth of some of the services sectors can be partly attributed to the slowdown of growth of major manufacturing sectors. Major service-related industries which have registered deceleration of growth include transport, storage and communication (to a significant extent), and financial intermediation, wholesale and retail trade (to some extent) (Table 1.12). A part of the deceleration could have linkage with the volatility of export-oriented industries during FY2008-09. Services sectors/sub-sectors which experienced relatively high growth include: public administration and defense, education, health and social services, community and personal services, air transport and land transport. In light of the critical importance of social sectors (such as education, health and public administration) to the development of the private sector, both quality and magnitude of investment in these sectors will need to rise further.

Table 1.12: Growth of GDP at Constant Price (Base: 1995-96=100)

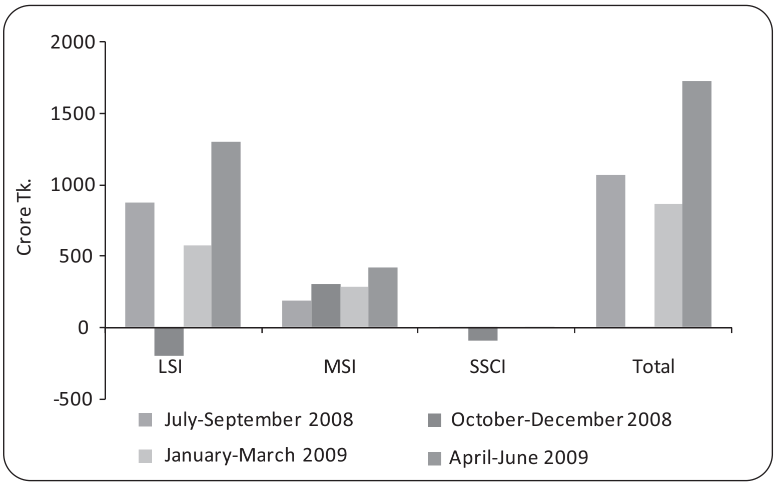
Activity/Sector	Share in GDP FY2008-09	Share in Services FY2008-09	Growth of Services FY2006-07	FY2007-08	FY2008-09
Wholesale and retail trade	14.44	29.08	8.04	6.82	6.35
Hotel and restaurant	0.71	1.43	7.52	7.55	7.58
Transport, storage and communication	10.61	21.37	8.03	8.55	7.61
Financial intermediation	1.84	3.71	9.18	8.89	8.00
Real estate, renting and business services	7.35	14.80	3.76	3.75	3.81
Public administration and defense	2.79	5.62	8.41	6.21	7.02
Education	2.64	5.32	8.96	7.80	8.04
Health and social services	2.35	4.73	7.64	7.02	7.55
Community, social and personal services	6.93	13.95	4.58	4.62	4.68
Overall	**49.66**	**100.00**	**6.70**	**6.49**	**6.25**

Source: Estimated from MoF (2009).

Investment in the Industrial Sector: Disbursement of Capital

Fluctuations in the level of production in the manufacturing sector during FY2008-09; got reflected in the disbursement of industrial term loan and working capital. Overall disbursement of industrial term loan during FY2008-09 was Tk. 19,972 crore, which was about one per cent lower compared to the previous year. Poor disbursement of industrial term loan during the first half of FY2008-09 (7.48 per cent in July-December 2008, lower compared to July-December 2007) was largely outweighed by a substantial rise in the disbursement of credit in the second half of FY2008-09 (growth 5.19 per cent). The recovery of industrial term loans, however, was 19.7 per cent higher during FY2008-09. Interestingly, recovery in the first half of FY2008-09 was significantly higher (32.5 per cent) compared to the second half (9.8 per cent); however a sharp rise in loan recovery was observed in the April-June quarter of this fiscal year. Long-term credit has constituted the major share in the overall disbursement of term loans; and long-term credit disbursements fluctuated during the first two quarters but experienced a more steady rise over the following two quarters (Figure 1.24). Medium-term credit disbursement has increased relatively consistently in this year; however, the disbursement of short-term credit was largely insignificant and experienced fluctuations in different quarters.

Figure 1.24: Net Disbursement of Industrial Term Loan



Source: Estimated from Bangladesh Bank (2009).
Note: LSI: Large-scale Industries; MSI: Medium-scale Industries; SSCI: Small-scale and Cottage Industries.

The disparity between the share of credit disbursement to different industrial categories and their share in overall industrial sector has remained unchanged in FY2008-09. Large-scale enterprises, with only 6.4 per cent of total industrial establishments and 55.6 per cent of total industrial employment, retained a share of 89 per cent out of total advances made in the industrial sector. On the other hand, small-scale industries with an 87.9 per cent share of all industrial establishments and 35.9 per cent of all industrial employment received only 4.1 per cent of total advances to the industrial sector. This is in part explained by the substantially high level of investment by large and medium enterprises which have set up state-of-the-art factories with sophisticated technologies and modern machineries. A renewed effort, however, is required for technological upgradation of small and medium enterprises (SMEs) as well to enhance their competitive strength in the domestic and international markets.

It is to be noted that the development of SMEs has received priority attention in the development strategies of successive governments over the recent past years. This rejuvenated effort can also be seen in the new government's economic policies. Disbursement of advances to the SME sector by the end of June 2009 was Tk. 48,473.5 crore which was about 38.3 per cent higher compared to the previous year (Table 1.13). A large part of the rise of SME loans took place during the April-June quarter of FY2008-09. Private commercial banks, which own a share of 56 per cent of total advances to SMEs, have disbursed 31 per cent more credit in FY2008-09; comparable figures of increase in the advances of other financial institutions are: 66 per cent for SCBs, 104 per cent for foreign banks and 24 per cent for NBFIs. A high disbursement of SME loans reflects the government's policy directives in support of domestic market-oriented industries in view of the global financial crisis.

Table 1.13: Outstanding Position of SME Loans

(in Crore Tk.)

Type of Financial Institution/Bank	FY2007-08	Share of Total FY2007-08	FY2008-09	Share of Total FY2008-09	% Change in FY2008-09 over FY2007-08
SCBs	9918.87	28.3	16498.24	34.0	66.33
PCBs	19889.76	56.8	26047.45	53.7	30.96
Foreign Banks	611.67	1.7	1277.62	2.6	108.87
SBs	3249.09	9.3	2944.09	6.1	-9.39
NBFIs	1371.08	3.9	1706.12	3.5	24.44
Total	35040.46	100.0	48473.52	100.0	38.34

Source: Estimated from Bangladesh Bank (2009).

In spite of the aforesaid emphasis, special financing projects such as the Equity and Entrepreneurship Fund (EEF) did not gain momentum in FY2008-09, only three new projects were included for support from this fund between April 2008 and March 2009. It is important to note in this connection that the Bangladesh Bank has recently handed over operational responsibilities for the EEF to the Investment Corporation of Bangladesh (ICB).[12] Under the new arrangement the ICB will act as "sub-agent" of the Bangladesh Bank and will monitor, evaluate and be responsible for legal actions involving the EEF. It is still unclear whether the ICB has the adequate technical capacities and manpower to perform these activities with the required efficacy.

The government's special stimulus package had targeted ailing export-oriented industries as well as domestic market-oriented industries, particularly SMEs

The government's special stimulus package of Tk. 3,420 crore which was announced in April 2009, had targeted ailing export-oriented industries as well as domestic market-oriented industries, particularly SMEs. As part of this support, seriously affected industries, such as jute goods, leather and leather products, frozen foods and shrimp have started to receive additional support of 2.5 per cent cash incentive along with the existing one. Sectors (such as backward linkage textile, bicycle, light engineering products, agro-processing) which are already receiving cash incentives will continue to receive the respective financial support. Also under this package, export-oriented industries will enjoy benefits such as timely distribution of cash incentives, extension of export credit to all sectors at a reduced rate (7 per cent), and increased allocations under the export development fund. Domestic industries could also potentially benefit from the fresh injection of funds to various financing schemes such as the investment promotion and financing facilities (IPFF) (worth Tk. 400 crore), SME fund (worth Tk. 600 crore), house building fund (worth of Tk. 500 crore), and EEF (worth of Tk. 300 crore). These initiatives help export-oriented industries override depressed demand in the global market.

A mixed trend is observed in case of importing raw materials, intermediate products and capital machineries for FY2008-09

Trends in Industrial Imports

A mixed trend is observed in case of importing raw materials, intermediate products and capital machineries for FY2008-09. The overall import of raw materials and intermediate products during this period was USD 10,283 million,

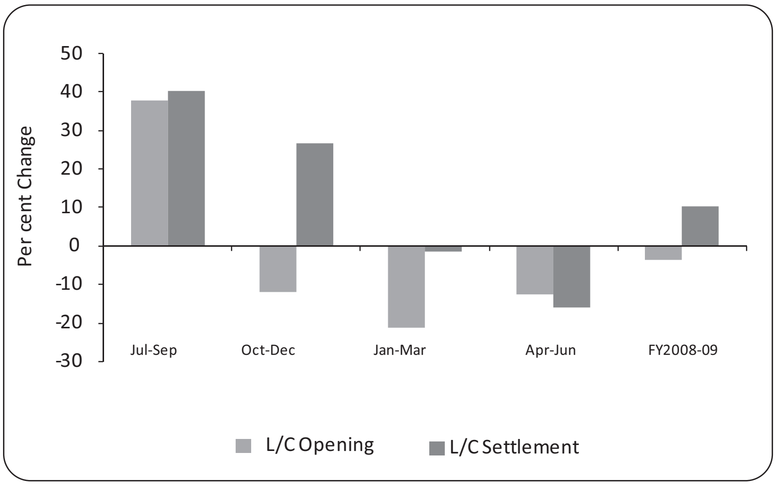
[12] An agreement was signed between the two parties in 1 June 2009.

with a growth rate of 6.95 per cent, while the import of capital goods (along with others) was USD 6,194 million, with a growth rate of 12.2 per cent. The declining import of a number of items in this fiscal year, particularly import of capital machineries (growth rate was -14.7 per cent), is a concern for its potentially adverse impact in terms of the long-term growth of major industries. Import of raw materials for major industries has maintained robust level of growth which indicates an acceleration of industrial production. This includes import of textile fabrics (10.9 per cent), yarn (14.7 per cent), raw cotton (6.4 per cent), and dyeing and tanning materials (18.9 per cent); import of staple fibre was, however, low (2.0 per cent).

Performance of the industrial sector can be assessed through the opening and settlement of L/Cs for import of raw materials and capital machineries. Settlement of L/Cs for importing raw materials was relatively high during the first half of FY2008-09 (Figure 1.25). Settlement of L/Cs for importing capital machineries, on the other hand, has registered a decline for all major industries including textiles, leather, jute, and garment (Figure 1.26).

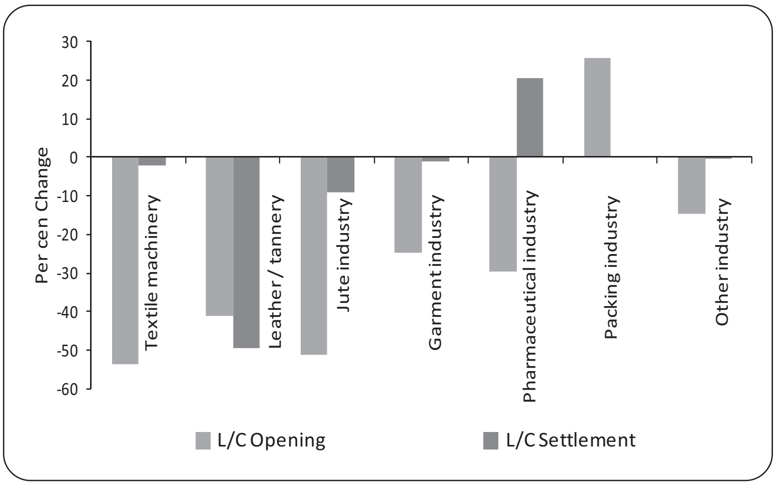
Machineries imported for various non-traditional industries such as computer and its accessories, motor vehicle and motorcycle parts, bicycle parts and other electronics components etc., accounted for a significant share in total imports (8.9 per cent of total settlement of L/Cs during FY2008-09). Most of these had posted high import growth (Table 1.14). During FY2008-09 import of these machineries has maintained a two-digit level of growth both for the opening and settlement of L/Cs: 14.6 per cent and 13.3 per cent respectively. Machineries imported for motor vehicles and motorcycle parts, electronic components, computers and accessories, marine diesel engines, etc. have increased both in terms of the opening and settlement of L/Cs. In a period with a low level of investment in traditional export-oriented industries, the relatively better performance of non-traditional industries, in terms of import, should be seen as a welcome development from the perspective of industrial diversification.

Figure 1.25: Changes in Opening and Settlement of L/Cs for Importing Raw Material during FY2007-08 and FY2008-09



Source: Estimated from Bangladesh Bank (2009).

Figure 1.26: Changes in Opening and Settlement of L/Cs for Capital Machineries during FY2007-08 and FY2008-09



Source: Estimated from Bangladesh Bank (2009).

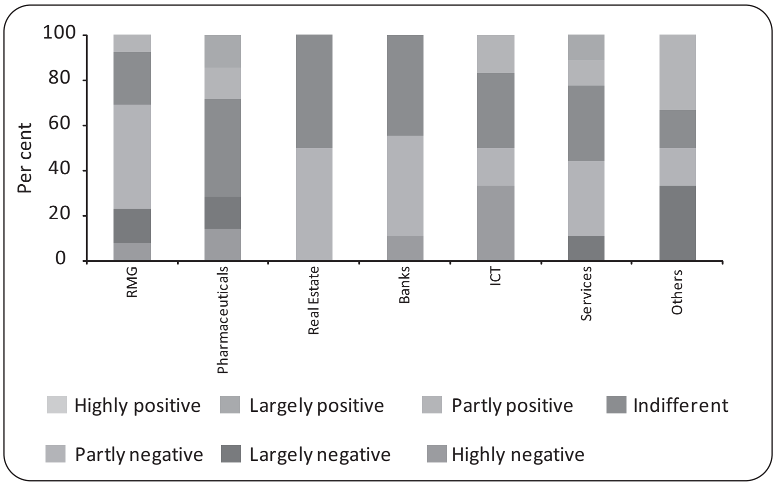
Table 1.14: Opening and Settlement of L/Cs on Machineries Imported for Non-traditional Industries

(in Per cent)

Sector	Changes in FY2008-09 over FY2007-08		
	L/C Opening	L/C Settlement	Outstanding L/Cs at the Fiscal End
Machinery for misc. industries	14.6	13.3	7.9
Other machineries	1.9	-0.9	19.5
Marine diesel engine	45.4	28.8	7.0
Computer & its accessories	4.4	13.9	-2.5
Motor vehicle & motorcycle parts	24.0	26.5	6.2
Bicycle parts	-13.6	-12.8	-4.4
Other iron and steel products	18.2	15.3	9.1
Motor vehicles	24.6	9.1	8.0
Other electronics components	28.7	28.5	7.9
Tractors & power tillers	-3.3	8.9	0.8
Others	18.7	31.6	4.1

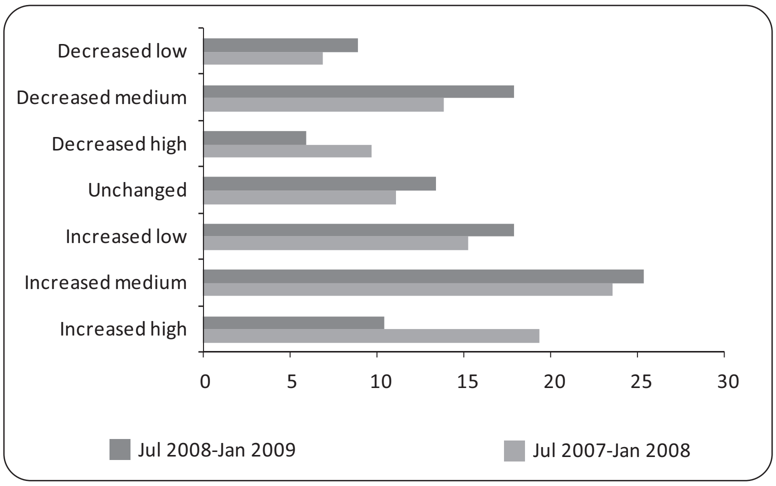
Source: Bangladesh Bank.

Figure 1.27: Entrepreneurs' Perception as regards the Extent of Impact of Global Financial Crisis on their Respective Sectors



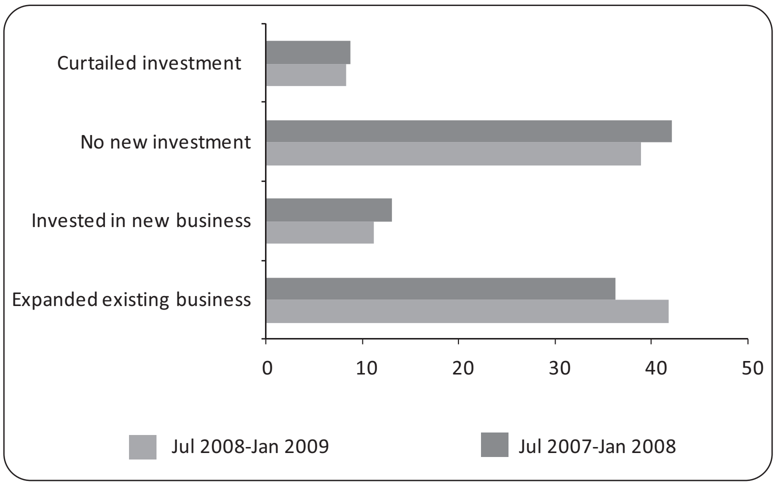
Source: CPD Rapid Assessment Survey, 2009.

Figure 1.28: Entrepreneurs' Perception as regards the Production of their Enterprises during FY2007-08 and FY2008-09



Source: CPD Rapid Assessment Survey, 2009.

Figure 1.29: Comparision of Perception of Investment in FY2007-08 and FY2008-09



Source: CPD Rapid Assessment Survey, 2009.

Rapid Assessment on Impact of Global Financial Crisis on Production, Export, Employment during 2009

CPD carried out a rapid perception survey in February-April, 2009 to examine the possible impact of the global financial crisis on the Bangladesh economy, focusing particularly on the production, investment and employment of major industries. A total of 90 leading entrepreneurs from diverse sectors of the economy participated in the survey.[13] About 85 per cent of entrepreneurs perceived that the global economic crisis would have either "partly negative" or "no noticeable impact" in their respective sectors during 2009 (Figure 1.27). However, some of the entrepreneurs most of whom belonged to the RMG, pharmaceuticals, information and communication technology (ICT) and banking sectors, felt that their respective sectors would be "highly affected" in 2009 and apprehended that demand for export would suffer as a consequence.

According to the sample respondents, major economic indicators such as production, investment and employment are likely to experience an insignificant deceleration in growth during July 2008 – January 2009 compared with that of July 2007 – January 2008 (Figure 1.28). Although some enterprises have decided to expand production, investment and employment, such changes were not necessarily related directly to the crisis. However, investment was perceived to be lower during the July 2008 – January 2009 period, compared to that during the July 2007 – January 2008 period (Figure 1.29). According to respondents from export-oriented industries, some RMG and textile products declined by 5 to 8 per cent, while other items have experienced a rise (by about 9 per cent). Price of some pharmaceutical products were perceived to have increased by about 15 per cent between January 2008 and January 2009 as well.

A large number of entrepreneurs have taken various cost cutting measures in view of the adverse impact of the crisis (Table 1.15).

[13]The respondents belonged to sectors such as RMG, textile, leather, frozen foods, pharmaceuticals, real estate and construction, banking, and ICT.

Large scale retrenchment of workers was not however, evident. Some entrepreneurs have mentioned other cost reducing steps such as reduction of fringe benefits, reduction of firms' capacity utilisation or even closing down of some production units. Additionally, a significant proportion of sample entrepreneurs indicated that they would go for such measures if and when demand for their products evinces a downward trend.

Table 1.15: Perception on Various Measures Taken due to the Crisis and Possible Measures Considered to be Taken if Crisis Deepens

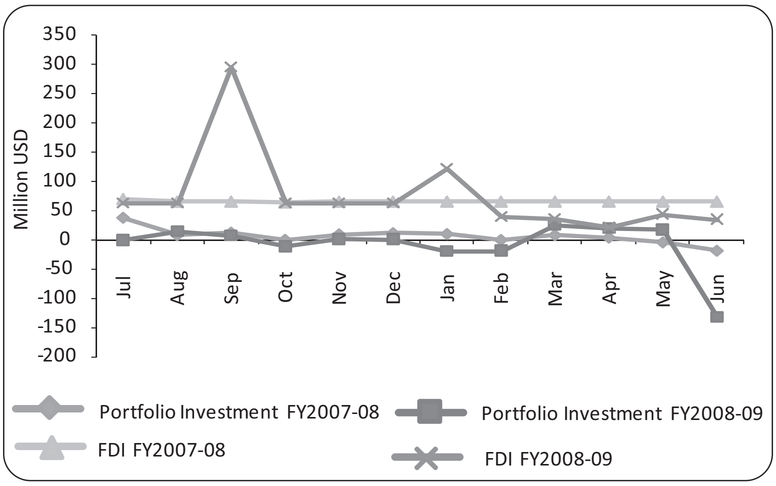
Measure	Measure Taken because of the Crisis	Possible Measure in case of Deepened Recession
Laying off workers	8.3	11.1
Wage cut	0.0	3.7
Increase working hours	4.2	6.5
Reduction of workers' fringe benefits	5.6	10.2
Reduction of profit margin	29.2	25.0
Reduction of firm's capacity utilisation	5.6	12.0
Closing down of production units	5.6	11.1
None	41.7	20.4

Source: CPD Rapid Assessment Survey, 2009.

1.6.3 Foreign Direct Investment at the Time of Global Recession

Contrary to apprehensions about fall in FDI flow in view of the crisis, there was rather a rise in the flow of FDI during FY2008-09. A total of USD 941 million worth of FDI was received in this fiscal year, which was 14.3 per cent higher compared to the previous year. Indeed, this amount was the highest inflow of FDI that Bangladesh has received so far. However, apart from an inward FDI flow for acquisition of shares of a local telecom company, there is no major noticeable difference in the flow of FDI between FY2007-08 and FY2008-09 (Figure 1.30). It is hoped that increased foreign investment will contribute to development of a manufacturing base in the telecommunication sector for production and export of different machineries and components such as mobile sets, parts and various other equipments.

Figure 1.30: Monthly Pattern of Foreign Direct Investment and Portfolio Investment



Source: Calculated based on Bangladesh Bank (2009).

Portfolio investment, which has traditionally been low in Bangladesh, registered a substantial decline during FY2008-09. Because of significant disinvestment from the capital market there was large outflow of portfolio capital, resulting in a net, overall portfolio investment of (-)USD 159 million; the comparable figure for FY2007-08 was USD 78.8 million. Disinvestment of portfolio investments continued over the entire fiscal year, which was unchanged in the new fiscal FY2009-10 (-USD 25 million in July-September 2009) as well.

The slowdown of export-oriented industries' growth reflects the lower FDI flow to the export processing zones (EPZs) - a total of about USD 148.03 million worth of FDI was received by different EPZs (44.3 per cent lower compared to that of the previous year) (Table 1.16). All major EPZs, such as

Table 1.16: EPZ-wise Investment Performance

(in Million USD)

EPZ	FY2007-08	FY2008-09	% Change in FY2008-09 over FY2007-08
Chittagong	105.50	47.22	-55.24
Dhaka	101.10	30.39	-69.94
Adamjee	30.30	21.07	-30.46
Karnaphuli	16.40	27.90	70.12
Comilla	8.70	8.20	-5.75
Mongla	2.00	-0.96	-148.00
Ishwardi	1.40	14.04	902.86
Uttara	0.10	0.17	70.00
All	265.60	148.03	-44.27

Source: Bangladesh Export Processing Zone Authority (BEPZA).

Dhaka, Chittagong and Adamjee received about 30-70 per cent less FDI compared to the previous year. An added reason for this poor performance was lack of availability of adequate space in these EPZs for setting up new industries. On the other hand, Karnaphuli and Ishwardi EPZs have witnessed some positive growth in FDI flow; and the Karnaphuli EPZ received investments of about USD 27.9 million during FY2008-09 which was 70 per cent higher compared to the previous year. In case of Ishwardi EPZ, one single investor (Rahim Afroz) made new investments in order to expand its battery project. Karnaphuli EPZ is receiving heightened attention from new investors because of its geographical locational advantage as well as for its accessibility to various utility facilities. Investment in EPZs this year was targeted to traditional industries such as textile, garments, knitwear, footwear and tent making industries. Taking into account their importance, EPZs should continue to receive policy support of the government in spite of the later's declared intention to put more emphasis on setting up special economic zones (SEZs) (as articulated in the draft *Industrial Policy 2009*).

Table 1.17: Registration of Domestic and Foreign Investment with BOI

(in Million USD)

Year	Local Investment	100% Foreign and Joint Investment	Total Registration
FY2007-08	2827.00	657.86	3484.86
FY2008-09	2467.00	2071.68	4538.68
Percentage Change	-12.73	214.91	30.24

Source: Board of Investment (BOI), Bangladesh.

Investment in EPZs this year was targeted to traditional industries

Registration for investment has maintained an encouraging record in FY2008-09. A total of USD 4.5 billion worth of investment has been registered this year, while the comparable figure for FY2007-08 was USD 3.5 billion (Table 1.17). This performance was mainly attributed to a significantly higher amount of registration of FDI (USD 2.1 billion in FY2008-09 against USD 657 million in FY2007-08); local investor's however, were less enthusiastic (USD 2,467 million). As is known, the moot question here is for Bangladesh to be able to realise these "registered" investments into "actual" investments by helping potential investors to translate their "intentions" into "actions." This has continued to remain a recurring challenge for Bangladesh in the recent past.

Table 1.18: FDI Inflow after Deducting the FDI-related Outward Transfers

(in Million USD)

FDI Flow-related Category	FY2007-08	FY2008-09	% Change in FY2008-09 over FY2007-08
FDI inflow	698.00	906.37	29.85
FDI transfers	653.05 (93.6%)	879.93 (97.1%)	34.74
Royalties and license fees	7.89	22.66	187.20
Profit and dividends	173.33	207.39	19.65
Earnings of oil, gas and power companies	471.83	649.88	37.74
FDI inflow after deducting the FDI-related outward transfer	44.95	26.44	-41.18

Source: Bangladesh Bank FDI Enterprise Survey.

During FY2008-09 FDIs' contribution to balance of payment (BOP) was not significant. According to the Bangladesh Bank Survey, FDI inflow in FY2008-09 was USD 906 million, which is marginally slower than the figure reported in BoP (USD 941 million) (Table 1.18). Against USD 906.37 million worth of FDI inflow in FY2008-09, a total of USD 880 million has been transferred out of the country by foreign companies, which accounted for more than 97 per cent of the flow of FDI into the country this year. Major heads under which foreign companies have transferred their income include royalties and license fees, profit and dividends, and earnings of oil, gas and power companies. The transfer of income by oil, gas and power companies was about USD 650 million which accounted for 71.7 per cent of total FDI flow in the country.

The moot question is for Bangladesh to be able to realise these "registered" investments into "actual" investments by helping potential investors to translate their "intentions" into "actions"

The sectoral distribution of FDI, according to the data of January-December 2008, showed that USD 641 million worth of FDI (about 60 per cent of total FDI) was targeted to the telecommunication sector (Table 1.19). The FDIs originated from Egypt targeting mainly the telecom sector (USD 373.4 million) and acquisition of shares of local telecom company Aktel, by the Japanese telecom giant NTT Docomo, have led to this rise. The banking sector received about USD 141.8

million worth of FDI in 2008. Within the manufacturing sector, textiles and clothing apparels received USD 126.36 million worth of FDI, followed by food products (USD 22.9 million). However, none of the other manufacturing industries received substantial amount of FDI. It appears that domestic market-oriented industries, as usually is the case, have received higher levels of FDI flow. Perhaps because a large share of Bangladesh's FDI is domestic market-oriented where the impact of the crisis has been felt to a lower extent, no significant departure relatively in the flow of FDI, before and during the period of crisis, could be discerned (USD 381.3 million in January-June 2007; USD 285 million in July-December 2007; USD 483.7 million in January-June 2008 and USD 602.7 million in July-December 2008).

It is becoming increasingly evident that large-scale foreign investment in Bangladesh would be difficult to attract unless adequate infrastructural facilities can be put in place. First of all, the availability of adequate supply of electricity has become a binding constraint. Secondly, availability of gas at a low price, which was once considered as one of the major advantages of Bangladesh, is no longer there; the gas supply itself has become a major cause of concern for the country. Exploration of new sources of gas, both onshore and offshore, must be given the highest priority in the upcoming budget in order to address energy requirements of potential investors, both locally and from abroad. Attracting investment in energy/power/gas sector itself will be a critically important task for the newly elected government.

1.6.4 Capital Market: Volatility has Increased

Bangladesh's capital market witnessed a sharp decline for most part of FY2008-09. The all share price index (DSI) of the Dhaka Stock Exchange (DSE) dropped from 2369.03 in July 2008 to a low point of 2033.3 in the month of March 2009; it gained again in June 2009, when the index climbed to 2526.24 (Figure 1.31). The fall of the share price index was even higher in case of blue chip shares (DSE 20), with a decline of 25.13 per cent in FY2008-09,

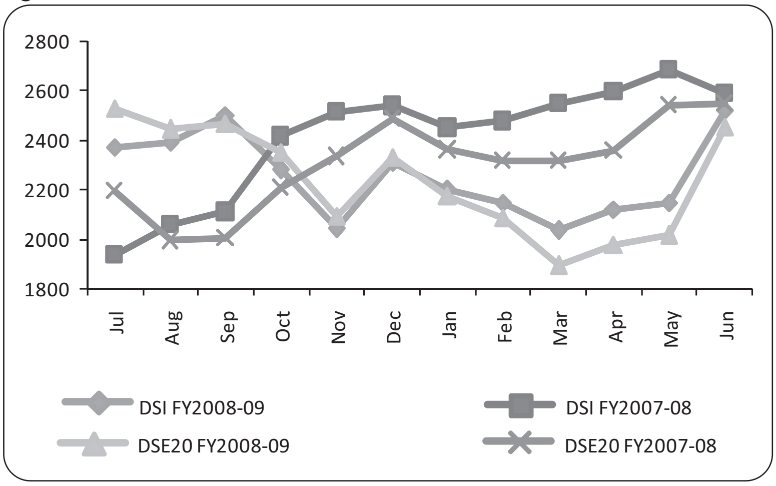
Table 1.19: Sectoral Distribution of FDI

(in Million USD)

Sector	2007 (January-December)	2008 (January-December)
Total	666.37	1086.31
Agriculture and fishing	7.33	14.43
Power, gas and petroleum	215.94	101.02
Manufacturing	142.68	168.49
Trade and commerce	92.88	153.40
Telecommunication, transport and storage	201.90	641.39
Services	5.64	7.59

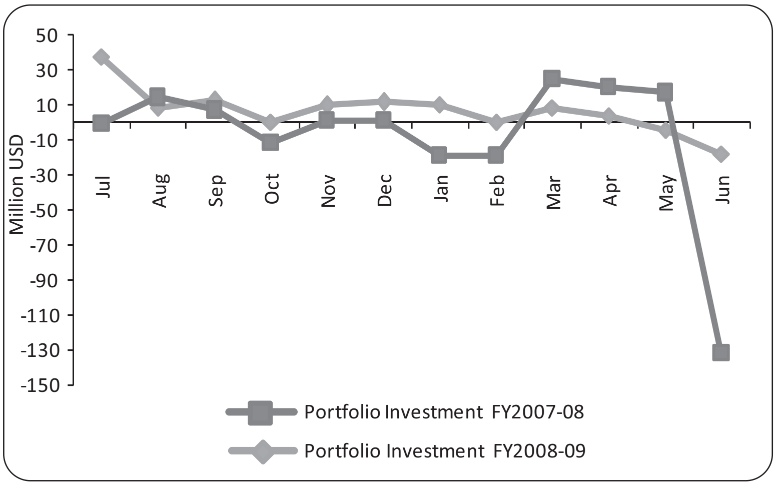
Source: Bangladesh Bank Enterprise Survey.

Figure 1.31: Trend of Movement of Share Price Indices at DSE



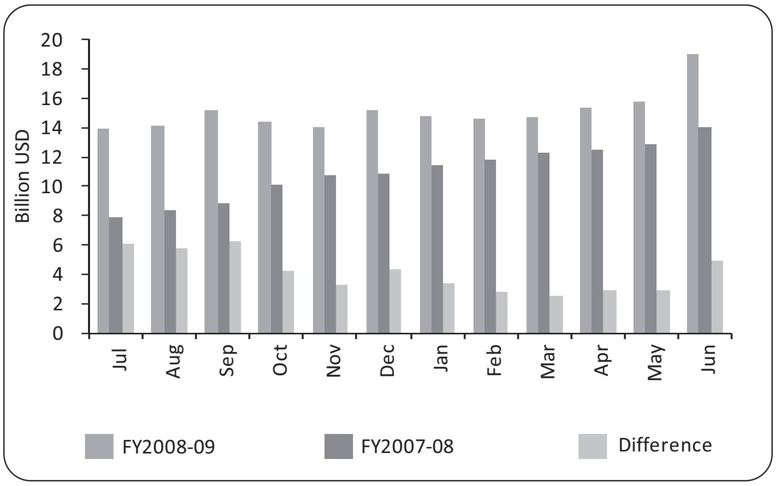
Source: Dhaka Stock Exchange (DSE).

Figure 1.32: Monthly Pattern of Portfolio Investment in the Capital Market



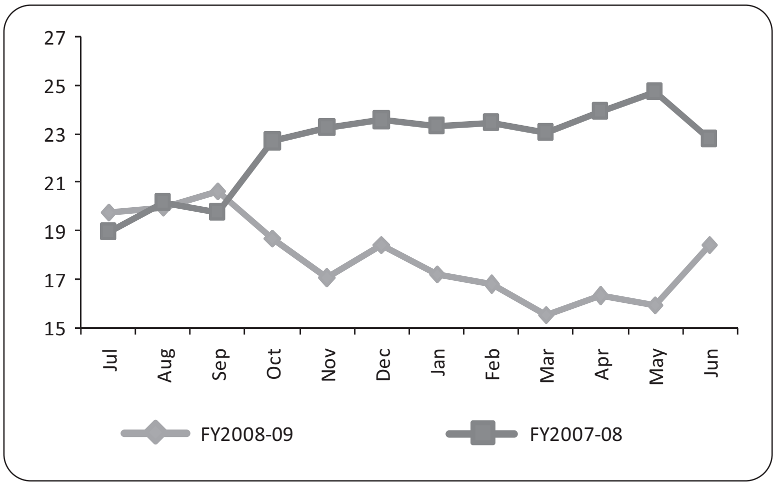
Source: Calculated based on *Monthly Economic Trends*, Bangladesh Bank.

Figure 1.33: Trend of Market Capitalisation at DSE



Source: Dhaka Stock Exchange (DSE).

Figure 1.34: Monthly Trend of Price-Income Ratio at DSE



Source: Dhaka Stock Exchange (DSE).

Table 1.20: IPO Performance at DSE

Feature	FY2007-08	FY2008-09*	% Change of FY2008-09 over FY2007-08
No. of IPOs	12	13	8.33
Total issued Shares (after IPO)	76127314	193290000	153.90
Sponsors' portion (share)	45245264	87020000	92.33
Public offer (share)	30882050	108970000	252.86
Public offer as percentage of total issued shares (after IPO)	40.57	56.38	38.97
Total Paid up Capital (after IPO) (in Crore Tk.)	749.68	717.90	-4.24

Source: Calculated based on information of DSE website.
Note: *In FY2008-09, Summit Alliance Port Limited issued 1 million public shares out of its total shares (after IPO) of 2.3 million.

compared to FY2007-08. Since March 2009, both share price indices experienced a marginal rise. The country's capital market has suffered in two ways: from a low level of portfolio investment in FY2008-09 and also liquidation of parts of existing portfolio investments (Figure 1.32). However, because of the small share of portfolio investment in total market capitalisation (less than 2.5 per cent), disinvestment by some of the foreign portfolio investors did not have significant adverse impact on the capital market.

Market capitalisation of the DSE between July 2008 and May 2009 remained within the range of USD 13.95 billion and USD 15.79 billion; however, it jumped to USD 19.02 billion in June 2009 (Figure 1.33). Chittagong Stock Exchange (CSE) experienced a similar pattern of movement, with respect to market capitalisation.

Price-earnings ratio has tended to decline in view of falling share price indices in the country's capital market (Figure 1.34). After a very high ratio in FY2007-08 (within a range of 23 to 25 during November 2007 to June 2008), the low level of this ratio in FY2008-09 is perhaps indicative of some market corrections. At the end of March 2009, the price-income ratio reached 15.5, though subsequently this bounced back to its earlier level and reached 18.4 in June 2009.

A total of 13 companies offloaded their initial public offerings (IPOs) in the DSE during FY2008-09; number of companies offloading their shares in FY2007-08 12 (Table 1.20). A number of features indicate positive developments in FY2008-09: total number of shares, shares held by the sponsors, shares for public offer and share of public offerings as a percentage of total issued shares. However, total paid-up capital was relatively low in FY2008-09, compared to the previous year (4.24 per cent). Greater participation of new and diverse sets of companies is important to the deepening of the capital market and improvement of competitive situation. Hopefully, the expected offloading of Grameenphone shares will be a step forward in this regard.

Capital market of Bangladesh is facing various systematic challenges and those challenges need to be addressed properly. Awarding licenses to four commercial banks to operate as merchant banks was one of the major incidences during the second half of the fiscal year. Although this initiative would help to avoid control over the market by a few merchant banks, big investors and brokerage houses, weak performance of a majority of banks have brought into question about the effectiveness of this initiative. The Securities and Exchange Commission (SEC) will need to take appropriate measures and put in place required regulatory framework to address any investor apprehension in this context. SEC has approved rules regarding book building system for IPOs to attract big issues of companies to the stock market. Enhancing investors' awareness through the new directives which disclose earning per share, net asset value and net operating cash flow per share of enlisted companies, while declaring dividends is another initiative that has been taken by the SEC. Annual reports of enlisted companies should be made available to prospective investors (these reports could be posted in the DSE website), which would ensure a better understanding about the performance and financial situation of the company by prospective investors. A number of new decisions have been taken by the SEC and other related organisations (including the Bangladesh Bank) during the first four months of FY2009-10, including the suspension of trading of a number of 'Z' category shares, making mandatory the submission of monthly reports on stock portfolios and the introduction of lock-in periods barring sales of new convertible shares. Considering the complicacy and distinct nature of the capital market, a separate judiciary mechanism should also be set up for the settlement of disputes in the share markets (within a specified time limit). In order to deepen the capital base, the government should also consider mobilisation of funds from the capital market for large-scale infrastructural projects, such as Padma Bridge. Securitisation of projects needs also be given due consideration.

SEC has approved rules regarding book building system for IPOs to attract big issues of companies to the stock market

In order to deepen the capital base, the government should also consider mobilisation of funds from the capital market for large-scale infrastructural projects, such as Padma Bridge

1.6.5 Draft Industrial Policy 2009: A Review

As expected, the draft *Industrial Policy 2009* unveiled in April 2009 has attracted a lot of attention and generated animated discussion among various stakeholders and groups. First, the new industrial policy was a test case for the newly elected government in terms of their ability to create sound strategies for industrialisation in the medium-term. Secondly, in view of the dynamics of changes in the structure of the industrial sector, the emergence of new or potential industries and a demand for market diversification, a new industrial policy was imminently necessary. Policy guidelines were required for both encouraging the private sector, and also for providing appropriate direction for the restructuring and reform of public sector enterprises. Thirdly, the global economic crisis has given rise to new realities which call for restrategising Bangladesh's industrial development in the medium-term. Whilst attempting to address the above concerns, the draft policy needs to be revised in order to attain the objectives and generate the expected outputs.

The global economic crisis has given rise to new realities which call for restrategising Bangladesh's industrial development in the medium-term

The draft *Industrial Policy 2009* is the ninth Industrial Policy to be announced since independence in 1971. At the present time the *Industrial Policy 2005* is in operation. The formulation process of *Industrial Policy 2009* was initiated during the last CTG with extensive discussion and consultation with various stakeholders. This process had continued under the new government, with a review of the draft prepared by the preceding government. The draft *Industrial Policy 2009* is slightly abridged as compared to the *Industrial Policy 2005*. It has 16 chapters which include some new issues (such as promoting women entrepreneurship) and the deletion of some others (such as technical and institutional assistance and the facilitating role of relevant ministries). With regard to the placement sequence of various issues in the *Industrial Policy 2009*, it appears that relative importance of different issues has not been appropriately reflected in the policy. Thus, issues such as the foreign investment, export-oriented industries, productivity, human resources and technology have not been given appropriate importance. Hence, reorganisation of the draft policy may be considered.

Issues such as the foreign investment, export-oriented industries, productivity, human resources and technology have not been given appropriate importance

The draft *Industrial Policy 2009* has several distinct features. It proposes broadening of industry classifications, widening the definition of each category of industries, introduction of a new category of industries (restricted industries), scaling down of the list of thrust sectors, broadening of incentives and facilities for domestic enterprises at par with foreign enterprises located in EPZs, and special focus to encourage female entrepreneurship. Inclusion of a new category entitled "restricted industry" appears to be logical considering the need to balance the optimum use of limited natural resources and maintaining cultural sensitivity. A total of 16 industries have been put on this list; however, the inclusion of banks, insurance companies and shipping companies under this list is not understandable. Recognising the significant contribution of large-scale domestic enterprises outside EPZs, the proposed policy has offered equal incentives and opportunities to these enterprises as well. It is evident from the policy that the government was interested in putting more emphasis on the establishment of SEZs. However, there is a need to do this without undermining the existing policies concerning the EPZs. Placing importance on the development of women entrepreneurs by providing policy support is a good initiative; however, such initiatives should be taken without distorting efficiency (e.g. quota for women entrepreneurs in the EPZs could be counter-productive, and should be implemented with due diligence).

Inclusion of a new category entitled "restricted industry" appears to be logical considering the need to balance the optimum use of limited natural resources and maintaining cultural sensitivity

The proposed *Industrial Policy 2009* has also taken a stand regarding the restructuring of public enterprises and the process of privatisation of state-owned enterprises (SoEs). However, the policy position as articulated in the *Industrial Policy 2009* is not compatible with the government's existing policies on privatisation (Privatization Act 2005) and various other sector-specific policies. It is to be noted here that the industrial policies announced since 1984 have been a pro-liberalisation and pro-private-sector led industrial development. In this context, the "complementary" role of the public sector in industrial development as proposed in the *Industrial Policy 2009* may create some confusion in the absence of a clear statement about what it would really mean on the ground. Adding confusion is the announcement of discontinuation of the privatisation process of SoEs, which is not commensurate with other related policies such as *Privatization Act 2005* and *Jute Policy 2005*. 25 SoEs are at different stages of privatisation with the Privatization Commission; the policy could make the offloading of shares of some other SoEs more uncertain, which could also give wrong signals to stakeholders. In light of the inefficiency and operating losses incurred by most of the SoEs and the resultant burden on the exchequer, any reform initiative of SoEs by the government should address efficiency and productivity factors. Accordingly, the draft *Industrial Policy 2009* should be supportive of the government's privatisation policy and should clear its position regarding the restructuring of these public sector enterprises. Public-private partnership with regard to operating and managing the SoEs is a welcome initiative, but it needs to be spelt out in a more definitive manner.

Adding confusion is the announcement of discontinuation of the privatisation process of SoEs, which is not commensurate with other related policies such as Privatization Act 2005 and Jute Policy 2005

1.6.6 Status of Privatisation of State-owned Enterprises

SoEs in the country are not small in number (84). For a number of reasons these enterprises are important: production of important items such as fertiliser, jute, chemicals and steel, excess employment situation in some enterprises, huge debt burden of some enterprises, and inoperative condition of a number of units. As part of the process of privatisation, during the CTG period in 2007-08 a total of 29 industrial units were in the hand of the Privatization Commission Bangladesh. However, the process of privatisation did not gain momentum during FY2008-09 under either the CTG (first half) or under the new government (second half). During the last two years, the full process of handing over industrial units was completed for only one unit, while the handing over of another two units is still underway (Table 1.21). For the rest of the 25 units that were put forward for privatisation, the process is yet to begin; in case of some units the process has been discontinued for various reasons. As part of the policy stand of the new government favouring revival of the operation of industrial units under the public sector, five industrial units have been handed over to the respective ministries, five industrial units are proposed to be operated by the concerned ministries, six industrial units are in the process of being leased out or handed over to majority shareholders, and the remaining 10 units are at preliminary stages of privatisation.

The process of privatisation did not gain momentum during FY2008-09

The government had previously decided to privatise nine textile and handloom enterprises but the number has now been reduced to seven. It is notable that one of the seven textile enterprises is already on the government's reopening list. Three jute mills were under the initial process of privatisation, but the government has removed two jute mills from the list and one is facing a litigation problem. Six chemical enterprises were enlisted for privatisation, but government has recently postponed the privatisation of one of these and has taken under consideration reopening of another one. In general, privatisation operations pursued by the Privatization Commission did not get momentum during FY2008-09, mostly because of changes in government policy towards a "go slow" strategy for privatisation, and in view of the policy to operate a number of closed units under the management of different corporations.

The government had previously decided to privatise nine textile and handloom enterprises but the number has now been reduced to seven

Table 1.21: Privatisation Process of Various SoEs

Sector-wise Enterprise	Handed Over	Under Process of Approval and Handover	Under Process of Retendering and Reevaluation	Under the Leasing out Process	Under the Consideration of Handover to Majority Shareholder	Under the Process of Valuation	Under Litigation Problem	Under Reopening Consideration	Under the Process of Going back to MoEF*
Textile and Handloom (7)		1	1	2			2	1	
Chemical (5)	1		1		1		1	1	
Environment and Forest (4)			1			1			2
Jute (1)							1		
Engineering & Miscellaneous (6)					3	1			2
Tea (1)						1			
Sugar (1)		1							

Source: Privatization Commission Bangladesh.
Note: *MoEF: Ministry of Environment and Forest.

A large number of units operated under different ministries have tended to suffer from poor operational efficiency, huge losses, huge debt burden and over employment

A large number of units operated under different ministries have tended to suffer from poor operational efficiency, huge losses, huge debt burden and over employment. Out of five public sector corporations, Bangladesh Steel and Engineering Corporation (BSEC) has operated profitably over the last several years; as a matter of fact its performance has been improving over time (net profit was Tk. 12.62 crore in FY2001-02 which increased to Tk. 31.46 crore in FY2008-09). Bangladesh Chemical Industries Corporation (BCIC) was also profitable in FY2008-09, for the second time in the last several years. All other corporations (including Bangladesh Textile Mills Corporation (BTMC), Bangladesh Sugar and Food Industries Corporation (BSFIC) and Bangladesh Jute Mills Corporation (BJMC)) have been experiencing substantial losses over the last several years. Various analyses (Moazzem and Chowdhury 2009) showed that internal factors such as a low level of production and operational efficiency, use of outdated machineries, underutilisation of machineries, excess workers, inefficiency of management, corruption, poor marketing strategies, a huge amount of debt burden, and a lack of freedom in factory management that constrain taking of time-bound decisions, are mainly responsible for the poor performance of public sector industrial units in Bangladesh. The government's initiative towards reviving industrial units (e.g. jute mills) which were earlier handed over to the Privatization Commission has raised concerns from different quarters, for various reasons. First of all, in absence of any major restructuring in such areas as technology, employment, operation and also management, both at corporations and industrial unit levels, there is little reason to expect that these mills could be operated profitably. Second, because of the limited amount of government subsidies to various corporations, despite the huge demand for such support, operation of mills were not an attractive venture even from the "populist" point of view - ensuring employment for the current over employed units would call for huge flow of subsidies from the government on account of workers' wages, something the government is finding increasingly difficult (see the case of Daulatpur Jute Mills Ltd, http://www.pc.gov.bd/m19.htm). Third, many public sector jute mills have not been in operation for long time, or were operating at under capacity. As such, these units required substantial resources for overhauling and new initiatives in different areas, such as technology, fixing of operational and financial inefficiencies, management and worker relations. More importantly, even a huge expenditure to overhaul the mills will hardly ensure that these mills would run profitably, unless and until efficiency-based management and operation are put in place in public sector enterprises. These involve difficult policy choices which the government will need to address on an urgent basis.

In absence of any major restructuring in such areas as technology, employment, operation and also management, both at corporations and industrial unit levels, there is little reason to expect that these mills could be operated profitably

1.6.7 Energy

Power Sector

The Awami League's election manifesto had promised to adopt a comprehensive long-term policy with regard to electricity and energy sectors, and targets were fixed to increase electricity generation to 5,000 MW by 2011 and to 7,000 MW by 2013

Inadequate power supply has been a major bottleneck in Bangladesh which has severely constrained investment and business activities of the country. New investments get discouraged because of this, whilst the existing ones are bearing the brunt of frequent outages, leading to damage of equipments, production disruption and the attendant cost escalation originating from more costly alternative sources. The Awami League's election manifesto had promised to adopt a comprehensive long-term policy with regard to electricity and energy sectors, and targets were fixed to increase electricity generation to 5,000 mega watt (MW) by 2011 and to 7,000 MW by 2013.

Benchmark for the Newly Elected Government

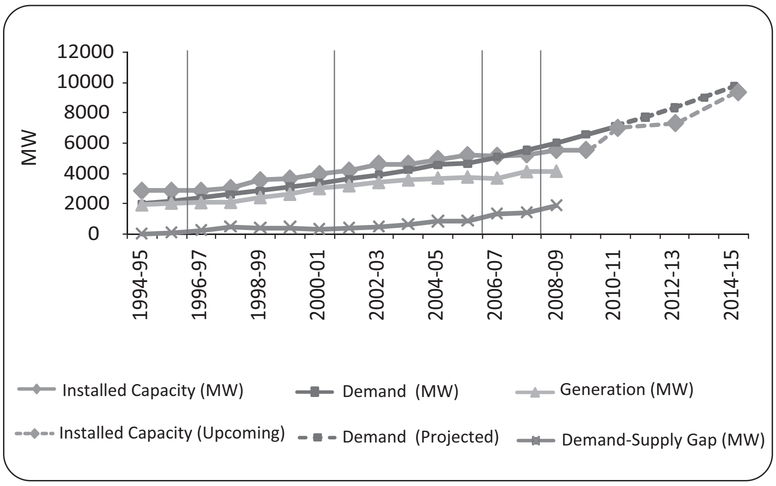
In January 2007, average official demand for electricity was around 3,305 MW against the generation of 2,879.4 MW, leaving a shortage of 425.6 MW. However, this demand-supply gap was reduced to 53.1 MW in December 2008 before the CTG handed over the power to the newly elected government (average official demand was 3,714.4 MW as against the supply of 3,661.4 MW). Between January 2007 to December 2008, the growth of electricity generation was 27 per cent. In this increased capacity of 409.4 MW, 324 MW was added as new generation of which 70 MW came from the public sector, and 254 MW came from private power plants.[14] The rest of the capacity, i.e. 85.4 MW was added through overhauling of the power plants. During the first month (January) of the current government's tenure, maximum electricity generation was 3,860.6 MW against the maximum demand of 4,100 MW, whereas in June 2009 the level of maximum generation increased to 4,033.2 MW (with an additional 172.6 MW).

Electricity generation as percentage of installed capacity registered highest growth during the CTG through better maintenance and management

Electricity Generation

In January 2009, demand-supply gap was 575.2 MW (maximum) which further escalated to 915 and 1,750 MW in February and June 2009 respectively. Average load-shedding from January to June 2009 was 381.5 MW. From the Figure 1.35 it is seen that the demand-supply gap was gradually on the rise. In FY1994-95, the gap was only 68 MW which had reached 1,750 MW in FY2008-09. Electricity generation as percentage of installed capacity registered highest growth (78 per cent) during the CTG through better maintenance and management.

Figure 1.35: Installed Capacity, Generation of Electricity, Demand for Power and Demand-Supply Gap



Source: Bangladesh Power Development Board (BPDB) and Power System Master Plan (PSMP) update.

As it stands now, power projects awarded in the past are expected to generate 4,069 MW by 2014, whereas the new government has planned to generate 3,325 MW (with a 400 MW immediate fuel-based RPP) by 2015. In their election manifesto, Awami League projected generation of 5,000 MW by 2011 and 7,000 MW by 2013. However, this would not be possible to attain under the ongoing and recently planned (up to June 2009) generation activities. By the end of 2011, government is likely to face a shortfall of 3,281 MW against the targeted 5,000 MW, and 3,241 MW shortfall against the targeted 7,000 at the end of 2013. It is to note here that, by the end of 2015 total generation is expected to reach 7,349 MW.

The new government has planned to generate 3,325 MW by 2015

A yawning gap between capacity and generation is emerging due to a number of reasons including (a) gas shortage, (b) ageing of power plants, and most recently (c) due to lack of rainfall in Kaptai Lake with adverse consequences for electricity generation. It is estimated that during April 2009, due to the above mentioned reasons there was a shortage of 845 MW.

[14] Of this 254 MW, small independent power producer (IPP) added 92 MW; 15-year rental power plant (RPP) added 22 MW; and 3-year RPP added 140 MW.

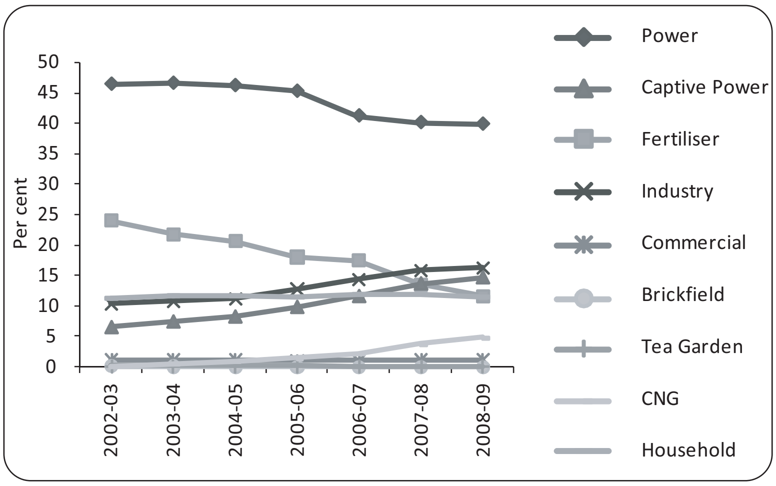
Table 1.22: Gas Production in Different Years

(in mmcm)

Fiscal Year	Petrobangla	IOC*	Total	Growth Rate (Per cent)
2002-03	9449.10	2476.70	11925.90	
2003-04	9715.10	3106.00	12821.10	7.50
2004-05	10086.50	3696.90	13783.40	7.50
2005-06	10116.60	4804.30	14920.80	8.30
2006-07	10148.50	5771.70	15920.10	6.70
2007-08	9282.00	7732.50	17014.50	6.90
2008-09	9222.06	9288.65	18510.70	8.80

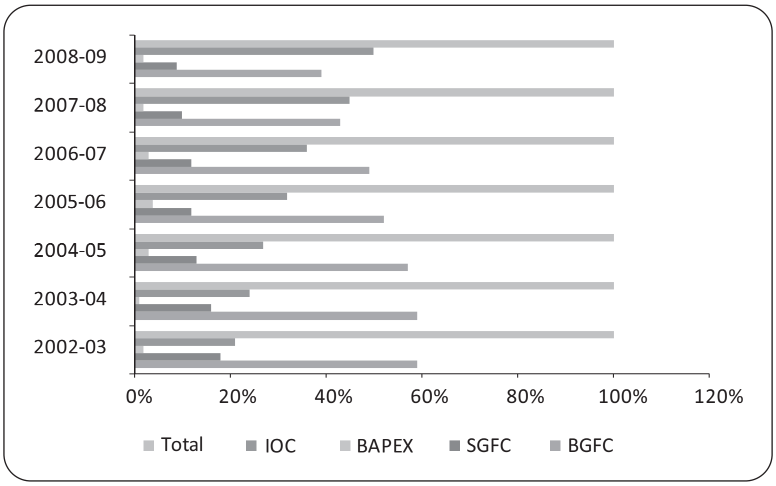
Source: MIS Report, Petrobangla.
Note: *IOC: International Oil Company.

Figure 1.36: Consumption of Gas in Different Sectors



Source: MIS Report, Petrobangla.

Figure 1.37: Gas Production by Public and Private Sector



Source: Petrobangla.
Note: SGFC: Sylhet Gas Field Company; BGFC: Bangladesh Gas Field Company.

Gas Production

Bangladesh has 21.3 trillion cubic feet (tcf) of proven gas of which 15.41 tcf is recoverable. With regard to the recoverable scenario, 8.05 tcf of gas has already been used till December 2008; the rest 7.36 tcf is there as reserves. However, this existing 7.36 tcf will not be able to meet the country's requirement beyond 2015. According to Khan (2009), 24 tcf is required to meet the energy demand up to 2025 (for which estimated investment requirement is about USD 8 billion).

Gas production has increased at a rate of 6 to 8 per cent per year over the recent past. In FY2008-09 record 8.8 per cent of growth was achieved with a total production of 18,510.719 million cubic metre (mmcm) indicating an increased use of current reserves (Table 1.22). Though more than 40 per cent of gas currently generated in the country is being used for power generation, its use for other purposes has been on the increase over time, including for industrial and commercial use and for conversion into compressed natural gas (CNG) (Figure 1.36). However, due to shortage of gas, government has delimited/controlled the supply of gas to various economic activities, especially in fertiliser factories, industrial units, like yarn and textile manufacturing units during the evening hours.

Share of private companies in overall gas distribution has been increasing in the recent past. Over the last 7 years, this share has doubled from 21 per cent in FY2002-03 to 50 per cent in FY2008-09 (Figure 1.37). Petrobangla's share of production of gas was 55 per cent in FY2006-07 which came down to 50 per cent in FY2008-09. To consolidate domestic presence in the energy sector and ensure command over potential benefits, further strengthening of Bangladesh Petroleum Exploration & Production Company (BAPEX) has assumed critical importance for Bangladesh's long-term growth perspective in general, and addressing the urgent needs of the power and energy sectors in particular.

The present gas-electricity arithmetic would suggest that to achieve the target to generate 5,000 MW (as announced in the

Awami League manifesto) electricity by 2011 would require 1,000 million standard cubic feet per day (mmscfd) gas, more than 40 per cent increase over the current supply of 675 mmscfd of gas (*ibid*) .

1.7 EXTERNAL SECTOR

1.7.1 Export Sector Performance

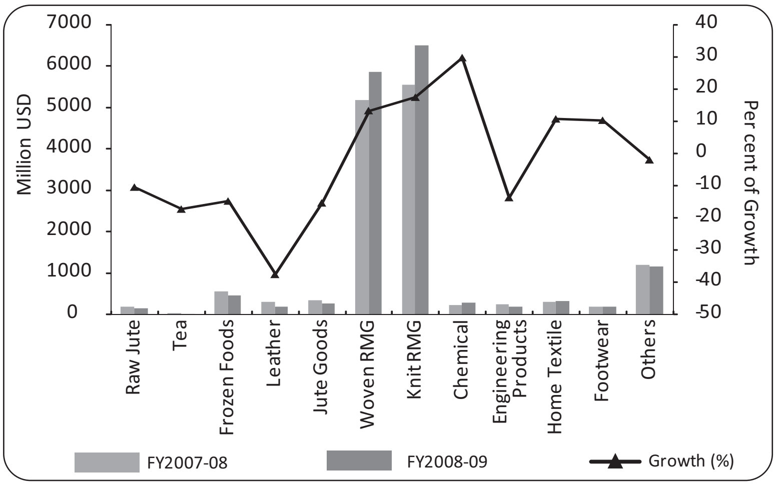
Bangladesh's total export earnings during FY2007-08 stood at USD 14.09 billion (Figure 1.38), registering a growth of 15.92 per cent over FY2006-07. Performance during FY2008-09 (USD 15.54 billion) has by and large followed this trend. Growth rate of 10.28 per cent (Table 1.23) posted during this period is particularly impressive in view of the global economic crisis when the majority of developing countries were experiencing falling export earnings. It needs also to be borne in mind that growth rate posted in FY2008-09 was attained in the backdrop of high growth rates of 15.60 per cent and 15.92 per cent recorded during the immediate past two fiscal years of FY2006-07 and FY2007-08. However, the export target which was set at USD 16.3 billion at the beginning of the fiscal year for the FY2008-09 fell short by USD 0.76 billion.

Readymade Garments Export Performance

The widespread apprehensions regarding the possible slowdown in apparels exports as a consequence of the global crisis proved to be, by and large, off market. However, firstly, volatility in export performance had increased in FY2008-09; secondly, non-RMG exports had suffered; thirdly, there was significant downward pressure on prices across the board.

Export performance of Bangladesh in the second and fourth quarters of FY2008-09 did indeed transmit the adverse impact of the financial crisis on Bangladesh's external sector performance. Overall, Bangladesh's foremost export item RMG, which registered a high growth of 15.39 per cent during FY2008-09, was able to perform well in both the United States (US) and the European Union (EU) markets. However, during the second and fourth quarter export of RMG rose by a lowly 5.41 per cent and 3.79 per cent compared to the

Figure 1.38: Bangladesh's Export of Major Commodities: FY2007-08 and FY2008-09



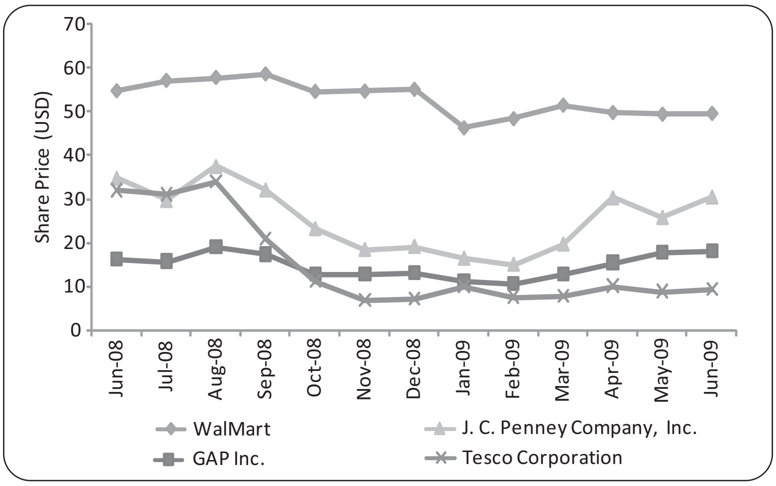
Source: CPD Trade database, 2009.

Table 1.23: Quarterly Export Growth of Bangladesh's Major Commodities: FY2007-08 vs FY2008-09

Commodity	Q1	Q2	Q3	Q4	Jul-Jun
Raw Jute	-27.61	5.60	-38.05	22.04	-10.52
Tea	36.27	-28.45	-41.52	-56.62	-17.33
Frozen Foods	15.69	-24.31	-32.24	-21.04	-14.83
Leather	-6.34	-50.24	-41.39	-46.83	-37.61
Jute Goods	-4.31	-32.05	-18.08	-7.23	-15.41
RMG	44.64	5.41	12.72	3.79	15.39
Woven RMG	36.66	6.31	9.86	4.01	13.24
Knit RMG	52.04	4.62	15.77	3.61	17.39
Chemical	195.80	-13.75	15.01	-28.42	29.68
Engineering Prod.	30.91	-55.78	-7.60	-8.82	-13.76
Home Textile	27.75	-3.93	38.36	-9.12	10.67
Footwear	49.04	8.81	3.69	-13.57	10.24
Others	54.61	-17.14	-18.89	-10.30	-2.04
Total Export	42.45	-1.60	6.03	-0.56	10.28

Source: CPD Trade database, 2009.

Figure 1.39: Stock Prices of Some Global Retail Stores



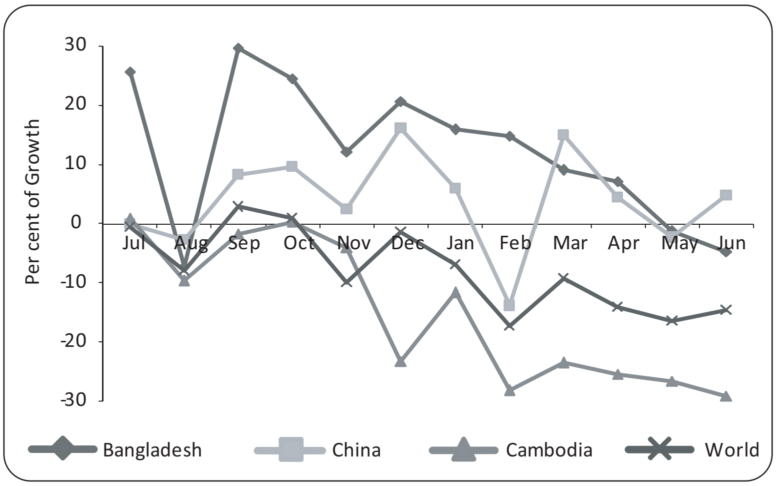
Source: CPD Calculation based on Information from Yahoo Finance.

corresponding periods of FY2007-08 (Table 1.23) Since Bangladesh specialises in low tiers of the apparels market and her major buyers are Wal-Mart, K-Mart and similar retail stores catering to low-end segment of the demand curve, Bangladesh was able to maintain and somewhat increase her market share in the major markets. However, declining retail sales of apparels and accessories in the US, during March and April 2009 by 6.6 per cent and 6.5 per cent respectively, was indicative of the slump in the demand for Bangladesh's major export, which actually happened in the subsequent months.[15] However, as of February 2009, encouraging movement in the market was clearly discernible. US retailers saw their share prices going up transmitting positive indications for future market performance (Figure 1.39).

The apprehension that the expiry of quota restrictions on China would lead to lower import from Bangladesh by the US was also found to be not true

The apprehension that the expiry of quota restrictions (as of January 2008) on China would lead to lower import from Bangladesh by the US was also found to be not true. In fact, latest data revealed that both Bangladesh and China have posted positive growth in the US market of apparels at a time when the global imports were experiencing a decline. During FY2008-09 US's imports of apparels from Bangladesh increased by 11.57 per cent whilst import from China rose by 3.59 per cent; although US's global import had declined by (-)7.35 per cent over this same period. Cambodia's apparels export to the US market, on the other hand, experienced a negative growth of (-)14.35 per cent during this period in the US market. Vietnam appears to have been relatively unaffected by the global recession, registering a growth of 7.61 per cent during FY2008-09 compared to FY2007-08 (Figure 1.40)

Figure 1.40: US's Import of Apparels from World and Some Selected Countries: FY2007-08 and FY2008-09



Source: CPD estimates based on United States International Trade Commission (USITC) database.

Though Bangladesh's export-oriented apparels sector was able to tide over the difficult period with commendable success, some of the other export-oriented sectors registered negative growth trends in FY2008-09. Non-RMG exports declined by (-)6.09 per cent. The export data for FY2008-09 showed a negative export growth of (-)37.61 per cent for the country's leather industry; this was reflected in lower demand for hides and skins during the Eid festival.[16] Of the other important sectors, export of raw jute and jute goods declined by (-)10.5 per cent and (-)15.4 per cent respectively, whilst that of frozen foods posted a negative growth of (-)14.8 per cent (Box 1.1). However, there has been an increase in exports of footwear (by 10.24 per cent) taking the export figure to USD 186.97 million.

Though Bangladesh's export-oriented apparels sector was able to tide over the difficult period with commendable success, some of the other export-oriented sectors registered negative growth trends in FY2008-09

A decomposition of the growth dynamics reveal that the rise in export (10.31 per cent) was accounted for mainly by rise in volume (13.84 per cent); average prices had also decreased, albeit, to an insignificant degree (-1.86 per cent).

[15]In February 2009, Wal-Mart notched a 5.1 per cent improvement in same-store sales - beating the prediction of analysts who had projected a 2.4 per cent gain on an average. Similar trends have been observed for Target Corp., Nordstorm Inc., Gap, JC Penny, and Macy's - all reported a decline in their sales in February 2009 compared to the same period of 2008. (**Source:** Retail wrap: Wal-Mart sales rise; Saks sales plunge. 5 March 2009).

[16]20 sq ft of cattle hide after the Eid-ul-Azha sold at Tk. 600-650 in FY2008-09 against Tk. 1,300-1,400 of last year; similarly, goat hide was priced at Tk. 100-150 against last year's Tk. 250-300.

Terms of Trade

The general stagnation in Bangladesh's export prices reflect the country's export sector's inability to rise up the value chain. This needs to be considered in relation to the substantial deterioration of Bangladesh's terms of trade (ToT) experienced in recent years. Bangladesh Bank data suggests that in FY2007-08, both the export price index and import price index had increased by 3.5 per cent and 3.4 per cent respectively. As a result, ToT improved slightly by 0.1 per cent in FY2007-08 over FY2006-07 (Table 1.24). Since prices of apparels had fallen sharply over this period, it is not clear how general export price index could rise if this be the case. If import prices are compared with apparels price index, the ToT would fall by (-)1.96 per cent.

The export and import prices of selected major essential items further reveals the above trend. While in 2006 to import a barrel of crude petroleum, Bangladesh had to export 2.34 dozens of RMG, by 2008 this had increased to 3.44 dozens; however, at the end of June 2009, this declined to 2.03 dozens due to the sharp decrease in global oil price and falling commodity prices. Similarly, to import one ton of rice in 2006 Bangladesh had to export 0.52 tonnes of jute goods, in 2008 it was 1.14 tonnes, and in June 2009 to import the same amount of rice Bangladesh has to export 1.04 tonnes of jute goods (Table 1.25). This trend is similar for wheat and soybean oil as well. In spite of fall in global commodity prices, purchasing power of Bangladesh's export has not yet been able to reach the level which was there in 2006 for most of the major imported commodities. In view of the expected rise in global commodity prices in the near future, all indications are that Bangladesh's ToT will suffer further deterioration in FY2009-10.

The upcoming seventh World Trade Organization (WTO) Ministerial meeting will be an opportunity for Bangladesh to advance its trade interests. Bangladesh should prioritise her strategies towards an outcome of the Doha Negotiations that addresses her core interests. Likely preference erosion emanating from the conclusion of the Doha Round is considered to be a major concern for Bangladesh. Of importance to Bangladesh in this respect is to ensure "commercially meaningful" implementation of the Doha Ministerial Decision as regards duty-free quota-free (DF-QF) treatment for

Box 1.1: Declining Frozen Shrimps Export

Even though Bangladesh's frozen food processing industry began to grow rapidly in the 1990s, it was not appropriately attuned to demands of sanitary facilities, technology adoption and training requirements that were called for in view of the increasingly rising stringent SPS-TBT (sanitary and phytosanitary-technical barriers to trade) compliance standards of the global market. These issues surfaced in late 1990s when shrimp export from Bangladesh was banned by the United States Food and Drug Administration. In 1997 the EU banned imports of fishery products from Bangladesh after having found serious deficiencies in hygiene compliance in processing establishments. The loss from ban on export to US during the 5 months (August-December 1997) was to the tune of USD 15 million. The ban was lifted after adequate measures were taken to ensure compliance with EU regulations. But this was not the end of the matter. Earlier this year (2009) the EU cancelled more than 50 consignments of fresh water shrimp (Galda) upon detection of health hazardous antibiotic *nitrofuran*. The total value of the consignments amounted to more than Tk. 60 crore (about USD 8.7 million). In concordance with the Government of Bangladesh (GoB), the Bangladesh Frozen Food Exporters Association has decided to voluntarily restrain *Galda* exports to the EU for a period of six months, starting from 1 June 2009. This step will further affect Bangladesh's export-oriented shrimp industries by lowering the export figures. However, export of saline water shrimp or *Bagda* will not be affected. After registering a growth of 3.64 per cent in FY2007-08, exports of frozen foods, mainly shrimp, now faces a dim period as the global financial meltdown bites demand for this item. Export from the sector fell by (-)14.83 per cent to USD 454.85 million during FY2008-09 from USD 534.07 million a year ago.

Relevant stakeholders were of the opinion that the health hazardous elements came from feeds, although the use of *nitrofuran* is prohibited in Bangladesh. Some of these harmful ingredients were coming through illegal channels. Some suspect that nitrofuran exists in the chicken feed that shrimp producers use (chicken-waste) as fish feed. In Satkhira alone, there are 58 shrimp-processing units for about 17,000 shrimp farms and it is difficult to track down the offenders since the value chain is extensive and rather complex.

The government has decided to appoint a foreign consultant to investigate the source of contamination; steps are to be taken to examine the water and soil of the shrimp farming areas. However, some other medium and long-term initiatives are needed in order to effectively tackle this situation. A comprehensive and holistic institutional mechanism ought to be put in place to ensure SPS-TBT compliance all along the value chain, and vigilance must be maintained through appropriate monitoring process to detect and track violators of the required standards.

Table 1.24: Terms of Trade in General and with Respect to Apparels

(Base: FY2000 = 100)

Year	Export Price Index	Import Price Index (MPI)	Apparels Price Index (API)	Terms of Trade	API/MPI*100 (ToT Apparels)
FY2000	100.00	100.00	100.00	100.00	100.00
FY2001	102.40	107.53	100.82	95.24	93.77
FY2002	104.82	115.61	84.90	90.67	73.43
FY2003	107.44	124.57	83.14	86.25	66.74
FY2004	115.07	129.62	80.34	88.78	61.98
FY2005	118.82	134.21	77.87	88.54	58.02
FY2006	121.18	139.50	74.25	86.88	53.23
FY2007	127.06	144.58	71.25	87.88	49.28
FY2008	131.53	149.55	70.77	87.96	47.32

Source: CPD Trade database, 2009.

Table 1.25: Falling Purchasing Power of Exports

	Dozens of RMG			Rise (in times)	Rise (in times)	Tonnes of Jute Goods			Rise (in times)	Rise (in times)
	2006 (Avg) (a)	2008 (Avg) (b)	2009 (Jun) (c)	b/a	c/a	2006 (Avg) (d)	2008 (Avg) (e)	2009 (Jun) (f)	e/d	f/d
1 barrel of oil (fuel)	2.34	3.44	2.03	1.5	0.9	0.11	0.17	0.10	1.5	0.9
1 ton of rice	10.97	23.18	21.86	2.1	2.0	0.52	1.14	1.04	2.2	2.0
1 ton of wheat	7.07	11.25	8.31	1.6	1.2	0.33	0.55	0.39	1.7	1.2
1 MT of soyabean oil	21.19	39.12	26.28	1.8	1.2	1.00	1.93	1.25	1.9	1.2

Source: CPD Trade database, 2009.

all goods originating from all least developed countries (LDCs).[17] Bangladesh should also strongly argue to the effect that no LDCs receive less preferential treatment than non-LDCs.[18] In recent times, US has decided to revise the existing "US Preference Schemes;" Bangladesh will need to engage proactively with the US Administration in view of this scheme. On 22 May 2009, two US representatives, Senators *Dianne Feinstein* and *Kit Bond* had introduced a Bill aiming at providing duty-free status to textiles and apparels from 14 Asian LDCs. Because of the importance of the New Partnership Development Act (NPDA) for Bangladesh there is a need to pursue a well-coordinated strategy in support of this Bill by also taking care of her concerns in this respect.[19] The government needs to carefully monitor the developments in this respect and do the needful.

In view of the ongoing WTO negotiations on SPS, TBT and environmental issues, Bangladesh and other LDCs are likely to be confronted with new challenges in terms of complying with various standards. Agricultural exports (SPS-TBT), knitwear (affluent facilities) and other sectors will need to enhance their compliance capabilities in view of the likely demands stemming from the current round of trade negotiations. Bangladesh's export policies and incentive structure will need to be geared towards addressing these issues.

Global Economic Crisis and Fiscal Stimulus Programme

In view of the global economic crisis some of Bangladesh's major competitors such as Vietnam, China and India had put in place policies that could potentially undermine Bangladesh's export competitiveness in the global market

During FY2008-09, in view of the global economic crisis some of Bangladesh's major competitors such as Vietnam, China and India had put in place policies that could potentially undermine Bangladesh's export competitiveness in the global market. Bangladesh should be concerned about depreciation of currencies in competing countries (ranging from 6 per cent to 30 per cent) over the past one year. Stimulus packages of some of her competitors that provide wide-ranging incentives to respective export-oriented sectors has led to erosion of Bangladesh's competitive advantage in some products such as apparels in the global market in recent times. For example, the stimulus packages put in place by China have now enhanced her competitive strength in lower-end apparels market

[17]As is known, the most crucial issue here is to convince the US to allow items of interest in its 97 per cent DF-QF list.

[18]This refers to the issue of so-called "Disproportionately Affected Countries" whereby two developing countries, Sri Lanka and Pakistan could be granted market access to the US at more preferential rates (for apparels items) than some of the Asia-Pacific LDCs which are not covered by either African Growth and Opportunity Act (AGOA) or Caribbean Basin Initiative (CBI).

[19]These relate to the tariff rate quota on certain apparels items, rules of origin (RoO), compliance requirement with regard to labour, Trade-related Aspects of Intellectual Property Rights (TRIPS) and other standards.

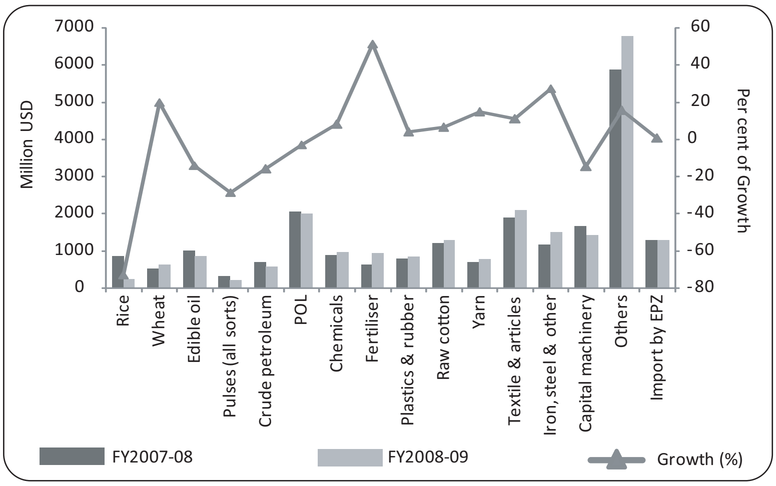
where Bangladesh has traditionally been strong.[20] As is known, to address the attendant challenges and in view of the adverse affects of the global crisis on selected sectors, Bangladesh government had announced a stimulus package amounting to Tk. 3,424 crore (3.4 per cent of budget and 0.6 per cent of GDP in FY2008-09) in April 2009. This package consisted of cash subsidy, fiscal measures, enhanced loan facilities as well as allocation for social security. The government had allocated Tk. 1,500 crore for the agricultural sector, Tk. 500 crore for agriculture loan recapitalisation facility, Tk. 600 crore for power sector, Tk. 450 crore for export-oriented sectors and Tk. 374 crore for social security (food). The total allocation of Tk. 450 crore for the export sector was targeted to three sectors in the form of enhanced cash subsidy of additional 2.5 per cent - jute and jute goods, leather and leather goods and frozen foods sectors. This was to be in addition to the Tk. 1,050 crore earmarked for these sectors in the budget for FY2008-09. It is envisaged that this package will be absorbed in the upcoming budget for FY2009-10 with additional allocations to replenish the package.

The stimulus packages put in place by China have now enhanced her competitive strength in lower-end apparels market where Bangladesh has traditionally been strong

Renewed Emphasis on South-South Trade

The global crisis has also once again reemphasised the need for enhancing South-South trade. Bangladesh needs to develop strategies targeted to minimise the growing trade gap with the South Asian countries, particularly India. There has had been some encouraging developments in this context.[21] Steps must be taken to take advantage of the envisaged global recovery from position of strength through appropriate fiscal and monetary incentives. A targeted stimulus package in support of key sectors could sustain a long way in this regard.

Figure 1.41: Import of Some Selected Commodities: FY2007-08 and FY2008-09



Source: CPD Trade database, 2009.

1.7.2 Key Features of the Import Sector

Import growth has remained impressive over the recent past. Total merchandise imports to Bangladesh during FY2007-08 amounted to USD 21.63 billion, registering a growth of 26.07 per cent over the corresponding period of FY2006-07. This positive trend had continued during FY2008-09 albeit with considerable volatility across months underwritten by higher commodity prices during the first half of FY2008-09 and declining prices during the latter half. Overall, import payments rose by 4.06 per cent compared to the corresponding period of FY2007-08. Import share of textiles and articles was the highest at 9.33 per cent of total imports followed by petroleum, oil and lubricants (POL), accounting for about 8.87 per cent of total imports (Figure 1.41). Import of foodgrains, however, posted a negative growth of (-)37.43 per cent, with rice import falling by (-)72.62 per cent. With the fall of global rice price and good Boro harvest in 2008, Bangladesh was in a more comfortable position and imported only about 6.03 lakh MT of rice during FY2008-09 (during FY2007-08 period this was 20.55 lakh MT).

Bangladesh needs to develop strategies targeted to minimise the growing trade gap with the South Asian countries, particularly India

[20] As part of her stimulus packages, China has now withdrawn taxes which were earlier imposed on her lower-end exports (which was done to encourage exporters to move away from lower-end market segment, in favour of higher quality apparels exports).

[21] UNIQLO, one of the largest Japanese retail chains, is planning to purchase RMG products worth more than USD 600 million (20 per cent of its global sourcing) from Bangladesh in 2009. Many global companies are pursuing China plus one policy, and Bangladesh is very much on their radar screen.

Opening of L/Cs for rice during FY2008-09 also matches the decreasing rice import trend. During the period under review, L/Cs opened for rice was only to the tune of USD 51.41 million, a (-)96.17 per cent decrease over the corresponding period of FY2007-08. Similarly, settlement of L/C for rice during the said period was also on the decline, falling by (-)73.61 per cent as compared to the earlier fiscal year.

The fall in import of capital machineries is rather disturbing since this is likely to have adverse implications for investment

Import of capital machineries and petroleum oil posted negative growth rates of (-)14.71 per cent and (-)2.97 per cent respectively. Opening of L/Cs for capital machineries also matched this declining import trend. During this time L/Cs opened for capital machineries were worth USD 1,234.99 million, a decrease of (-)29.58 per cent compared to FY2007-08. Settlement of L/Cs for capital machineries also stagnated with a growth of (-)0.78 per cent when compared against FY2007-08. The fall in import of capital machineries is rather disturbing since this is likely to have adverse implications for investment. This is also discernible from the L/C opening figure of textile machineries, a decrease of (-)53.74 per cent during the reported period. Even though the government has replaced the indemnity bond system with a concessionary 1 per cent customs duty (CD) on export-oriented capital machineries, the declining import trend of this important item should be seen as something to be concerned about. This fall cannot be fully be explained by fall in prices of some of the capital machineries items. As was suggested by the CPD, the government may consider eliminating CD on capital machineries imported for export purpose in view of the aforesaid depressing scenario.

The government may consider eliminating CD on capital machineries imported for export purpose in view of the aforesaid depressing scenario

While in the first quarter of FY2008-09 import growth for crude petroleum was very high, at 145.79 per cent (as compared to the first quarter of FY2007-08), fuelled by high import price of oil (from June 2008 onwards oil price was exceeding to USD 130/barrel), over the next two quarters (October-March) this had dropped down by (-)88.62 per cent, mainly due to declining oil price; by the end of December prices had started to come down, and at the end of May 2009 oil price per barrel stood at USD 56.72. It is also interesting to note that, according to available data, during October to February FY2008-09 there was no import of crude petroleum! On the other hand, import of POL during the first three quarters posted a high growth of 34.13 per cent and the bill for this was to the tune of USD 1.69 billion; however from March 2009 onwards, imports of POL decreased significantly and at the end of the fiscal pulled down the entire import growth of POL to a negative (-)2.97 per cent. Import of intermediate inputs, such as raw cotton (6.44 per cent) and yarn (14.65 per cent), and iron, steel and other base metals (27.33 per cent), registered significant increase (Figure 1.41).

1.7.3 L/C Opening and Settlement

The high growth trend in case of opening L/C was not continued during FY2008-09

Total value of L/Cs opened during FY2007-08 was worth USD 24.44 billion, which was 40.02 per cent higher compared to L/Cs opened during FY2006-07. To compare, L/Cs settled in this period amounted to USD 20.37 billion which was 27.56 per cent higher than FY2006-07. However, the high growth trend in case of opening L/Cs was not continued during FY2008-09. L/Cs opened during this period amounted to USD 21.80 billion, about (-)10.77 per cent lower than that of FY2007-08. However, L/Cs settled during this period followed the earlier trends and posted a positive growth of 5.26 per cent compared to FY2007-08. L/Cs settled during this period amounted to USD 21.44 billion or USD 1.07 billion more than that of L/Cs settled in FY2007-08 (Table 1.26).

L/Cs opened for POL during this time was also negative at (-)27.64 per cent with crude and refined petroleum standing at (-)46.62 per cent and 17.08 per cent respectively. This was also reflected in the FY2008-09 import payments, when as mentioned earlier, growth of crude petroleum was (-)15.96 per cent. This may have been due to the declining global fuel price from October 2008 onwards and zero import between October 2008 and February 2009.[22]

1.7.4 Remittance Flow vis-à-vis Global and Regional Scenarios

In sharp contrast to the gloomy outlook with regard to remittance flows worldwide, Bangladesh's performance record in FY2008-09 remained upbeat. Remittance inflows had increased by more than 22.42 per cent in FY2008-09 over FY2007-08. Highest remitted amount of USD 919.10 million was recorded for June 2009 which was the highest single month performance ever. Remittance from Saudi Arabia continues to constitute the lion's share of the total remitted amount (29.51 per cent), followed by the United Arab Emirates (UAE) and the US (about 18.11 and 16.26 per cent respectively). It is worth noting here that remittance flows from other countries have also been on the rise in recent times, particularly from Malaysia, from where remittance more than doubled during this fiscal year compared to the previous one (Figure 1.42).

Bangladeshi workers are mainly concentrated in the Gulf States (which account for about 5.03 million of Bangladeshi migrant workers or 80 per cent of the total migrant labour force) where accumulation of reserves over many years of high oil prices are enabling governments to continue with large-scale infrastructure projects. It may be recalled here that remittances flow had continued to remain stable during the Asian financial crisis of the late 1990s. Remittances are expected to be resilient during this crisis as well. It is worth noting here that the World Bank has rather been cautious in this respect, predicting a slowdown in the rate of growth of remittances (5 to 8 per cent). However, the fact remains that Bangladesh's performance had been one of the best among the developing countries with significant dependence on remittance flows.

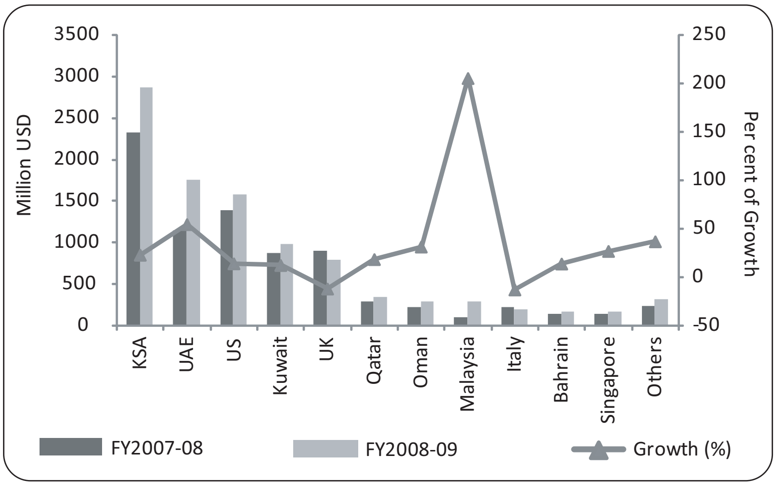
Table 1.26: Opening and Settlement of L/C: FY2007-08 vs FY2008-09

(in Million USD)

L/C Item	L/C Opening			L/C Settlement		
	FY2008	FY2009	Growth (%)	FY2008	FY2009	Growth (%)
Consumer goods	2026.32	837.76	-58.66	1411.96	871.09	-38.31
Rice	1341.70	51.41	-96.17	859.47	226.79	-73.61
Wheat	684.62	786.36	14.86	552.49	644.31	16.62
Intermediate goods	2042.24	2223.99	8.90	1766.71	2123.72	20.21
Industrial raw materials	9017.88	8553.91	-5.15	7689.04	8494.22	10.47
Cotton yarn	529.94	472.58	-10.82	436.55	500.98	14.76
Cotton yarn B/B L/Cs*	316.01	303.89	-3.84	258.96	320.63	23.81
Textile fabrics accessories	3034.14	2995.00	-1.29	2692.91	3036.73	12.77
Textile fabrics accessories B/B L/Cs	2799.76	2833.60	1.21	2498.02	2875.10	15.10
Fabrics	2137.45	2127.89	-0.45	1895.43	2196.41	15.88
Accessories	662.30	705.72	6.56	602.58	678.69	12.63
Petroleum and petroleum products	2576.70	1864.56	-27.64	2290.04	2036.85	-11.06
Capital machinery	1753.74	1234.99	-29.58	1414.97	1403.93	-0.78
Textile	549.19	254.05	-53.74	401.69	393.82	-1.96
Machinery for misc. Industries	1631.54	1870.08	14.62	1444.89	1662.36	15.05
Other L/Cs	3940.04	3938.71	-0.03	3147.03	3672.40	16.69
Commercial sector	2060.90	2299.73	11.59	1764.56	2046.05	15.95
Industrial sector	1879.15	1638.98	-12.78	1382.46	1626.35	17.64
Total	24435.60	21802.74	-10.77	20372.59	21444.35	5.26

Source: CPD Trade database, 2009.
Note: *B/B L/C: Back-to-back L/Cs.

Figure 1.42: Country-wise Flow of Remittances



Source: CPD Trade database, 2009.

[22] Absence of any import of POL between October 2008 and February 2009 is somewhat puzzling, and consequently, the relevant data needs to be looked at more carefully.

Labour Outflows

Total number of workers leaving Bangladesh for working abroad was 981,102 in FY2007-08, whilst in FY2008-09 the number has declined to 650,059 which was a 33.74 per cent drop. One reason for continued higher remittance could be the stock versus flow aspect of migration. Though number leaving was falling, total stock was rising, and hence larger remittance flow. Interestingly, though in previous years more semi-skilled and less skilled workers had emigrated, in 2008 there was a significant rise in the share of professionals and skilled workers leaving the country (Table 1.27). This could also be one of the reasons that explains the increase in growth of remittance, since these workers were likely to earn higher wages compared to semi-skilled and less skilled workers. Another factor that may have contributed towards the recent growth in remittance flow is the declining money transferring cost.

Table 1.27: Category of Migrant Workers

Year	Labour Outflow	Share of Different Category of Workers (%)				
		Professional	Skilled	Semi-skilled	Less Skilled	Total
2006	381516	0.24	30.27	8.90	60.59	100
2007	832609	0.08	19.86	22.06	58.00	100
2008	875055	0.21	32.16	15.18	52.44	100

Source: CPD estimates based on BMET data.

Remittances Prices Worldwide data affirms this. Average cost of remitting to the country of origin has declined significantly in recent times. Whilst in 2008, the average total cost for sending, for example, USD 200 from Saudi Arabia to Bangladesh was USD 10.80, it had fallen to USD 5.68 by the first quarter of 2009. Alongside the falling price of remittances, Bangladesh Bank took a number of initiatives to facilitate transfer of earnings by Bangladeshis from abroad.

The returning migrant workers have become an issue of increasing concern in Bangladesh

The returning migrant workers have become an issue of increasing concern in Bangladesh. Regrettably, as of now, any institutional mechanism for recording the number of permanent returnees is absent. This needs to be addressed. The Bureau of Manpower, Employment and Training (BMET) has estimated that a total number of 28,000 workers had returned home, as a result of retrenchment, during the first quarter of FY2008-09. The stimulus package does not have any focused intervention for returnee workers. They could be provided soft loan from the *Overseas Workers' Welfare Fund* to help them tide over the current difficult times and enable them to set up independent enterprises. Efforts should be strengthened so that Bangladesh is able to cater to the needs of new markets for migrant workers. In this context, a time-bound plan should be put in place so that workers willing to travel abroad get the opportunity to undergo skill upgradation training that meet the specific demands of the host country job markets.

1.7.5 Balance of Payments

Thanks to the buoyant flow of remittances and robust export earnings, current account balance has continued to remain in surplus position as distinct from many developing countries which had experienced balances being driven down to the negative terrain

The BOP position of Bangladesh remains healthy. From USD 331 million in FY2007-08, the overall BOP of Bangladesh reached USD 2,058 million in FY2008-09 (Table 1.28). Current account balance also followed similar trend, increasing from USD 702 million in FY2007-08 to USD 2,536 million in FY2008-09. Thanks to the buoyant flow of remittances and robust export earnings, current account balance has continued to remain in surplus position as distinct from many developing countries which had experienced balances being driven down to the negative terrain.

Trade balance, as has been the trend in recent years, recorded a deficit of (-)USD 4,708 million in FY2008-09; this was lower compared to (-)USD 5,330 million during FY2007-08. This is attributed to the rising import payments which increased to USD 20,291 million in FY2008-09 from USD 19,481 million in

FY2007-08. It is to be noted that high oil prices during the first quarter of FY2008-09 has contributed significantly to higher import payments. Compared to FY2007-08 import payments on account of fertiliser had increased by more than 51 per cent - from USD 631.60 million to USD 955.10 million; iron and steel import payments rose by 27.33 per cent; however, import of the capital machineries component came down by (-)14.71 per cent.

Thanks to larger current transfers of USD 10,226 million, where remittances continue to constitute the major share, current account balance recorded a surplus of USD 2,536 million during the period under review. The development of the BOP situation is likely to hinge on two crucial factors - (a) trade balance and current account balance, in view of the dynamics of changes in the global commodity prices and remittance flows in the coming months; and (b) impact of the ongoing crisis on the aid situation. In this regard Bangladesh should remain proactively engaged with the various global initiatives in support of low-income countries which have been put in motion in recent times in view of the global economic crisis.

Table 1.28: Balance of Payment

(in Million USD)

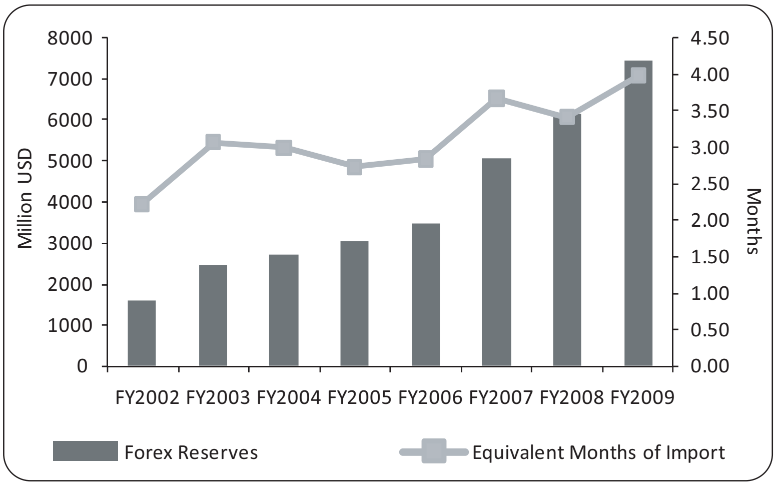
BOP Component	FY2007-08	FY2008-09
Trade balance	-5330	-4708
Services	-1525	-1621
Current transfers	8551	10226
Official transfers	149	72
Private transfers	8402	10154
of which workers' remittances:	7915	9689
Current account balance	702	2536
Capital account	509	451
Financial account	-392	-808
Errors and omissions	-488	-121
Overall balance	331	2058

Source: Bangladesh Bank, November 2009.

1.7.6 Foreign Exchange Reserves

In the backdrop of the buoyant growth in remittance flow to the country coupled with impressive growth in export earnings, the foreign exchange (forex) reserves posted a 21.50 per cent increase at the end of June 2009, as against the corresponding month of FY2007-08. The gross foreign exchange reserves of Bangladesh Bank stood at USD 7,470.96 million as of June 2009. Figure 1.43 depicts the growth in forex reserves and its equivalency in terms of the months of import. The current forex reserve is equivalent to about 4 months of Bangladesh's total import payment. The reserve position is expected to sustain in near future which will be crucial to providing Bangladesh some cushion in maintaining a stable exchange rate and providing capacity to make the required imports.

Figure 1.43: Forex Reserves and Equivalent Months of Import



Source: CPD Trade database, 2009.

The reserve position is expected to sustain in near future

In view of the changing dynamics in the foreign currency market, Bangladesh Bank needs to remain proactive in monitoring changes in the composition of its forex reserve currency basket and take appropriate measures in order to safeguard the purchasing power of the country's forex reserves through prudential management.

1.7.7 Foreign Aid

Table 1.29 shows that in FY2008-09, a total amount of USD 1.73 billion aid had been disbursed which was approximately USD 335 million less than the amount

Table 1.29: Disbursement of Grants and Loans as well as Payments Made

Fiscal Year	Aid Scenario			Financing Scenario (USD million)		
	Total Aid (USD Million)	Share of Grants (%)	Share of Loans (%)	Principal	Interest	Total
FY1985	1269.44	55.40	44.60	106	64	170
FY1994	1558.64	45.56	54.44	263	139	402
FY2006	1365.19	36.66	63.34	502	176	678
FY2007	1630.57	36.19	63.81	540	182	722
FY2008	2061.52	31.92	68.08	586	184	770
FY2009	1726.91	30.28	69.72	641	182	823

Source: CPD-IRBD database, 2009.

disbursed over the corresponding period of the previous fiscal year. Aid-related payments (the principal) have increased to USD 641.20 million from USD 586 million in FY2008-09 and FY2007-08. Net receipts of foreign aid during FY2008-09 decreased to USD 1,085.91 million compared to USD 1,475.52 million posted in FY2007-08.

In order to tackle the potential deceleration in growth from the consequence of global economic contraction, the government ought to consider foreign financing as an importance source due to its non-inflationary nature, and also more crucially, minimising the "crowding out" affect of borrowing from domestic sources. The three most critical challenges currently facing the country in aid disbursement as well as its effective utilisation are: (a) timely disbursement of the committed aid and mobilisation of counterpart domestic funds to complement aid flows; (b) efficient implementation of aid-related activities; and (c) ensuring good returns on aid-related investment.

1.8 SOCIAL SECTOR

Ensuring social security to the citizens of the country through better health services, standard education and proper safety net measures has been a top priority agenda for successive governments in Bangladesh. Such policy stance has been repeatedly manifested by channeling significant allocation of funds to these sectors. Similar has been the case in FY2008-09 (Table 1.30) when the revised allocation for line ministries dealing with health, education and technology, women advancement and children affairs, and social safety net stood at Tk. 6,314.43 crore (more than 27 per cent of the total RADP of Tk. 23,000 crore). It needs to be mentioned here that the newly elected Awami League government was responsible for the allocations made and implementation carried out during the second half of FY2008-09 after it had assumed the helms of power in January 2009.

Table 1.30: Sector-wise Planned Allocation and Expenditure in FY2008-09

(in Crore Tk.)

Sub-sector (With Relevant Line Ministry)	ADP Allocation (FY2009)	RADP Allocation (FY2009)	Utilisation (FY2009)	
			Total	% of Allocation
Health				
M/O Health and Family Welfare	2416.43	2615.04	2006.36	77
Education and Technology				
M/O Primary and Mass Education	2369.35	2113.79	2055.15	97
M/O Education	826.05	985.54	948.97	96
M/O Science, Information and Communication Technology	126.39	106.09	99.81	94
Women Advancement and Children Affairs				
M/O Women and Children Affairs	118.16	116.54	115.70	99
Social Safety Net				
M/O Social Welfare	47.70	90.37	53.40	59
M/O Food and Disaster Management	210.66	191.08	164.95	86
M/O Labour and Employment	89.62	95.98	80.14	83

Source: IMED, Ministry of Planning.

1.8.1 Health

Utilisation of around 77 per cent of the total RADP allocation for the Ministry of Health and Family Welfare (MoHFW) during FY2008-09 transmits disquieting signals as regards pace of implementation and attainment of targets set out for the fiscal year. However, most of the programmes under the Health, Nutrition and Population Sector Programme (HNPSP) have registered impressive progress against disbursement during FY2008-09. Progress against both allocation and disbursement in sector wide programme management, human resource management and financial management has thus far been rather low. This, certainly, is a matter of grave concern as successful implementation of any programme critically depends on the quality of management performance. On the other hand, the National Nutrition Programme (NNP) saw more than 85 per cent of the allocated funds being spent in FY2008-09.

Community Clinics for Better Health Care Services

The MoHFW reintroduced *Community Clinic Programme* which aimed to provide Essential Service Package (ESP) for health, family planning and nutrition to rural people from a one-stop centre for every 6,000 population. During its (1996-2000), the Awami League government planned to construct 13,500 community clinics (CCs), of which 10,723 CCs were actually constructed. Immediately after coming to power again in 2009, it reintroduced the same programme and took initiatives to ensure primary health care facilities. As of June 2009, a total of 10,349 CCs have been handed over to the community groups out of which 8,464 are in operation (Table 1.31). Since the programme's reinitiation in April 2009, medicine supply worth Tk. 12.50 crore has been distributed at the district level for the CCs with another consignment worth Tk. 4.30 crore in the pipeline as of June 2009. An amount of at least Tk. 230 crore will be required to ensure proper functioning of the operational CCs throughout the country. This has to be further strengthened by deployment of trained health workers and competent assistants, coordination among members of the community groups, and regular monitoring and evaluation by relevant government agencies.

Table 1.31: Status of the Community Clinics as of June 2009

Division	Built	Handed Over	Functioning from April 2009	Built but Demolished Later	Comment
Dhaka	2951	2822	2091	16	16: river erosion
Chittagong	1663	1621	1431	4	2: river erosion, 2: completely damaged
Rajshahi	3255	3171	2454	43	43: river erosion
Khulna	1385	1380	1322	2	2: completely damaged
Barisal	801	737	598	32	32: river erosion
Sylhet	668	618	568	2	2: completely damaged
Total	10723	10349	8464	99	

Source: Directorate General of Health Service, Ministry of Health and Family Welfare.

An amount of at least Tk. 230 crore will be required to ensure proper functioning of the operational CCs throughout the country

1.8.2 Education and Technology

During FY2008-09, RADP utilisation by the Ministry of Primary and Mass Education and Ministry of Education in FY2008-09 stood at 98 per cent and 96 per cent respectively. While the Second Primary Education Development Programme (PEDP II) has registered 97 per cent utilisation against RADP during the said fiscal, progress in other programmes such as Primary Education Stipend Project (Phase II), Reaching Out-of-School Children (ROSC) and Secondary Education Quality and Access Enhancement Project (SEQAEP) has also been commendable (Table 1.32).

Efforts need to be geared up further for successful implementation of these projects which are critical to attaining the millennium development goal (MDG) targets of ensuring universal primary education for all children. However, time has come to give more attention to quality aspects of education. Government should also consider setting up an e-Education cell under the Prime Minister's Office to move towards the goal of *Digital Bangladesh*.

Table 1.32: Status of the Major Education Projects in FY2008-09

(in Crore Tk.)

Project	Revised Allocation	Expenditure	Expenditure as % of Revised Allocation
Primary Education Stipend Project (Phase II)	488.00	478.00	97.95
Reaching out of School Children (ROSC)	87.56	84.18	96.14
Secondary Education Quality and Access Enhancement Project (SEQAEP)	112.42	99.12	88.17

Source: Ministry of Primary and Mass Education; Ministry of Education.

1.8.3 Social Safety Net

According to the economic update on Bangladesh by the World Bank, around 24 lakh more people were likely to plunge into poverty in FY2008-09 due to the impact of the ongoing recession

Safety net programmes are designed to help and transfer resources to the poor and vulnerable groups of different parts/sections of the society. In FY2008-09, these programmes assumed added importance in view of the anticipated negative implications of the global financial crisis for poverty and social security in Bangladesh. According to the economic update on Bangladesh by the World Bank, around 24 lakh more people were likely to plunge into poverty in FY2008-09 due to the impact of the ongoing recession (World Bank 2009).

Progress with regard to most of the cash allowance programmes for the poor and vulnerable had been significantly positive in FY2008-09, both in terms of availability of the fixed amount of monthly allowance and attainment of the targeted number of enlisted beneficiaries

In the budget of FY2008-09, the government allocated 2.25 per cent of total GDP (0.11 per cent higher than the previous year's allocation) for social security and social empowerment. Progress with regard to most of the cash allowance programmes for the poor and vulnerable had been significantly positive in FY2008-09, both in terms of availability of the fixed amount of monthly allowance and attainment of the targeted number of enlisted beneficiaries. However, poor performance was observed in the case of utilisation of RADP allocation by three different ministries (Ministry of Social Welfare, Ministry of Food and Disaster Management (MoFDM), and Ministry of Labour and Employment (MoLE)) which were directly working for various social safety net porgrammes. Both the MoFDM and the MoLE registered more than 80 per cent utilisation of RADP allocation in FY2008-09. On the other hand, Ministry of Social Welfare was able to achieve only 59 per cent utilisation target with regard to total RADP allocation during the same period. Apart from these regular allocations, on 19 April 2009, the government announced a stimulus package worth of USD 500 million in view of the global financial crisis. The package provided 11 per cent of total allocation for various social safety net programmes. The second stimulus package worth of USD 725 million for FY2009-10 was announced in June 2009, and this also set targets to strengthen social safety net programmes.

Employment Generation Scheme

Anecdotal data and information suggest that the government was planning to allocate Tk. 1,500 - Tk. 2,000 crore in FY2009-10 to provide technical and vocational training to 20,000 unemployed Higher Secondary Certificate (HSC) graduates, and to create employment opportunities for the returnee migrants who fell victim to early job retrenchment in various host countries due to the ongoing global economic crisis. The government was also planning to initiate a *Cash for Work* programme instead of the *100-Day Employment Generation Scheme*. However, it is not yet clear as to whether allocation for the new programme will be a stand alone one or a combination of the outstanding amount from the previous scheme and new allocations in the next budget.

The government should use the New Poverty Map to identify poverty-prone areas where social safety net programmes need to be further strengthened

The government should use the New Poverty Map to identify poverty-prone areas where social safety net programmes need to be further strengthened. Added attention needs to be given to *monga*-prone northern districts and areas that have been hit by cyclone *Aila*. The government should also continue with the *Five Year Guaranteed Employment Scheme* first put in place by the CTG, in addition to its new initiatives. Also, Fund for Climate Change (Tk. 300 crore) needs to be effectively utilised to ensure support for the climatologically vulnerable areas and people.

Public Food Distribution System

Distribution of foodgrains through both priced and non-priced channels in FY2008-09 has been 82 per cent higher than that of the comparable period of the previous fiscal. However, it was about 7 per cent lower than the revised budget for PFDS in FY2008-09 (Table 1.33). In the past, preparation of lists of beneficiaries for various safety net and allowance programmes has often been found to be biased and influenced by local and national politics. This trend needs to be reversed to raise the efficacy of PFDS, both in terms of targeting and in terms of implementation.

Table 1.33: Channel-wise Distribution of Foodgrains in FY2008-09

(in '000 MT)

Sector	Channel	Revised Budget (FY2008-09)			Cumulative Distribution (1 July 2008 - 30 June 2009)			Distribution of Total Revised Budget (%)		
		Rice	Wheat	Total	Rice	Wheat	Total	Rice	Wheat	Total
Monetised	EP	148	108	256	133	86	219	89.86	79.63	85.55
	OP	16	10	26	17	5	22	106.25	50.00	84.62
	LE	133	0	133	10	0	10	7.52	0.00	7.52
	OMS	370	0	370	195	0	195	52.70	0.00	52.70
	Others	0	0	0	0	0	0	0.00	0.00	0.00
	Sub-total	667	118	785	355	91	446	53.22	77.12	56.82
Non-monetised	FFW	303	28	331	362	33	395	119.47	117.86	119.34
	TR	143	120	263	258	110	368	180.42	91.67	139.92
	VGF	500	0	500	507	0	507	101.40	0.00	101.40
	VGD	165	100	265	141	138	279	85.45	138.00	105.28
	GR	64	0	64	43	0	43	67.19	0.00	67.19
	Others	75	0	75	92	0	92	122.67	0.00	122.67
	Sub-total	1250	248	1498	1403	281	1684	112.24	113.31	112.42
Grand Total		1917	366	2283	1758	372	2130	91.71	101.64	93.30

Source: Food Planning and Monitoring Unit (FPMU), GoB.
Note: EP: Essential Priorities; OP: Other Priorities; LE: Large Employers; OMS: Open Market Sale; FFW: Food for Work; TR: Test Relief; GR: Gratuitous Relief.

Both vulnerable group development (VGD) and vulnerable group feeding (VGF) programmes need to be expanded and their implementation expedited in the coastal areas which have been badly hit by cyclone *Aila*. Such circumstances invariably necessitate further procurement and allocation of foodgrains by the government. Bangladesh should also try to get funds from Global Food Crisis Response Programme (GFRP) by World Bank to expand the ambit of her VGF programmes. Besides, a fresh beneficiary list should be prepared to support the deserving deprived and disadvantaged people. The government may use the National ID card to make the system monitorable, simple, speedy and objective.

1.9 OUTLOOK AND CHALLENGES FOR FY2009-10

Growth and Investment Outlook

In a year of transition with its uncertainties both in terms of policy making and policy continuity, coupled with volatility in domestic economy and global financial meltdown, a growth rate of 5.9 per cent must be seen as impressive. Robust agricultural production and resilient export performance were the highlights of FY2008-09. In view of apprehensions about late entry and late exit in the context of the impact cycle of global crisis, the GDP growth target for FY2009-10 was initially set at 5.5 per cent, the lowest target in last six years. Compared to the almost 6 per cent growth in the volatile year of FY2008-09, and considering the emergence of "silver lining" in the global economy and the proposed counter-cyclical expansionary fiscal stance in the budget, the target was viewed as "rather conservative" by CPD and some others. Such a characterisation was also informed by the high level ambition espoused in the election manifesto of the ruling coalition which had raised expectations of the masses. The Finance Minister, however, in his post-budget press briefing on 12 June 2009, mentioned that the GDP growth rate in FY2009-10 was actually expected to be between 5.5-6.0 per cent (The Daily Star 2009). In the context of the uncertainties in the global economy and the nature of recovery, the cautious approach by the government was not altogether surprising.

Compared to the almost 6 per cent growth in the volatile year of FY2008-09, and considering the emergence of "silver lining" in the global economy and the proposed counter-cyclical expansionary fiscal stance in the budget, the target was viewed as "rather conservative" by CPD and some others

Table 1.34: A Projection of Sectoral Growth Targets

Sector	Growth FY2008-09	Growth FY2009-10*
Agriculture	4.7	3.5
Industry	5.9	6.5 - 7.0
Services	6.3	6.5
GDP	5.9	6.0 - 6.3

Source: CPD projection and calculation based on MoF (2009).
Note: *Sectoral growth rates are projected in view of GDP growth target

Given the structural composition of Bangladesh's GDP, achieving a growth target of 5.5 per cent generally does not require an exceptional level of performance. However, to attain a 6.0 per cent growth and beyond, critical sectors of the economy will be required to demonstrate an above-average performance. Regrettably, the government's projections on sectoral GDP growth targets for FY2009-10 are not been made available. However, in view of the aggregate target of around 6 per cent, CPD tried to project the sectoral GDP growth target on the basis of past experiences, recent benchmarks and the current context (Table 1.34).

In the backdrop of high benchmark of agricultural production (4.7 per cent in FY2008-09), attaining a robust growth in the next fiscal year will be rather challenging. It is perhaps safe to argue that, in the event of continuation of policy support and absence of any major natural disaster affecting the crop sector other than the partial impact of drought experienced during ongoing Aman, a near 3.5 per cent growth in this sector would be what is to be expected in FY2009-10.

With the rather discouraging investment scenario in the domestic front, the industrial growth at the end of the year may very well stay below its trend, but may be expected to beat last year's growth

The average growth rate of industrial sector during this decade (FY2000-01 to FY2008-09) has been around 7.5 per cent. It can be expected that FY2008-09's below par performance of industrial sector (5.9 per cent) was likely to continue during the first half of this fiscal year. In view of the incipient global economic recovery and its positive impact for Bangladesh, the growth may revert to the trend in the second half of FY2009-10. However, with the rather discouraging investment scenario in the domestic front, the industrial growth at the end of the year may very well stay below its trend, but may be expected to beat last year's growth. Thus, according to one's best judgement, looking from now, growth between 6.5 per cent to 7.0 per cent may be anticipated for industrial sector in FY2009-10.

Historically, services sector of the country has been able to demonstrate steady performance in the backdrop of moderate achievements in the real sectors. An average growth of the services sector during FY2000-01 to FY2008-09 (6.5 per cent), given the expected performance by the other two major sectors, may be deservedly expected and secured.

Table 1.35: Growth-Investment Framework for FY2009-10

Indicator	FY2008-09 (Provisional)	FY2009-10 (Projected)
Real GDP Growth (%)	5.9	5.5 - 6.0
Gross Investment (as % of GDP)	24.2	23.6
ICOR	4.1	4.3 - 3.9
ADP (as % of GDP)	3.7	4.4

Source: CPD calculation based on Medium Term Macroeconomic Framework (MTMF).

Investment target, as stated in the budget suggests that the government is expecting a decrease in the investment rate (as a percentage of GDP) from 24.2 per cent in FY2008-09 to 23.6 per cent in FY2009-10 (Table 1.35). A significant enhancement in public investment (in terms of ADP) would thus imply a rather depressing expectations for private investment in FY2009-10 as its share would then decline further as percentage of GDP (from 19.6 per cent in FY2008-09). This would indicate either contradictions with regard to expectations voiced in the budget about private investment (robust) or a priori acceptance of less than full delivery of the ADP.

Consequently, the ICOR is also projected to increase to 4.3 in FY2009-10 given the growth target would remain at 5.5 per cent, hence a further deceleration of capital productivity has been anticipated, either consciously or unconsciously. To achieve a 6 per cent growth, with the same level of investment (since no revision of investment target has been placed to complement the revised growth target), capital productivity in terms of ICOR would call for an improvement to the level of 3.9. Thus, in order to achieve the targeted growth rate, a significant upward movement will be required with regard to investment flow - both public and private. In the absence of adequate investment flow, capital productivity has to increase through better capacity utilisation and/or technological upgradation. Here, the role of the much talked about PPP could also emerge as a critically defining factor.

In order to achieve the targeted growth rate, a significant upward movement will be required with regard to investment flow - both public and private

Medium Term Macroeconomic Outlook

The new MTMF (FY2009-10 to FY2011-12) forecasts the economy to grow at 6.0 and 6.5 per cent during FY2010-11 and FY2011-12 respectively (Table 1.36). The MTMF also makes projections about lowering inflation rate to 6.5 per cent in FY2009-10 which is to decelerate further to 6.0 per cent in FY2010-11 and FY2011-12. Such a target would require ensuring higher domestic production in view of rising both global demand and prices in the context of the anticipated financial recovery.

According to the targets set by the MTMF, budget deficit, which has been projected to be 5.0 per cent of GDP in FY2009-10, is expected to come down gradually to 4.7 per cent of GDP by FY2010-11, primarily in view of the envisaged stability in current public expenditure. However, it was surprising to see that revenue earnings (as a share of GDP) is forecasted to improve considerably in FY2009-10 but is expected to revert during the next couple of fiscal years. This is somewhat surprising since revenue mobilisation is perceived to be a major macroeconomic challenge that should be addressed. The MTMF also reveals the intention of the government to gradually shift its reliance from domestic sources for deficit financing to foreign assistance.

Table 1.36: Medium Term Macroeconomic Outlook of Bangladesh Economy: FY2009-10 - FY2011-12

Indicator	Projection		
	FY2009-10	FY2010-11	FY2011-12
Output			
Real Growth (%)	5.5-6.0	6.0	6.5
Inflation (12-month Annual Average %)	6.5	6.0	6.0
Gross Investment (% of GDP)	23.6	24.3	25.2
ICOR	4.3-3.9	4.1	3.9
Government Accounts (% of GDP)			
Total Revenue	11.6	11.3	11.5
Tax	9.3	9.2	9.5
Non-tax	2.3	2.1	2.1
Total Expenditure	16.6	16.1	16.2
Current Expenditure	10.3	10.0	10.0
Annual Development Expenditure	4.4	4.6	4.7
Overall Balance (exc. Grants)	-5.0	-4.8	-4.7
Financing	5.0	4.8	4.7
Domestic Financing	3.0	2.6	2.3
Banking System	2.4	2.0	1.8
Non-bank	0.6	0.5	0.5
Net Foreign Financing	2.0	2.2	2.4
Money and Credit (% Change)			
Net Domestic Assets	17.5	17.1	17.1
Credit to Private Sector	18.3	18.5	18.5
Broad Money (M2)	16.3	16.2	16.0
Balance of Payments			
Export (% Change)	12.5	17.5	18.5
Import (% Change)	13.0	17.0	16.0
Remittances (Billion USD)	10.6	11.6	12.8
Remittances (% Change)	9.3	9.4	10.3
Current Account Balance (% of GDP)	0.2	-0.1	-0.4
Forex Reserve (Billion USD)	7.5	8.5	9.5
Forex Reserve in Months of Imports	2.5	2.3	2.0
Exchange Rate (Tk./USD)	70.7	71.8	72.9

Source: Medium Term Macroeconomic Framework (MTMF).

In the monetary sector, expected contraction of M2 growth in FY2009-10 is indicative of a conservative monetary expansion. A moderately expansionary monetary policy stance was earlier suggested by the CPD in view of the current economic situation. Enhancing private sector credit at the same time would mean a possible reduction in public sector credit growth; this indicates a potential mismatch with the proposed expansionary fiscal policy. M2 growth is expected to slowdown further during FY2010-11 to FY2011-12, compared to FY2009-10.

The targets for external sector were kept at conservative levels in anticipation of lagged response to possible global recovery in the second half of FY2009-10. However, an upturn is expected in the following fiscal year (FY2010-11), though BOP is expected to come under pressure. Movements in commodity prices and the issue of food import will decide whether such high import growth projections will actually take place. A lot will depend on when and how the global economy starts to recover in the near future and the nature and speed of the recovery. However, the medium term forecast for remittance in particular, looks rather conservative.

Employment Outlook

There is no real time information with regard to the Bangladesh labour market; latest available data on employment and labour market was for FY2005-06

There is no real time information with regard to the Bangladesh labour market; latest available data on employment and labour market was for FY2005-06. To estimate the changes in employment, the methodology suggested by ILO[23] has been followed here. Employment projection according to this method requires estimation of sectoral value added for the base year of the projection period and sectoral growth rates over the period. The coefficient values are estimated from the previous employment data for the country. This method has an advantage over the others - it does not require the employment figure for benchmark period of projection. This method is particularly useful for projecting employment changes in countries such as Bangladesh where employment data is generated with a lag. Adding up all the sectors would bring the overall change in employment of the economy.

It is important to note here that, the above mentioned exercise is carried out in the backdrop of a number of underlying assumptions. Firstly, the projection assumes that the relationship between employment and output remains consistent over the medium term. Secondly, structural changes within industries are adjusted for broad sectors in the medium term. Finally, it is assumed that no change in production technology takes place during the period under consideration.

Table 1.37: Projection on Employment and Labour Market of Bangladesh

(in Million)

Sector	FY2005-06	FY2007-08 (Estimated)	FY2008-09 (Estimated)	FY2009-10 (Projected)
Agriculture	22.8	24.1	25.0	25.6
Industry	6.9	7.6	7.9	8.3
Services	17.7	19.5	20.4	21.3
Total Employment	47.4	51.2	53.3	55.2
Labour Force	49.5	53.1	55.2	57.3
Unemployment Rate (%)	4.3	3.6	3.6	3.7

Source: BBS (2007) and CPD estimation.

According to the estimate, total employment of the economy was likely to be 51.2 million in FY2007-08; with 7.6 million in the industrial sector and 19.5 million in the services sector (Table 1.37). Agriculture continued to be the largest employment provider; 24.1 million people were expected to be employed in this sector. Considering that the labour force would continue to grow at its earlier trend, the size of the labour force in FY2007-08 was expected to be 53.1 million. This would leave an estimated unemployment rate of about 3.6 per cent.

The resilience of the Bangladesh economy during FY2008-09 also contributed to uphold the employment situation

The resilience of the Bangladesh economy during FY2008-09 also contributed to uphold the employment situation. Relatively high growth of agriculture sector had a positive impact from labour absorption perspective. However, since agriculture sector in Bangladesh is characterised by higher level of underemployment (i.e. lower working hours, as shown in Table 1.38), real employment situation of the economy may be worse than what the figures in Table 1.37 tend to suggest. Growth of employment opportunity in industry sector is expected to slowdown; only 0.4 million additional jobs are likely to be created in FY2008-09. Moreover, a slowdown in manpower export would mean an increase in domestic labour

[23] According to this methodology, the definition of changes in sectoral employment can be defined as:

$\triangle E_i = (\eta_i)(\lambda_i)\triangle Y_i$

Where, $\triangle E_i$ is the changes in employment in sector *i*; η_i is the sectoral employment elasticities; λ_i is the average labour intensity (employment per unit of value added) in the *i*-th sector; and $\triangle Y_i$ is the change in value added in sector *i* over the period of projection.

supply by an additional 0.3 million in FY2008-09. Considering these factors, unemployment rate is estimated to be constant at 3.6 per cent in FY2008-09. However, it appears that under the changing scenario, with possible downward revision of GDP growth, the composition of labour force in different sectors and the rate of unemployment may need to be reviewed as well.

Table 1.38: Underemployment and Weekly Working Hours in Different Sectors

Indicator	FY1999-00	FY2002-03	FY2005-06
Underemployment (%)			
Total	16.6	37.6	24.5
Male	7.4	NA	10.9
Female	52.8	NA	68.3
Average Weekly Working Hours in 2005-06			
Sector	Total	Male	Female
Agriculture, forestry	46	52	26
Fishing	37	48	18
Manufacturing	54	56	49
Construction	50	51	36
Wholesale, retail trade	55	56	35
Hotel and restaurants	60	61	44
Transport	57	57	53
Financial intermediation	46	47	43
Real estate	50	51	45
Education	48	49	44
Health and social work	49	52	45
Other community and personal services	49	53	41

Source: BBS (2007).

GDP growth target for FY2009-10 has been set at 5.5-6.0 per cent. If the economy does not experience radical structural change, total employment was likely to be 55.2 million in FY2009-10; with 25.6 million in the agriculture sector and 21.3 million in the services sector. Incremental employment in industry sector is projected to be lower, 0.4 million additional workers are expected to be employed in FY2009-10. According to the projection, unemployment rate will marginally increase to 3.7 per cent in FY2009-10. Since a large number of workers would be absorbed in agriculture and services sector. The concern is that a large part of this newly absorbed labour force in the agriculture sector was likely to work at less than the optimum level which would increase underemployment in the agriculture sector. A reverse trend in underemployment first observed in FY2002-03 and continuing thereafter would possibly slowdown in the face of possible rise in underemployment in FY2009-10 (Table 1.37 and Table 1.38). It indicates that global recession may not impose rapid job cuts as those experienced by a large number of developed and developing countries, but would certainly undermine the prospect of modernisation and restructuring of the country's labour market.

Global recession may not impose rapid job cuts as those experienced by a large number of developed and developing countries, but would certainly undermine the prospect of modernisation and restructuring of the country's labour market

Challenges

FY2008-09 was an extraordinary time for Bangladesh. It was a year of democratic transition, volatility in domestic economy, global financial meltdown and political transition. In this backdrop, the Bangladesh economy, at aggregate level, performed quite appreciably, with a near-six per cent GDP growth and four and a half per cent per capita income growth. Bangladesh remained one of the very few low-income countries that was able to record this level of performance in FY2008-09. No doubt, this level of performance speaks of significant resilience of the Bangladesh economy. Most of the macroeconomic indicators, notwithstanding their structural flaws, demonstrated overall robustness. Many of the fault lines which afflicted the benchmark of FY2008-09 were much less pronounced at the end of the fiscal year. Thus, FY2009-10 is expected to kick off on a sounder basis compared to the preceding year. However, during this period a number of new issues, in addition to the set of pending ones, will continue to confront and challenge the growth and poverty alleviation prospects of the country. This is not to say that new circumstances will also not offer new opportunities. But, as the saying goes, "fortune favours the prepared."

Many of the fault lines which afflicted the benchmark of FY2008-09 were much less pronounced at the end of the fiscal year

In the following paragraphs an attempt has been made to highlight some of these challenges to be addressed and opportunities to be seized by the Bangladesh economy in the context of the upcoming FY2009-10.

Energising Investment

Quality of output and monitoring of outcomes will need to be given highest priority in implementing the ADP. Infrastructure development, particularly in power and energy, will be critical, and in this context, PPP will need to be given due importance

In the backdrop of the deceleration in investment performance in FY2008-09, a renewed effort will be needed in FY2009-10 to improve both the quantitative and the qualitative aspects of the ADP implementation which is then able to stimulate and crowd in private sector investment. Towards this, institutional as well as human resources capacities of relevant agencies of the government will have to be substantively strengthened and improved by putting in place adequate resources, capacity building mechanisms and incentive structure. New initiatives such as PPP reinforce this demand. Quality of output and monitoring of outcomes will need to be given highest priority in implementing the ADP. Infrastructure development, particularly in power and energy, will be critical, and in this context, PPP will need to be given due importance. To stimulate private sector investment, interest rate policy will play a crucial role and here the Bangladesh Bank will have to play a leading role in ensuring adequate capital flow, containing inflation, maintaining exchange rate stability and reducing the spread between lending and deposit rates. In case of the later, if need be by pursuing a proactive policy both in the context of ceiling on lending and also floor on deposit rates. In view of the constraints in mobilising adequate domestic resources, FDI will need to be encouraged both in infrastructure and in modern sectors, focusing on both domestic and international markets.

Consolidating Agriculture

Of crucial importance will be government's ability to allow markets to play their role efficiently and within a competitive environment

Food security, given the experience in FY2008-09, should continue to merit highest priority in FY2009-10. Here the challenge will be to balance the apparently conflicting interest of consumers and producers. Of critical importance in this connection will be to stimulate productivity of agriculture through prudent subsidy policy, incentives to promote adoption and adaptation of HYVs and technology. Procurement price should benefit the farmers and appropriate institutional mechanisms will need to be designed towards this by removing, as far as possible, the role of intermediate agents. Timely delivery of fertiliser and wider availability of HYV seeds should be ensured through appropriate delivery mechanisms. Food storage facilities should be built up and there should be timely intervention in the market to ensure price stability. For this government's capacity to maintain adequate storage and warehousing capacities will be crucial. For some strategic items Trading Corporation of Bangladesh (TCB) could be brought into play, but its role and method of operation should be well defined. Of crucial importance will be government's ability to allow markets to play their role efficiently and within a competitive environment.

Protecting External Sector

Deceleration in the export growth is perhaps indicative of the lagged nature of the impact of the ongoing global financial crisis on the performance of Bangladesh's external sector

The overall robust performance of export sector in FY2008-09 conceals the recent significant deceleration in the export growth. This is perhaps indicative of the lagged nature of the impact of the ongoing global financial crisis on the performance of Bangladesh's external sector. In the backdrop of the lower export earnings during the second quarter of FY2008-09, export growth is expected to pick up in the second quarter of FY2009-10. However, it will be difficult to sustain the momentum in view of the high earnings attained in the last two quarters of FY2008-09. Speedy steps to address the negative fall outs of the crisis will be required with regard to markets of both goods and services export of Bangladesh. The stimulus package, already announced, should be further consolidated by taking cognisance of the more recent developments. Workers returning from abroad due to the global financial crisis should be extended the required help in terms of access to credit as well as safety net programmes, and appropriate support services should be placed for them with due urgency. Bangladesh will also need to further strengthen efforts towards market and product diversification so that once recovery of the global economy sets in, her exporters of goods and services are well-positioned to take advantage of the changing situation. The interest shown by Japanese importers of apparels, the great promise of the export-oriented ship-building industry, export prospects in the regional markets are just a few areas where targeted strategies will need to be pursued.

The projected lower revenue at the import stage will need to be compensated with higher domestic revenue, particularly from higher income tax collection

Strengthening Public Finance

The import-dependent Bangladesh economy had to face the adverse impact of global financial crisis through lower revenue collection; a long standing structural weakness of revenue mobilisation in Bangladesh has been exposed. The projected lower revenue at the import stage will need to be compensated with higher domestic revenue, particularly from higher income tax collection. It has not only forced the government to widen and deepen the domestic tax base, but also reemphasised the need for institutional strengthening towards higher and more effective revenue effort. Inadequate flow of foreign aid reinforced the need for more extensively tapping of domestic resources. Since the size of deficits is likely to be higher in FY2009-10, its financing will need to be done in a prudent manner. Of critical importance will be to ensure that financing of deficit is non-inflationary and is done through budgetary support from the aid component, to the extent possible.

Combating Climate Change

Bangladesh is one of the front line victims of the adverse consequences of climate change

Although Bangladesh contributes only insignificantly to the global green house gas emission (one-fifth of one per cent of world's total), she is one of the front line victims of the adverse consequences of climate change through increasing temperature and rainfall, sea level rise, salt water intrusion and increasing natural disasters such as cyclone and flood. Fourth Assessment carried out by the Intergovernmental Panel on Climate Change (IPCC) (2007) reported evidence that the adverse impacts are already visible in case of Bangladesh.[24] All these fall-outs are of cross-cutting nature and are likely to affect sectors such as agriculture and food security, water resource, coastal resource, livelihood security, health and infrastructure. Bangladesh has already taken a number of initiatives including *Bangladesh Climate Change Strategy and Action Plan (2008 and 2009)*, a *National Climate Change Fund* and a *Comprehensive Action Plan for 2009-2018*. The proposed activities included some immediate actions such as strengthening disaster management, research and knowledge management, capacity building and public awareness programmes, and urgent investments such as cyclone shelters and selected drainage programmes. Bangladesh must press the international community to ensure an equitable system in allocation of funds for adaptation needs. In this context, during the upcoming Copenhagen Climate Talk in December, Bangladesh should campaign to discuss the following issues of interest and concern to the country: (i) a binding commitment by all parties to tackle climate change; (ii) adequate financing for adaptation, mitigation, research and capacity building (iii) technology transfer for adaptation, particularly in the context of intellectual property right (IPR) issues, and (iv) Bangladesh's due share in any planned initiative.

Bangladesh must press the international community to ensure an equitable system in allocation of funds for adaptation needs

Reviving Development Administration

As regards injecting momentum in development administration, the focus should be on continuation and consolidation of the reforms undertaken in the recent

[24] Indeed a recent study has identified Khulna city of Bangladesh as one of the prime and early victims of sea level rise.

past to raise the efficacy of governance. Strengthening of local governments and bringing them under the ambit of budgetary process, by ensuring their broader participation in designing, implementing and monitoring of the developmental works will be critically important. Private sector's interest in PPP will need to be ensured through appropriate institutional support and incentives. A PPP act may need to be enacted towards this. Relationship with non-government organisations (NGOs), to ensure broader partnership and effective delivery of services in such areas as health and education, should be strengthened by taking an enlightened view with regard to such partnership and collaboration.

Private sector's interest in PPP will need to be ensured through appropriate institutional support and incentives

Continuing the Reforms

Need for reforms has been at the centre of development discourse in Bangladesh over the last few years. Regulatory Reform Commission (RRC) and Bangladesh Better Business Forum (BBF) were constituted to improve regulatory environment, to set up SEZs, to address key investment constraints, and to strengthen capacity building efforts in Bangladesh. BBF has reported that out of the 290 recommendations put forward to the government by the Forum, 94 have been implemented so far and a further 153 have been approved and await implementation. According to the RRC, out of the total 135 recommended reforms 46 have been implemented while 9 more have been partially implemented. Some key recommendations by these two bodies include streamlining of administrative procedures, reducing approval times, digitisation of land record - have important implications to ensure good governance. The budget for FY2009-10 has also recognised the need for reforms. The budget has proposed a number of reform measures that include strengthening of development administration and decentralisation, also mentions about other policy priorities such as *Access to Information Act 2009* and *Money Laundering Prevention Act 2009*. Continuation and coherence of reform initiatives for Bangladesh's development should be seen as an ongoing endeavour.

Continuation and coherence of reform initiatives for Bangladesh's development should be seen as an ongoing endeavour

1.10 CONCLUDING REMARKS

In the backdrop of high public expectations on delivery of electoral promises and with the lurking apprehensions that Bangladesh may be increasingly affected by the continuing global crisis, macroeconomic management will be a challenging task in FY2009-10. Adequate addressing of the attendant challenges will entail design of a set of appropriate budgetary measures, but much more will depend on the efficacy of their delivery. And such delivery will need, in the coming days more than ever before, a coherent, coordinated and committed participation of the total government machinery and all other development actors and stakeholders. In FY2009-10, the challenge will be not only to ensure effective macroeconomic management in view of the ongoing crisis, through incentives and counter-cyclical policies, but also to take appropriate policy measures in view of the global recovery with its own challenges and potential opportunities.

Adequate addressing of the attendant challenges will entail design of a set of appropriate budgetary measures, but much more will depend on the efficacy of their delivery

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CHAPTER 2

Analysis of the National Budget for FY2009-10

2.1 INTRODUCTION

As may be recalled, the newly elected Grand Alliance government led by the Awami League presented the national budget for FY2009-10 and the revised budget for FY2008-09 on 11 June 2009. Prepared half-way through its first year in power, the budget reflected the priorities of the new government that had assumed the stewardship of the economy and the country a few months back, on a platform of change. In keeping with its tradition of putting the budgetary framework and proposals under scrutiny, the Centre for Policy Dialogue (CPD) organised a series of events in projecting a civil society perspective on the various dimensions of the budget FY2009-10.

The budget reflected the priorities of the new government that had assumed the stewardship of the economy and the country a few months back, on a platform of change

CPD presented its immediate reactions on the next day, 12 June 2009, at a well-attended press briefing. On 20 June 2009, CPD organised a dialogue with participation of major stakeholders and the Hon'ble Finance Minister. On this occasion, CPD's views with regard to budget 2009-10 was voiced and shared with a distinguished group of policymakers, business leaders and representatives of the broader civil society groups. The proceeding report of this dialogue is presented in the Annex 1.

As is known, the first budget of the new government coincided with a time of exceptional turmoil in the global financial market. Whilst the government steered the economy through the second half of FY2008-09, as the budget was prepared by the outgoing caretaker government (CTG), the budget for FY2009-10 was the first opportunity of the newly elected government to articulate on how it was going to implement the policy declarations and attendant targets presented in its election manifesto and vision document. The global economic crisis was the "elephant in the room" which could not be ignored though, and the budget's projections and proposals had to take this into account. Notwithstanding the fact that Bangladesh economy was relatively less affected compared to other economies, including most least developed countries (LDCs), the crisis, not unexpectedly, left its fingerprint on the budget. The growth projections and targets for resource mobilisation had to be attuned to this reality. On the other hand, the urgency and compulsion of delivering on the promises, in the manifesto and the vision, was also much in evidence in the budget.

The first budget of the new government coincided with a time of exceptional turmoil in the global financial market

CPD's focus, in analysing the budget, had been to look at internal coherence of the fiscal stance, examine the various budget proposals and identify additional initiatives and measures that were required for raising the efficacy of implementation of the budget, both in terms of resource mobilisation and utilisation.

While presenting the budget to the Jatiyo Sangshad (National Parliament), the Hon'ble Finance Minister relayed the government's intention to continue with the three-year Poverty Reduction Strategy Paper (PRSP) for the period of FY2009-2011, with a revised PRSP for the last two years. In a major departure from practices of the recent past, the government decided to implement development efforts through the mechanism of the mid-term plan, with a long-term vision to be implemented through a Five-year Plan (FYP) (2010-2015) and a Perspective Plan (2010-2021), of which, the FYP will be an integral part. Besides, proposal for introduction of spatial and district planning was also put on the table. The other major departure of the FY2009-10 budget from the previous ones was the decision to mainstream public-private partnership (PPP) in the development process. Continuation of the reform agenda by adopting stricter anti-corruption measures and strengthening of local government institutions were some of the other salient features of the budget announcement that went beyond the traditional ambit of the pre-dominant focus of previous budget on fiscal stance.

Continuation of the reform agenda by adopting stricter anti-corruption measures and strengthening of local government institutions were some of the salient features

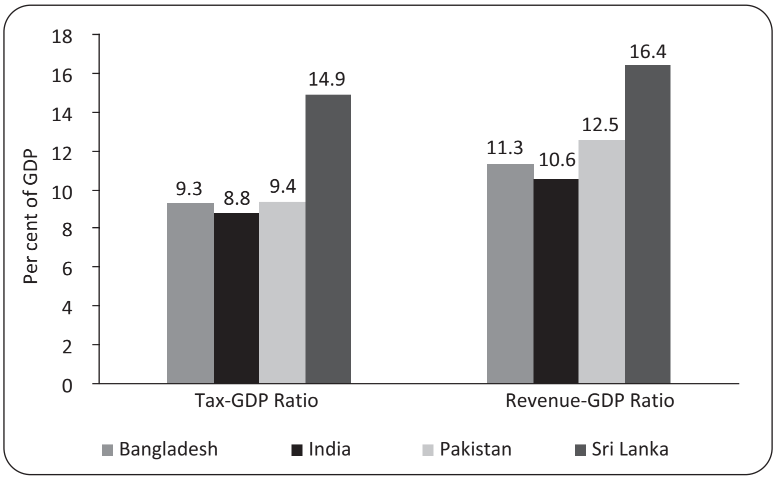
2.2 PUBLIC FINANCE

2.2.1 Revenue Earnings

Benchmark Performance of FY2008-09

In the backdrop of the high revenue growth of 22.0 per cent realised in FY2007-08, in FY2008-09 the target set for revenue growth was 17.3 per cent. Despite the negative impact of the global financial crisis on revenue mobilisation during the year, according to the revised budget figures, total revenue earnings posted a respectable growth of 17.0 per cent in FY2008-09 compared to the previous year. However, this was about Tk. 202 crore less than the original target of Tk. 69,382.0 crore.[1] Tax component rose by 15.4 per cent during this period while National Board of Revenue (NBR) and Non-NBR components posted 15.7 per cent and 9.2 per cent collection respectively. Non-tax revenue, on the other hand, recorded a high growth of 24.1 per cent. The income tax collection registered an encouraging growth of 16.0 per cent in FY2008-09 which speaks well about tax mobilisation efforts of relevant authorities.

Figure 2.1: Tax-GDP and Revenue-GDP Ratio in South Asian Countries: FY2008-09



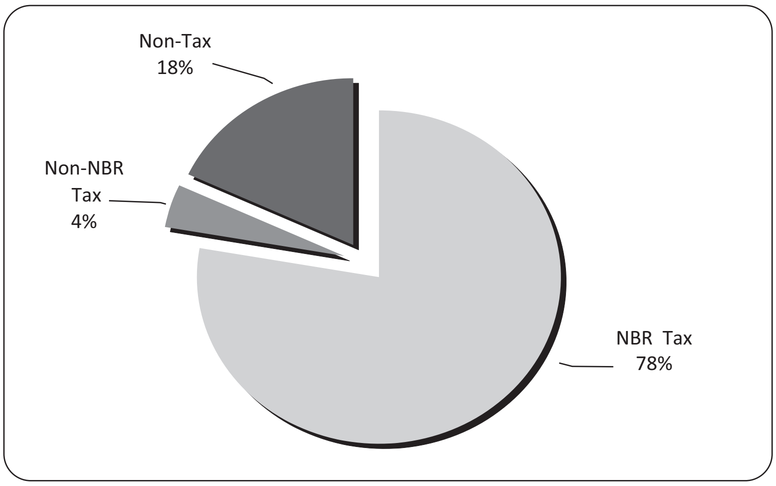
Source: Budget documents and economic reviews of the respective countries.
Note: Revised budget estimates for FY2008-09. Actual FY2008-09 figure for India.

Revenue Targets for FY2009-10

Overall Revenue Mobilisation Targets

The government has targeted to collect Tk. 79,461 crore as revenue in FY2009-10, i.e. Tk. 10,281 crore (14.9 per cent) more than the corresponding figure for FY2008-09 (revised). Revenue-GDP (gross domestic product) ratio has been targeted at 11.6 per cent in the budget for FY2009-10. While this will mark an improvement over FY2008-09 (where the ratio was 11.3 per cent), it is to be noted that the revenue-GDP ratio of Bangladesh will still be lower compared to Pakistan and Sri Lanka (although somewhat better compared to India)[2] (Figure 2.1).

Figure 2.2: Incremental Contribution of Sources in Revenue Growth: FY2009-10



Source: Budget documents FY2009-10.

Incremental Contribution of Sources

According to the new target of revenue earnings, within the total additional revenue of Tk. 10,281 crore to be collected in FY2009-10, the highest contribution

[1]At the end of FY2008-09, total revenue collection stood substantially lower at Tk. 63,847 crore (Tk. 5,535 crore less than the original target), achieving 8.0 per cent growth over the corresponding figure of FY2007-08.

[2]India's ratio appears to be relatively low because this refers to only the federal taxes. If the state taxes are also included, the ratio would increase significantly.

would come from NBR tax component (77.8 per cent), followed by non-tax sources (18.0 per cent) (Figure 2.2). Non-NBR tax component is expected to contribute 4.2 per cent of the additional amount. The envisaged major share of NBR tax component in the revenue growth will call for strengthened mobilisation efforts at the domestic level, since trade taxes may continue to suffer because of slowdown in imports and the resultant lower duties collected at the import stage.

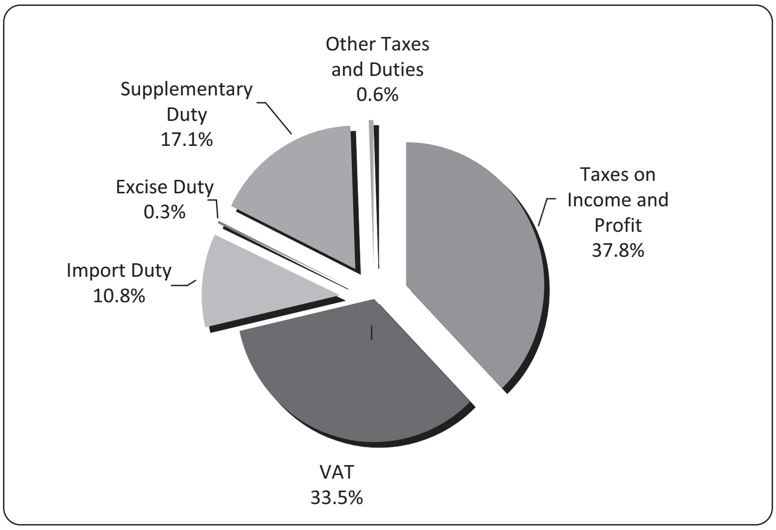
Table 2.1: Revenue Growth Trend over the Last Two Decades *(in Per cent)*

Components	FY92-FY96	FY97-FY01	FY02-FY06	FY07	FY08	FY09*	FY10 B**
Total Revenue	14.1	8.5	13.8	8.6	22.0	17.0	14.9
NBR Tax	13.2	10.8	12.7	9.5	26.6	15.8	15.1
Non-NBR Tax	13.5	5.0	9.0	21.6	24.8	9.2	17.0
Non-Tax	18.8	5.3	20.9	2.7	5.4	24.1	13.6

Source: Estimates based on Ministry of Finance (MoF) data and Budget documents, FY2009-10.
Note: * Growth rates of FY2008-09 are the revised targets.
**B denotes Budget throughout the chapter.

NBR Targets: NBR share in total revenue is targeted to be 76.8 per cent for FY2009-10 which was 76.6 per cent in FY2008-09 (revised). NBR growth target for FY2009-10 has been set at 15.1 per cent over the revised figure of FY2008-09 (Table 2.1). The growth rate was 15.8 per cent in FY2008-09 (revised). Although lower than the previous year, the target for FY2009-10 is perhaps a pragmatic one in the backdrop of lower import prices. One must also consider the fact that in spite of the revenue mobilisation suffering from the global financial crisis in FY2008-09, revenue collection showed higher trends in the backdrop of the significantly higher commodity prices prevailing in international markets, during the initial months.

Figure 2.3: Contribution of Various Sources to Additional NBR Mobilisation: FY2009-10



Source: Budget documents FY2009- 10.

The NBR growth target is largely based on higher income tax collection target for FY2009-10 which has been set at 22.3 per cent higher than the revised targets of FY2008-09. Value added tax (VAT) growth has been targeted at 13.3 per cent. Notwithstanding the fact that collection of import duties has experienced a downward trend in the recent past, a 10.8 per cent growth target has been set for FY2009-10. This is perhaps based on the new duty structure proposed in the budget that has fixed higher duties on luxury goods along with introduction of regulatory duty on several products (see Section 2.3 for details). Within the total additional NBR tax of FY2009-10, income tax alone will contribute to the tune of 37.8 per cent. Another 33.5 per cent of the additional NBR tax is expected to come from higher VAT collection (Figure 2.3). Accordingly, success in achieving revenue target will hinge on an expanding income tax and VAT net.

The revised targets for FY2008-09 are set on the high side and may not be realised at the end of the fiscal year

Non-NBR Targets: Growth target for non-NBR tax collection in FY2009-10 has been set at 17.0 per cent over the revised figure of FY2008-09. This appears to be an optimistic target considering that only a 9.2 per cent growth was achieved in the previous year. On the other hand, a conservative growth target of 13.6 per cent has been set for non-tax revenue component in the backdrop of significantly higher growth achieved (24.1 per cent) in the previous year.

As it appears, the revised targets for FY2008-09 are set on the high side and may not be realised at the end of the fiscal year. If that be the case, growth targets for FY2009-10 would actually turn out be higher than the projections in the budget when calculated over the final figures of FY2008-09. This will perhaps be the case particularly in respect of import duty collection since the 9.1 per cent growth that is projected in the revised budget for FY2008-09 is not likely to be achieved.[3]

2.2.2 Public Expenditure

Development projects continued to remain severely under-implemented

A sound fiscal structure would require earnings to grow at a faster rate than the expenditure. Bangladesh appears to have been on the right track in this regard in recent years as growth in expenditure averaged 9.9 per cent between FY2000-01 and FY2006-07, against an average revenue earnings growth of 13.5 per cent. Regrettably, this has happened more by default since development projects continued to remain severely under-implemented. Conversely, in FY2007-08 total expenditure growth was recorded at 40.1 per cent against earnings growth of about 14.0 per cent, which was accounted for by the then prevailing high prices that resulted in higher import and subsidy payments. FY2008-09 posted about 5.0 per cent growth in expenditure and 17.0 per cent growth in earnings, according to the revised budget. However, figures for FY2008-09 would experience significant adjustments when the final estimates come in, especially with regard to development expenditure[4], as also with regard to earnings at the import stage. In contrast, the targets set for FY2009-10 depicts quite the reverse picture with an anticipated growth of 20.9 per cent in expenditure and much slower growth of 14.9 per cent in earnings, which would put fiscal management under some stress in the coming fiscal year.

Expenditure budget of FY2009-10 indicates significantly higher growth projections for development expenditure[5] (32.6 per cent) compared to that of revenue expenditure (10.4 per cent). It remains to be seen whether actual development expenditure in FY2009-10 would match the expectations, and more fundamentally, the recent trends of low realisation performance can be reversed.

Table 2.2: Sectoral Allocation of Public Expenditure

Sector	Share in RB* FY2009	Share in B FY2010	Change in FY2010 B over FY2009 RB	
			Crore Tk.	%
Public Service	10.8	16.8	8544	85.9
Fuel and Energy	3.2	3.9	1401	48.2
Transport and Communication	5.7	6.7	2178	41.5
Interest Payments	14.5	14.3	2494	18.7
Social Security and Welfare	8.2	8.1	1317	17.4
Local Government and Rural Development (LGRD)	8.1	7.9	1284	17.3
Education and Technology	13.6	13.0	1852	14.8
Health	6.7	6.3	784	12.7
Public Order and Safety	6.6	5.7	208	3.4
Defence Services	7.5	6.4	166	2.4
Industrial and Economic Services	1.0	0.8	-56	-6.1
Housing	1.5	1.1	-113	-8.3
Recreation, Culture and Religious Affairs	1.1	0.8	-129	-12.9
Agriculture	11.3	8.1	-1465	-14.1

Source: Budget documents FY2009-10.
Note: *RB denotes Revised Budget throughout the chapter.

Overview of Sectoral Allocation

In terms of total expenditure (development and non-development), Public Service (85.9 per cent), Fuel and Energy (48.2 per cent), and Transport and Communication (41.5 per cent) experienced the most notable growth in their respective allocations. Public Service received the highest allocation (16.8 per cent of the total); Interest payments claimed the second highest share in the budget (14.3 per cent) (Table 2.2).

[3] At the end of FY2008-09, actual growth in import duty turned out to be a negative (-)2.8 per cent.
[4] Actual annual development programme (ADP) expenditure for FY2008-09 stood at Tk. 19,668 crore.
[5] Over the actual Tk. 19,668 crore disbursed/spent in FY2008-09, ADP growth target for FY2009-10 would be significantly high at 55.1 per cent.

On the other hand, taking cognisance of the revised expenditure of FY2008-09, Agriculture sector witnessed the highest reduction (by Tk. 1,465 crore or 14.1 per cent) of allocation followed by Recreation, Culture and Religious Affairs (by 12.9 per cent), Housing (by 8.3 per cent) and Industrial and Economic Services (by 6.1 per cent). It is pertinent to strictly monitor to what extent the significantly lower commodity prices currently prevailing in the global market will be able to compensate for the reduction of allocation in order to allow for necessary expenditures.

It is pertinent to strictly monitor to what extent the significantly lower commodity prices currently prevailing in the global market will be able to compensate for the reduction of subsidy allocation in order to allow for necessary expenditures

Revenue Expenditure

According to the revised budget, Revenue expenditure[6] in FY2008-09 amounted to Tk. 66,269 crore. This is significantly (28.8 per cent) higher than the actual expenditure of FY2007-08 despite the fact that FY2007-08 experienced significant expenditure growth owing to higher prices at both domestic and international levels. Whilst the first stimulus package worth Tk. 3,400 crore may have influenced the growth in revised revenue expenditure observed in FY2008-09, it also needs to be kept in mind that economic classification of revenue expenditure does not include subsidies of Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (BPDB), etc. If these were taken into account as part of revenue expenditure, its growth of FY2008-09 would have been lower. Thus, the final figure for revenue expenditure in FY2008-09 may be lower owing to international prices declining further in the last few months of FY2008-09, leading to a reduced need for subsidies.

Final figure for revenue expenditure in FY2008-09 may be lower

The targeted amount of revenue expenditure for FY2009-10 is Tk. 72,979 crore which would be 10.1 per cent higher than the revised target of FY2008-09 (Table 2.3). Analysis of the composition of revenue expenditure indicates that for the three major heads (Pay and Allowances, Interest Payments, and Subsidies and Transfers) that account for about 80 per cent of the total revenue expenditure, the growth target that has been set is a relatively low 6.0 per cent, which was 27.4 per cent in the FY2008-09 revised budget. The lower growth projected for the current fiscal is mostly depicted on negative (-0.5 per cent) growth expectations with regard to Subsidies and Transfers, which posted 45.8 per cent positive growth in FY2008-09 (revised target). Growth target for Pay and Allowances is also set at a low level of 5.8 per cent (21.6 per cent in FY2008-09). However, Block Allocation is projected to go up nine-folds, to Tk. 4,288 crore, in view of the possible implications of the new pay-scale that was included in the budget for FY2009-10.

Table 2.3: Revenue Expenditure Targets for FY2009-10

Sector	Growth in FY09 (RB)	Growth Target for FY10	Share in FY09 (RB)	Share in FY10 (B)
Pay and Allowances	21.6	5.8	22.8	21.9
Goods and Services	34.2	-3.2	13.8	12.2
Interest Payments	6.8	18.7	20.1	21.7
Domestic	8.5	20.6	18.1	19.8
Foreign	-6.3	2.0	2.0	3.5
Subsidies and Current Transfers	45.8	-0.5	39.1	35.3
Block Allocation	-21.8	918.5	0.6	5.9
Acquisition of Assets and Works	66.6	-4.4	3.6	3.1
Total Augmented Non-Development Revenue Expenditure	28.8	10.1	100.0	100.0

Source: Budget documents FY2009-10.

The aforesaid three major heads combinedly will contribute about 48.3 per cent of the total growth in revenue expenditure. Block Allocation will be the top contributing item (57.6 per cent), whilst the contribution of Goods and Services will be a negative (-)4.4 per cent (Table 2.4).

[6]Refers to Total Augmented Non-Development Revenue Expenditure in this case. If the recoveries are deducted, total revenue expenditure of FY2008-09 comes to Tk. 65,051 crore. For FY2009-10, it will be Tk. 71,774 crore.

Table 2.4: Structure of Sources Contributing to Revenue Expenditure Growth: FY2008-09 and FY2009-10

Sector	Incremental Contribution in FY2009 (RB)	Incremental Contribution in FY2010 (B)
Pay and Allowances	18.1	13.2
Goods and Services	15.8	-4.4
Interest Payments	5.7	37.2
Subsidies and Current Transfers	54.8	-2.0
Block Allocation	-0.8	57.6
Acquisition of Assets and Works	6.4	-1.6

Source: Budget documents FY2009-10.

A worrying factor is that Interest Payments is set to rise by 18.7 per cent in FY2009-10, which was 6.8 per cent in FY2008-09. Domestic interest payments are expected to grow by 20.6 per cent, while foreign interest payments will rise by 2.0 per cent. This high growth in domestic interest payments is a reflection of the moderately high borrowing of the government from domestic sources in the recent past, to a certain degree originating from the less than expected flow of foreign financing in the form of grants and budgetary allocations.

Annual Development Programme (ADP)

ADP Implementation in FY2008-09: Initially, the size of the ADP for FY2008-09 was fixed at Tk. 25,600 crore (4.2 per cent of GDP). In view of the low level progress achieved during the first three quarters of the fiscal year, allocation in the revised ADP (RADP) was reduced to Tk. 23,000 crore (3.7 per cent of GDP). This marked a reduction by 10.16 per cent when compared to the original ADP[7] expenditure.

A realistic assumption to anticipate an actual ADP expenditure of around Tk. 19,500 crore

In the RADP of FY2008-09, major downward revision was made in the allocation of project aid, by Tk. 1,800 crore; local currency funding was reduced by Tk. 800 crore. In terms of sectoral allocations, Petroleum, Gas & Mineral sector (-75.26 per cent), Mass Communication (-39.28 per cent) and Social Welfare (-31.26 per cent) experienced the highest downward revision.

Till April of FY2008-09, project implementation status remained frustratingly low at 46 per cent and it would perhaps be a realistic assumption to anticipate an actual ADP expenditure of around Tk. 19,500 crore. It may be noted that Tk. 19,500 crore ADP will amount to around 3.2 per cent of GDP, lowest ever in the history of ADP implementation.

The New ADP of FY2009-10: The ADP of FY2009-10 has been targeted at Tk. 30,500 crore (4.4 per cent of the projected GDP). This will be 19.1 per cent higher than the original ADP of FY2008-09 and 32.6 per cent higher than the RADP FY2008-09. If the above mentioned projection of Tk. 19,500 crore ADP for FY2008-09 comes true, the targeted ADP of FY2009-10 will be 55 per cent higher. Such a significant increase in the size of ADP does not actually tally with the low level of investment projection for FY2009-10 since to achieve the projected GDP growth of 5.5 per cent, public investment would have to pave the way for higher private investments, in which case GDP growth should be expected to be higher.

Without the carryovers, or in other words if these 165 projects could be finished on schedule, the new ADP would have been worth Tk. 26,985 crore

In total, there are 886 projects in the ADP for FY2009-10. It is important to note that 165 of these projects, with a combined allocation of Tk. 3,515.9 crore (11.5 per cent of the total allocation of Tk. 30,500 crore), were scheduled to be completed by June 2009. Only 35 projects included in the ADP for FY2009-10 are new, with an allocation of Tk. 376 crore (1.2 per cent of total allocation). Without the carryovers, or in other words if these 165 projects could be finished on schedule, the new ADP would have been worth Tk. 26,985 crore.

[7] Actual ADP at the end of FY2008-09 stood at 3.2 per cent of GDP.

In FY2009-10, out of the total additional sectoral allocations of Tk. 4,054 crore (comparing to the original ADP of FY2008-09), increased allocations for unapproved projects account for Tk. 985.7 crore (3.2 per cent of total allocation) whilst block allocations account for Tk. 845.27 crore (2.7 per cent of total allocation).

Project aid component of the new ADP is targeted at 42.1 per cent (43.9 per cent in the original ADP of FY2008-09), while the local currency share is 57.9 per cent (56.1 per cent in the original ADP of FY2008-09). The five priority sectors, in terms of share in ADP allocation, are Transport, Education & Religion, Local Government, Infrastructure Planning, and Power (Electricity) (Table 2.5).

Table 2.5: Priority Sectors in the ADP of FY2009-10

Sector	Growth in FY09 (Original ADP)	Share FY09 (RADP)	Share FY10	Growth over RADP FY09
Transport	13.5	11.0	15.3	84.9
Education & Religion	13.8	14.1	13.6	27.8
Local Government	13.8	15.6	11.9	1.2
Infrastructure Planning	8.7	10.8	11.9	46.1
Power (Electricity)	13.7	11.6	11.7	33.5

Source: Implementation Monitoring and Evaluation Division (IMED).

It is observed from the historical trends in ADP implementation of the last ten years that the highest annual increase of 23.7 per cent in actual ADP was achieved in FY1999-00, while the lowest (-)13.2 per cent in FY2001-02 (averaging 5.8 per cent). Applying these figures over the projected actual ADP allocation of FY2008-09 (which is Tk. 19,500 crore), the best case scenario for FY2009-10 would be an actual ADP of about Tk. 24,000 crore (3.5 per cent of the targeted GDP), i.e. about Tk. 6,500 crore less than what has been conceived in the budget. On the other hand, an ADP of Tk. 20,800 crore (3.0 per cent of the targeted GDP and Tk. 9,700 crore less than the original) is a distinct possibility if one considers the average increase over the past ten years. It would take some serious and heroic efforts to realise an ADP that is tangible to the target.

The Finance Minister has set out a number of reforms for ADP implementation

In the budget FY2009-10, the Finance Minister has set out the following reforms for ADP implementation:

I. Reforming the project approval process which is currently time consuming and complex.
II. Amending the Public Procurement Act (PPA) and Public Procurement Rules (PPR) to reform the public procurement process.
III. Monitoring the efficiency and role of the Project Director.
IV. Ensuring intensive monitoring arrangement of 10 ministries earmarked for major allocation.
V. Using the Critical Path Method (CPM) to monitor some major projects.

In addition to these proposals, the government could consider the following suggestions to improve the ADP Implementation:

Action plans should be prepared by the respective project authorities

- Preparing project-wise action plans for timely completion of all the ongoing projects. These action plans should be prepared by the respective project authorities and approved by the head of their implementing agencies. As these projects have already been duly approved by the competent authorities, these action plans should not require any further approval;

- Funds allocated for local governments, upazilas, union parishads (UPs) in the ADP may be released upfront preferably in the first quarter of the fiscal year, so that these bodies can readily start for project implementation;

- Role of local government should be enhanced in the formulation, implementation and monitoring of development projects. Upazila authorities may be commissioned to prepare a local level development plan on the basis of a guideline to be provided by the Planning Commission;

Perhaps the adoption of the higher deficit is well justified

- Medium Term Budgetary Framework (MTBF) approach to budgeting should be fully implemented by all ministries. Line ministries which are already under MTBF should be empowered to allocate resources to different projects of their respective ministries, as long as such allocations are within the resource envelope provided by the Finance Division.

2.2.3 Budget Deficit and Financing

Revised budget for FY2008-09 estimates a deficit of Tk. 24,960 crore (4.1 per cent of GDP) for the fiscal year. This indicates 16.1 per cent growth of deficit in FY2008-09 over FY2007-08. As has been mentioned earlier, estimates of fiscal structure for FY2008-09 is likely to face significant adjustments in terms of both its earnings and expenditure dimensions. With the high possibility of the ADP not attaining its revised target, in the ultimate analysis, budget deficit for FY2008-09 is likely to stand much lower than the revised target.

Table 2.6: Deficit Financing in Revised Budget of FY2008-09 and Budget of FY2009-10

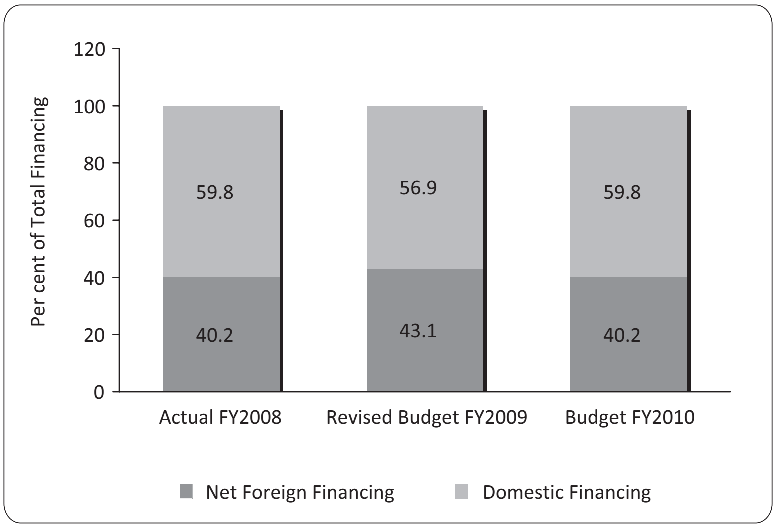
Financing Source	Revised Budget FY2009		Budget FY2010	
	Amount (Crore Tk.)	% Growth over FY08	Amount (Crore Tk.)	% Growth over FY09 (revised)
Domestic Financing	14198	10.5	20555	44.8
Non-Bank Borrowing	3500	38.6	3800	8.6
Bank Borrowing	10698	3.6	16755	56.6
Net Foreign Financing	10762	24.6	13803	28.3
Grant	4929	104.3	5130	4.1
Loan	10215	-3.6	13215	29.4
Amortisation	4382	0.2	4542	3.7
Gross Foreign Financing	15144	16.4	18345	21.1
Total Financing	24960	16.1	34358	37.7
Total Financing as % GDP	4.1		5.0	

Source: Budget documents FY2009-10.

Budget for FY2009-10 maintains a deficit of Tk. 34,358 crore, which will be equivalent to 5.0 per cent of GDP (Table 2.6). This indicates a resource shortfall that is substantially higher (by 37.7 per cent) compared to the revised budget of FY2008-09, and perhaps would be even higher when compared against the actual deficit of FY2008-09 (as and when the figures become available).

However, based on the anticipated global recovery, expected to commence in the second half of FY2009-10, coupled with the need to take advantage of the recovery process, and also in view of the need for guarding against the adverse impact of the ongoing crisis, perhaps the adoption of the higher deficit is well justified. In financing 59.8 per cent of the deficit, the budget for FY2009-10 is depending more on domestic sources as the major share, earmarked to be financed through bank and non-bank borrowings (Figure 2.4). Whilst 48.8 per cent of the deficit is programmed to be financed through bank borrowing (81.5 per cent of the domestic financing), non-bank borrowing will contribute 11.0 per cent (18.5 per cent of the domestic financing) (Figure 2.5). In the revised budget of FY2008-09, bank and non-bank borrowing provided 42.9 per cent and 14.0 per cent of the total financing respectively.

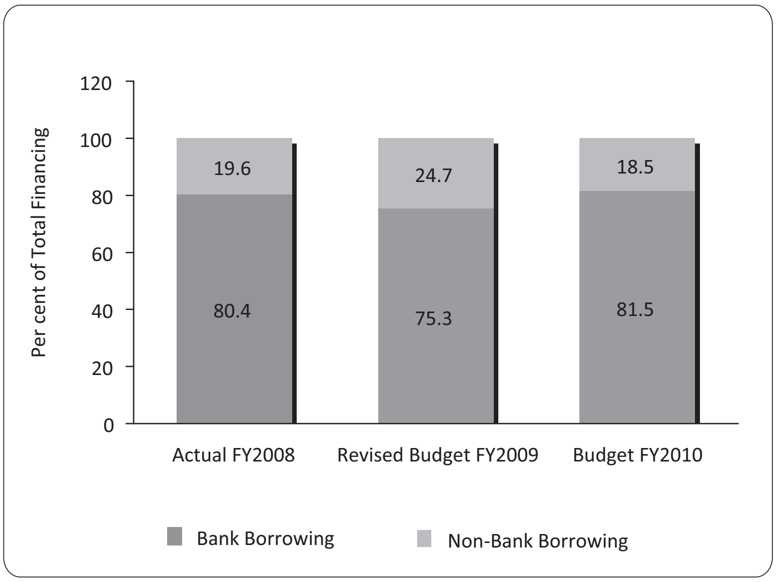
Figure 2.4: Sources of Deficit Financing



Source: Budget documents FY2009-10.

One important feature of the programmed financing structure is the high costs associated with foreign financing. In gross terms, Tk. 18,345 crore (about USD 2.6 billion) will be required in FY2009-10 which is about 21.1 per cent higher than the revised budget of FY2008-09. Net foreign financing requirement for FY2009-10 will be of Tk. 13,803 crore (about USD 2.0 billion), 28.3 per cent more than the revised budget of FY2008-09. It needs to be noted that foreign financing estimates for FY2008-09 in the revised budget are way above the recent trends (excluding FY2007-08 which was influenced by aid flow associated with consecutive natural disasters), and may not be realised in the end of the fiscal year. It may also be mentioned here that the foreign financing requirement of FY2009-10 is about 60 per cent higher than the actual inflow of FY2007-08, and if realised, this will mark the highest ever foreign aid inflow in a single year. Commensurate donor commitments with large budgetary support and appropriate strategies to improve implementation of ADP projects with aid component will be crucial in this context; otherwise, the entire scheme of ADP implementation will become doubtful. This might also cause an imbalance in the fiscal structure of FY2009-10 underwritten by higher borrowing requirement from the banking sources.

Figure 2.5: Sources of Domestic Financing



Source: Budget documents FY2009-10.

2.3 OVERVIEW OF FISCAL MEASURES

2.3.1 Tax and Duty Measures

Income tax slabs were kept at the previous levels with the general tax exemption limit remaining at Tk. 165,000

Direct Tax

Income Tax

Bangladesh has traditionally been more dependent on indirect rather than direct tax in the form of income tax for the purpose of revenue generation. In the face of falling revenue earnings from import particularly as a consequent of falling global commodity prices, the government had to renew its efforts to increase earnings from income tax. Income tax slabs were kept at the previous levels with the general tax exemption limit remaining at Tk. 165,000 (Table 2.7). The exemption limit for female and senior earners also remains unchanged at

Table 2.7: Income Tax Slabs

Rate	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Nil	75000	90000	100000	100000	120000	150000	165000*	165000**
10 per cent on next	150000	150000	200000	200000	250000	275000	275000	275000
15 per cent on next	150000	150000	250000	250000	300000	325000	325000	325000
20 per cent on next	250000	250000	350000	350000	350000	375000	375000	375000
25 per cent on balance	on balance amount	on balance amount	on balance amount	on balance amount	on balance amount	on balance amount	on balance amount	on balance amount
Minimum Tax	1200	1200	1500	1500	1800	2000	2000	2000

Source: http://www.riraproject.org.bd/income_tax.php
Note: * Subject to the condition that for female senior citizens over 70 years age and for handicapped taxpayers, tax exemption limit would be Tk. 180,000.
**Subject to the condition that in case of female senior citizens over 65 years age and for handicapped taxpayer, tax exemption limit would be Tk. 180,000.

Tk. 180,000, though the minimum age for senior citizens were lowered from 70 years to 65 years. This was done bearing in mind the current retirement age of government employees (57 years).

The ceiling for taxable income from agriculture was increased to Tk. 200,000 for male and Tk. 215,000 for female in FY2008-09. Continuation of this initiative needs to be appreciated.

Pensioners' Savings Certificate has been made tax-free for FY2009-10

Pensioners' Savings Certificate has been made tax-free for FY2009-10. This is a welcome proposition from the perspective of equity consideration.

Money Whitening Scheme

The government has proposed to accept undisclosed money without question, for the period of 1 July 2009 to 30 June 2012, with the condition that 10 per cent tax is paid on such income and that it be invested in certain government nominated sectors. This decision may have been taken in light of the adverse impact of global recession and the need for funds for investment purposes. However, such a scheme has been criticised on the ground of running counter to the principles of rewarding regular and conscientious taxpayers, and punishing tax evaders and people with undisclosed income. No distinction has been made between income earned legally and undisclosed, and income earned illegally and undisclosed. The provision for acceptance of undisclosed money up to 30 June 2012 is likely to encourage tax evaders to wait till the last minute and thus maximise the gains from this provision. Hence, actual benefit from this measure may not be seen till 2012. The list of industries getting this benefit is rather long and of general nature. This list ought to have included a few selected thrust sectors, such as infrastructure, agro-processing and capital market.[8]

No distinction has been made between income earned legally and undisclosed, and income earned illegally and undisclosed

Corporate Taxes and Investment Issues

The budget specifically mentions discontinuing the provision of the tax holiday schemes beyond 2012. Instead, to help industrialisation and entrepreneurship, spatial rates have been introduced for industries operating outside Dhaka and Chittagong Division. Newly established industries in Dhaka and Chittagong (barring Rangamati, Bandarban and Khagrachhari districts) will enjoy concessionary tax rates of 5 per cent for the first and second year, 10 per cent for the third and fourth year, and 15 per cent for the fifth year. In Rajshahi, Khulna, Sylhet and Barisal Divisions, and Rangamati, Bandarban and Khagrachhari districts of Chittagong Division these tax rates will be 5 per cent for the first, second and third year, 10 per cent for the fourth, fifth and sixth year and 15 per cent for the seventh year.

The budget specifically mentions discontinuing the provision of the tax holiday schemes beyond 2012

The corporate tax rate, unchanged in recent years, has now been reduced for mobile phone operators to 35 per cent provided that they are listed in the stock exchange as publicly traded companies, and at least 10 per cent share of the company's paid up capital is transferred (of which Pre Initial Public Offering Placement cannot exceed 5 per cent). Although a similar initiative was proposed in the budget for FY2008-09, there has not been much progress as yet. Only one company (Grameenphone) is in the process of offloading its share in the share market. However, it is hoped that continuation of this facility should encourage participation of others in the capital market.

[8]After much debate on the "money whitening scheme" the government subsequently decided to allow legalisation of undisclosed money only for FY2009-10. As of 30 June 2009, undisclosed money will be allowed to be whitened from July 2009 to June 2010 instead of 2012; however, the investment period and other relevant information such as employment projection from such investment along with the source of money will need to be disclosed at the initial stages.

The tax rates for deductions of income tax at source against capital gain from the sale of land within the areas under city corporations, municipalities and cantonment boards have been reduced to 2 per cent from 5 per cent; for other areas where the price of non-agricultural land exceeds Tk. 1 lakh, the rate will be slashed to 1 per cent from the existing 5 per cent.

To generate more revenue from income tax, in recent years there have been renewed efforts to widen the tax net through various initiatives, such as computerising the existing revenue administration and setting up of large taxpayer units (LTU) in all districts for facilitating the process of tax payment.

With a view to containing price increase of essential commodities, promoting local industries and increasing agricultural production, a number of initiatives were undertaken including tax reductions

Sectoral Fiscal Measures

With a view to containing price increase of essential commodities, promoting local industries and increasing agricultural production, a number of initiatives were undertaken including tax reductions. Some of these are as follows:

Change in Tariff Structure and its Impact on Revenue Earnings

As mentioned earlier, the government has introduced a number of changes in the tariff structure in the FY2009-10 budget. Import duties have been raised, in some cases to protect domestic industries, and in other cases to augment revenue earnings. Government's decision to reduce customs duty (CD) on basic raw materials from 7 per cent to 5 per cent was intended to reduce cost of production. However, this was likely to have an impact on import duty earnings for 774 items defined at HS 8 digit level, depending on elasticity of demand for these items. The estimate for loss due to this is about Tk. 383 crore in government revenue earnings. Changes in CD, supplementary duty (SD), VAT, advance trade VAT (ATV) and imposition of regulatory duties will have a significant impact on revenue earnings from import. NBR estimate shows that with the proposed changes in CD alone, the government will have additional revenue earnings of about 9 per cent.

A CPD analysis estimates that if FY2007-08 import value is taken as the base year, and FY2009-10 tariff structure is applied on that (import value), government revenue earnings will amount to Tk. 19,818 crore, an increase of Tk. 1,060 core (5.65 per cent) over FY2007-08.

Even by slashing CD on raw materials from 7 per cent to 5 per cent, the government would be able to augment revenue earnings from imports significantly by increasing the duties on finished goods and other items

However, if the Medium Term Macroeconomic Framework (MTMF) import growth of FY2008-09 and FY2009-10 is taken into consideration (import growth is estimated to be 13 per cent for both FY2008-09 and FY2009-10), then total revenue earnings from imports would amount to Tk. 25,305 crore, a significant increase on the import revenue earnings when compared to FY2007-08 (27.5 per cent) and FY2008-09 (12.3 per cent). CPD estimates project FY2008-09 import-related revenue earnings to be around Tk. 21,196 crore. The estimated FY2009-10 import-related revenue collection would be 19.4 per cent higher than that of the projected FY2008-09 duty collected from import. However, it is of interest to note that if FY2009-10 tariff structure is applied on FY2008-09 import value, then total import duty comes to about Tk. 22,394 crore, an increase of Tk. 1,198 crore or 5.65 per cent of FY2008-09. This means, even by slashing CD on raw materials from 7 per cent to 5 per cent, the government would be able to augment revenue earnings from imports significantly by increasing the duties on finished goods and other items. It should be noted here that while estimating revenue earnings, the CPD projection took into cognisance Total Tax Incidence (TTI).[9]

[9]However, the government has changed tariff rates on some items when the budget was passed at the National Parliament on 30 June 2009, which would result in the estimates being somewhat different, albeit not to any significant degree.

The present government has been careful not to change the tariff structure in a manner that creates disincentive to domestic producers. Government's decision to increase the ATV from existing 1.5 per cent to 2.25 per cent did not provide significant advantage to importers of basic raw materials. CPD estimates show that when CD changes to 5 per cent from 7 per cent (with ATV remaining 0), the TTI decreases by about (-) 2 per cent. This has been done to safeguard the interest of the producers of finished goods who use imported raw materials as inputs for their final products. However, the incentive is rather low for importers of yarn of combed wool in which case ATV was raised to 2.25 per cent from the existing 1.5 per cent, with CD remaining at 5 per cent, as a result the TTI decreased by (-)1.47 per cent. The government's proposition to raise the SD on luxury items has been done purely from revenue earnings perspective. As is seen from Table 2.8 increase in TTI ranges from 30 per cent to 60 per cent, and even more. However, total impact on import duties will also hinge on the elasticity of demand for these items.

Table 2.8: Simulation with Proposed Changes in Tariff Structure

Change in Tariff Structure	CD	SD	VAT	ATV	AIT*	TTI	Change in TTI and Impact on Revenue Earnings
CD decreased from 7% to 5%, ATV increased from 1.5% to 2.25% (yarn of combed wool)							
Old	7.00	0.00	16.05	1.77	3.00	27.82	-1.47
New	5.00	0.00	15.75	2.60	3.00	26.35	
CD decreased from 3% to 0%, ATV increased from 1.5% to 2.25% (solar panel)							
Old	3.00	0.00	15.45	1.70	3.00	23.15	-2.67
New	0.00	0.00	15.00	2.48	3.00	20.48	
SD increased from 20% to 60% (air conditioner)							
Old	25.00	25.00	22.50	2.48	3.00	77.98	59.98
New	25.00	75.00	30.00	4.95	3.00	137.95	

Source: CPD estimates based on NBR and budget document.
Note: *AIT: Advance Income Tax.

Agriculture

The budget has proposed to continue with the zero tariff on imports of fertiliser, seeds and major foodgrains

In order to attain food autarky and increase crop production the government has declared agriculture as the top priority sector. The budget has proposed to continue with the zero tariff on imports of fertiliser, seeds and major foodgrains. However, CPD's suggestion to impose 15 per cent duty on rice imports to safeguard the interest of the rice farmers (by discouraging rice import) was not reflected in the budget.

The government has proposed to impose 12 per cent CD on imports of milk powder to protect the local industry in conjunction with VAT relief on local production.[10] To protect the interest of the domestic dairy industries, budget of FY2009-10 proposed to withdraw 2.5 per cent SD applicable on the processing of liquid milk to convert into powdered milk. Moreover, the budget has proposed to fix tariff value for powder milk at Tk. 100/kg. This would result in only Tk. 15/kg as VAT instead of current Tk. 50/kg.

Industry

5 per cent regulatory duty only on luxury and health hazardous items falling under the 25 per cent slab of CD has been proposed

As mentioned earlier, with a view to reduce the cost of production and help exporters, the government has changed the tariff structure for raw materials. In addition to the changes made on CD and SD, the government for the first time, has introduced regulatory duty in the tariff slabs. The FY2009-10 budget proposes to impose 5 per cent regulatory duty only on luxury and health hazardous items falling under the 25 per cent slab of CD. Some of these items may include fully-automatic washing machine, microwave ovens, motor vehicles, TV, cigarettes,

[10]VAT on bulk import of powdered milk was fixed at 2.5 per cent as of 30 June 2009.

etc. The budget has also proposed to raise the SD on luxury vehicles although the extent of such increase is yet to be mentioned.

The government's proposal to impose 20 per cent SD on particle board, hard board, medium density fibre board, plywood, leather goods, etc., and to raise the SD to 45 per cent from existing 20 per cent on footwear, ceramic items, table ware and sanitary ware to offer protection to these local industries, is a positive move. This initiative will provide local industries with some protection from foreign competition whilst perhaps leading to some increase in import revenue earnings. Similar initiatives were also taken as regards to the protection of local liquid glucose and dextrose producing plants (20 per cent SD imposition) and biscuit factories (SD increased to 100 per cent from 60 per cent). Additionally, in order to overcome the slump in the registration of ocean-going vessels, the current budget proposes to withdraw the 7 per cent CD on 3,000 metric tonnes (MT) or more vessels. To help the local manufacturers of refrigerators and motorcycles the government has proposed to exempt these industries from VAT for a period of one year.

To help the local manufacturers of refrigerators and motorcycles the government has proposed to exempt these industries from VAT for a period of one year

Information and Communication Technology (ICT)

The government's proposal to introduce 25 per cent CD on mobile sets instead of Tk. 300/set specific duty, and elimination of all kinds of SD, VAT and AIT will entail higher duty on high priced sets and lower duty on lower-end products. However, this decision could encourage smuggling of handsets, which in turn may reduce government earnings.[11]

Power and Energy

In view of energy shortfall, government's decision, in line with proposal submitted by the CPD and others, to withdraw renewal fees for captive power plants (CPP) coupled with abolition of the 3 per cent CD on solar panel, and withdrawal of VAT on domestic power generation and domestically assembled generators, is an encouraging initiative. However, increasing the ATV from 1.5 per cent to 2.25 per cent will somewhat undermine the advantages to be accrued from this initiative. SD on air conditioners was increased from 20 per cent to 60 per cent and a 45 per cent SD was imposed on AC parts.

Withdraw renewal fees for CPPs coupled with abolition of the 3 per cent CD on solar panel, and withdrawal of VAT on domestic power generation and domestically assembled generators, is an encouraging initiative

2.4 PUBLIC-PRIVATE PARTNERSHIP

The budget for the FY2009-10 has introduced the concept of PPP as a potential mechanism for generating additional resources for investment. Whilst a PPP component in the budget is a novel one, the type of collaboration envisaged under the PPP is already proactive in areas such as infrastructure building, particularly in power generation through independent power producers (IPP). However, this is the first time that budgetary allocation has been made regarding this initiative.

This is the first time that budgetary allocation has been made regarding PPP initiative

Inadequate infrastructural services, particularly power and communication, remains a major constraint in attracting investments in Bangladesh, both domestic and foreign. Historically, it has been the primary responsibility of the public sector to finance and develop infrastructure projects through budgetary allocations. However, ever increasing demand for infrastructural facilities in the backdrop of inadequate investible resources has motivated governments across

[11] However, as of 30 June 2009 the import duty on mobile phones has been reduced to a flat 12 per cent from 25 per cent, irrespective of their price.

the world to turn to the private sector to provide financial resources, adopt innovative practices and access technical expertise over the past couple of decades. Currently over 30 countries around the globe have such initiatives in place, including a number of emerging economies (e.g. China, India, Brazil, South Africa and Chile).

Tk. 2,500 crore (USD 300 million) has been allocated for PPP projects

Allocations

A total of Tk. 2,500 crore (USD 300 million) has been allocated for PPP projects (2.2 per cent of the total budget). The PPP budget was allocated under three heads: (i) Infrastructure Investment Fund allocated for loan and equity participation in PPP projects received the bulk of the funds with Tk. 2,100 crore; (ii) Viability Gap Fund (VGF) which is intended for providing subsidy to any project "which is risky but essential" received Tk. 300 crore; and (iii) Technical Feasibility Fund for undertaking various studies was allocated Tk. 100 crore. The government has also mentioned future plans to raise funds under PPP, including Bangladesh Infrastructure Investment Fund (BIIF), which may be used for private sector infrastructure development. Other future plans include transforming loan to tradable debt securities through securitisation. These securities can be traded to mobilise funds (fund mobilisation through Jamuna Bridge and Padma Bridge securitisation has been mentioned).

Sectors Identified for PPP

A number of mega projects have been placed under the new PPP initiative; all of these relate to the transport and power sectors

Many countries have tended to go for PPP in transport-related infrastructure projects and Bangladesh is no exception. Until now, a number of mega projects have been placed under the new PPP initiative; all of these relate to the transport and power sectors. The power and energy sector and the transport infrastructure (roads, rail, ports, airport and water transport) sector have been identified as priority sectors with seven mega projects being targeted for investment (one project at an estimated expenditure of USD 1.8 billion and six projects at USD 25.9 billion belonging to the two sectors respectively). Health, education and transportation were also identified as possible areas for short-term projects. Bus Rapid Transit, Articulated Bus Service and Bus Route Franchise projects were proposed in the transportation sector with an estimated expenditure of USD 3.6 million. Setting up of quality secondary schools, dormitories, health centres, auditoriums, gymnasiums in public universities, development, expansion or improvement of degree colleges and setting up of research institutions or research foundations were the proposed areas for the education sector. Setting up of cancer and other hospitals were mentioned as possible areas in the health sector.

Implementation Challenges for PPP

A number of critical questions must be addressed with regard to implementation of the PPP

In addition to the broad issues mentioned above, a number of critical questions must be addressed with regard to implementation of the PPP.

- How will the ongoing projects under the PPP approach be integrated with the newly developed legal and institutional framework? At present, 64 projects are being implemented under Infrastructure Development Company Ltd. (IDCOL), Investment Promotion and Financing Facility (IPFF) and Infrastructure Investment Facilitation Center (IIFC). Management of these projects has to be vested in the new PPP set-up.

- The projected PPP led investment is more than double the amount allocated for ADP; the gap between the two may widen further in case of successful implementation of the PPP plan in the medium term. Considering the sluggish

ADP utilisation record of the recent past, it remains to be seen whether it will be used deliberately as an alternative mechanism to ease pressure on the ADP as an instrument to deliver energy, infrastructure and social services.

- What will be the desired model(s) to be followed for the new PPP initiatives? PPP can follow one or all of the existing models based on the type of the project - Build-Own-Operate (BOO), Build-Operate-Transfer (BOT) and Build-Own-Operate-Transfer (BOOT). The guideline on how a specific framework would be suggested for a particular project will be critical to the success of the PPP approach.

Will PPA 2006 and PPR 2008 be applicable for PPP projects?

- The question with regard to acquiring land is an important one, particularly in case of big projects such as monorail and elevated express highway. Necessary laws have to be formulated and enacted in this regard. Nevertheless, two key questions remain: What would be the guideline for determining the price of the procured land? Will PPA 2006 and PPR 2008 be applicable for PPP projects?

What should be the tax incentives for PPP initiatives?

- What should be the tax incentives for PPP initiatives? Should there be a provision for differential fiscal treatment among the PPP projects? The position paper on PPP has proposed three sets of tax incentives - firstly, tax exemption to be given or minimum tax rate to be imposed on the amount invested; secondly, import tax at the lowest rate to be granted to capital items for PPP projects; and thirdly, profit from operating/managing to be taxed at the lowest rate for a specific time period. It is a pre-requisite for these proposed fiscal incentives to be harmonised with the incentives granted to other foreign direct investment (FDI) and export-oriented investments in order to not discriminate against other domestic investors.

- What would be the pricing formula for the products of PPP projects? This could be one of the decisive factors. Transparency and technical capacity will be the key for a win-win outcome with regard to pricing of the products.

What would be the pricing formula for the products of PPP projects?

- Will PPP act as a major incentive for FDI? Despite a number of incentives being offered, FDI inflow in Bangladesh has not been promising compared to some of her neighbours in the region. It is also pertinent to determine, whether provision for FDI-plus incentives will be kept for a PPP project involving FDI, in contrast to other PPP or FDI proposals.

- The financing of a PPP project will be the centre of negotiation. Can PPP projects be donor funded? Will the donor fund be treated as a loan to government or will it be based on a three-party agreement? Can capital market or foreign commercial loans be considered for PPP? Will stock market listing be obligatory?

- When allowed in social sectors, including health and education, how will the access cost for the users be determined in these projects? Will public finance be used for private profit here?

Can PPP projects be donor funded?

The government may be expected to face a number of challenges in implementing the PPP. The effective staffing and institutional support for the proposed PPP cell will be a strategic issue. The government will need to attract global infrastructure funds and encourage them to participate in PPP projects in Bangladesh. India began their PPP programme in earnest only in 2007, and has already made commendable progress in this context. India was proactive in taking support from the World Bank and the Asian Development Bank (ADB) to develop their PPP capabilities, and if the government of Bangladesh follows the same paths with private sector expertise, there is no reason for not being able to make similar tangible progress, as the Indian case illustrates, over the next fiscal.

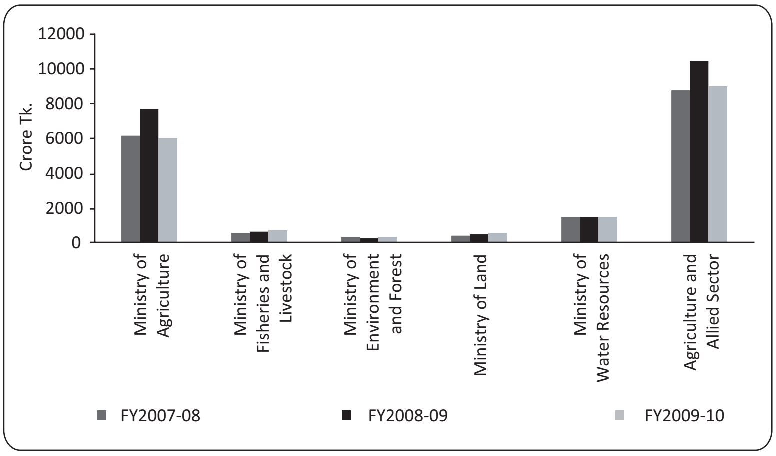
2.5 SECTORAL MEASURES

2.5.1 Agriculture

Allocation for Agriculture and Allied Sectors

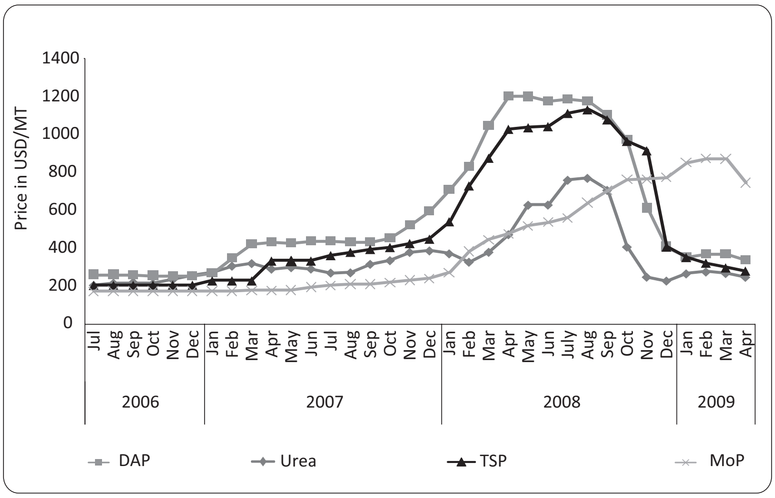
Proposed allocation for the Ministry of Agriculture (MoA) in FY2009-10 (Tk. 5,965 crore) is 22.0 per cent lower than the allocation in the revised budget of FY2008-09 (Tk. 7,643 crore) and 9.2 per cent lower than proposed budget of FY2008-09 (Tk. 6,566 crore). When compared to the revised budget of FY2007-08 (Tk. 6,100 crore), it is 2.2 per cent lower than that (Figure 2.6). On the other hand, allocation for Ministry of Fisheries and Livestock, Ministry of Environment and Forest, and Ministry of Land in FY2009-10, compared to revised budget of FY2008-09 have increased by Tk. 114 crore (18.9 per cent), Tk. 28 crore (11.2 per cent) and Tk. 75 crore (17.3 per cent) respectively. Allocation for the Ministry of Water Resources in FY2009-10 is Tk. 1,483 crore which is somewhat (Tk. 4 crore) lower than that of the revised budget in FY2008-09. Total allocation for the agriculture and allied sectors (crop, livestock, fisheries, forestry, land, and water resources) amounting to Tk. 8,950 crore in FY2009-10 is 14.1 per cent lower than that of the revised budget of FY2008-09, and 3.5 per cent lower than that of the proposed budget of FY2008-09. Total ADP allocation for agriculture in FY2009-10 is Tk. 1,697.62 crore which is 8.86 per cent lower than that of FY2008-09. Thus, it appears that public investment for agricultural development was actually reduced even though it is highlighted as one of the prime sectors in the election pledges of the new government.

Figure 2.6: Total Budget (Development and Non-development) Allocation to the Agriculture and Allied Sectors



Source: Budget document.

Figure 2.7: International Price of Fertilisers (Urea, DAP, TSP and MoP): July 2006 – April 2009



Source: Commodity Market Review, World Bank.

Subsidy for Fertiliser

Amount of subsidy for fertiliser and agricultural inputs was reduced to Tk. 3,600 crore in FY2009-10, from Tk. 5,785 crore in the revised budget of FY2008-09. Between July 2008 and April 2009, international prices of urea, triple super phosphate (TSP) and and diammonium potash (DAP) decreased by 67 per cent, 75 per cent and 72 per cent respectively (down to USD 245, USD 278 and USD 335 per MT in April 2009). On the other hand, price of muriate of potash (MoP), in this period, increased by 33 per cent

(USD 745 per MT in April 2009) (Figure 2.7). Thus, after rapid and high escalation of prices of urea, TSP DAP in 2007 and 2008, prices are now reversing back to the trends of 2006. If the current international prices continue, then allocated amount for subsidy will be adequate to supply more than the planned amount of fertiliser distribution, even with further downward adjustment of fertiliser prices.

The current administered price of TSP, MoP and DAP is fixed at Tk. 40, Tk. 35 and Tk. 45 per kg respectively. If the current international market price prevails and the government does not change the administered prices of fertilisers, then sale of TSP and DAP will bring some profit to the government whilst there will be a need to provide subsidy for imported urea and MoP. In this case, the government will need to spend about Tk. 1,069 crore in FY2009-10 as fertiliser subsidy (for planned supply of urea: 29.51 lakh MT, TSP: 6.70 lakh MT, MoP: 2.63 lakh MT). On the other hand, if the government spends Tk. 2,836 crore as fertiliser subsidy from the allocated fertiliser and input subsidy, then it would be possible to further reduce the administered prices of TSP and DAP to Tk. 30 (from the existing Tk. 40 per kg of TSP and Tk. 45 per kg of DAP), and to supply adequate amount of fertilisers to farmers (urea: 35 lakh MT, TSP: 6.70 lakh MT, DAP: 2.63 lakh MT and MoP: 5.0 lakh MT).

If the current international prices continue, then allocated amount for subsidy will be adequate to supply more than the planned amount of fertiliser distribution, even with further downward adjustment of fertiliser prices

Irrigation and Drainage Projects in the South and South-Western Region

In order to increase food production, the budget has planned several initiatives such as expansion of irrigation facility using surface water in the southern region, addressing water logging in the south-western region, expanding cultivable land by improving drainage system in the *haor* areas and creating opportunities for multiple-cropping. Proposed allocation for irrigation and drainage projects in FY2009-10 is Tk. 4,000 crore. This is a most welcome initiative which will directly benefit the farmers of the southern and south-western regions, and consequently the country's nutritional status will be benefited through increased production of agricultural commodities.

Proposed allocation for irrigation and drainage projects is a welcome initiative

The budget has also proposed to establish flood-free areas (40,000 hectares) and expanding irrigation facilities (15,000 hectares) in other regions, and excavation and re-excavation of irrigation canal, construction and repair of irrigation infrastructures. These initiatives are necessary and thus commendable.

Fund for Seed Production

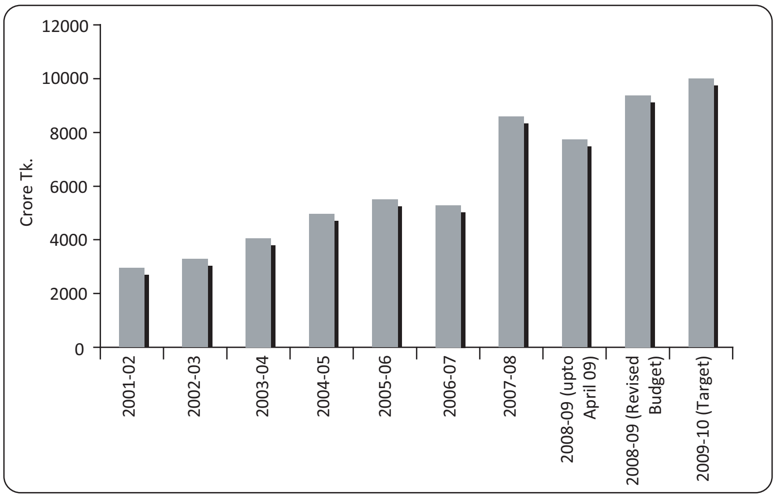
Proposed budget has allocated Tk. 280 crore for production of high-yielding variety (HYV) seeds, which will be implemented by Bangladesh Agricultural Development Corporation (BADC) and Department of Agricultural Extension (DAE). Seed storage capacity will be increased from 40,000 MT to 100,000 MT. CPD considers these to be encouraging initiatives. Currently, private sector and non-government organisations (NGO) are engaged in production and marketing of high-yielding variety (HYV) seeds and hybrid seeds, which are constrained by availability of breeders' seed of latest released varieties. It will be beneficial for rapid expansion of latest HYVs if the allocated amount is also spent for production of breeders' seed and provided to the interested private companies and NGOs at subsidised rate for subsequent production of Truthful Level seed.

Seed storage capacity will be increased from 40,000 MT to 100,000 MT

Agricultural Research

In the budget of FY2009-10, Tk. 185.21 crore has been allocated for agricultural research and rehabilitation assistance. However, the issues of how much of this will be for agricultural research or for the rehabilitation assistance has not been clearly demarcated.

Figure 2.8: Trend of Agricultural Credit Disbursement



Source: Budget documents.

Agriculture Credit

Target for disbursement of agricultural credit has been increased from Tk. 9,379 crore in the revised budget for FY2008-09 to Tk. 10,000 crore in FY2009-10 (6.62 per cent higher). It is to be noted that actual disbursement (Tk. 7,729.09 crore) of agriculture credit upto April 2009 was 82.4 per cent of the target in FY2008-09 (Figure 2.8). This is a realistic target.

Foodgrain Procurement

The budget has mentioned target for internal procurement of Boro rice in FY2009-10 as 16 lakh MT. It is an action in the right direction. However, setting the target and declaring a reasonable price is not adequate to ensure that farmers are able to receive this price. This year government has decided to procure 12.5 lakh MT of rice (11 lakh MT of rice and 1.5 lakh MT of paddy) at the price of Tk. 14 per kg of paddy and Tk. 22 per kg of rice. Unfortunately, farm-level price of paddy and rice are much lower than the declared price as well as cost of production. It was necessary to spell out some mechanism for appropriate implementation of this proposal.

Setting the target and declaring a reasonable price is not adequate to ensure that farmers are able to receive this price

Initiatives to Establish Godowns

The budget has mentioned initiatives to establish 137 new godowns in northern region (with total storage capacity of 1.1 lakh MT) and 333 godowns all over the country (with total storage capacity of 2.54 lakh MT). Besides, repair and maintenance of old and damaged godowns will be continued in the budget FY2009-10. These are necessary initiatives. Establishment of new storage capacity for food was put forward by CPD through its budget recommendations submitted to the Finance Minister.

Livestock and Fisheries

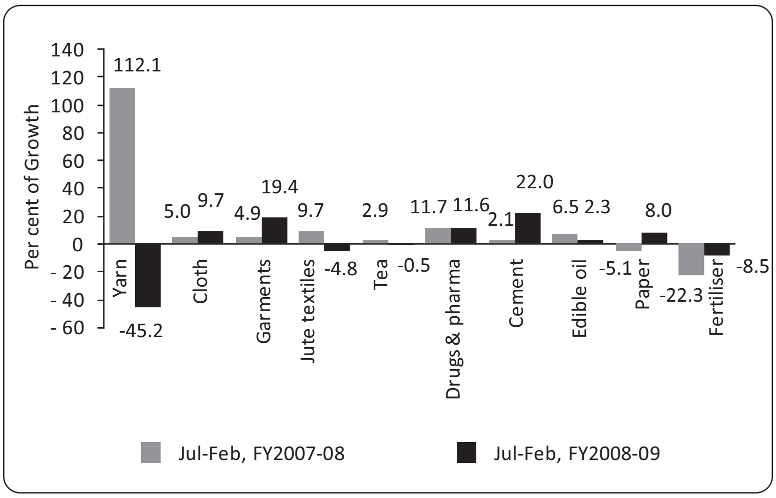
For the development of poultry and livestock the government is continuing its programmes on production and supply of vaccine for cattle and poultry, and supply of pullet and duckling at reduced price. Moreover, the government has planned to establish farms for lambs and buffaloes, and to provide incentives to 12,000 farmers for increasing milk and meat production. Besides, quality control management system would be strengthened starting from production point to consumer's end.

Establishment of a Broodstock Bank is essential for production of quality fingerlings

To enhance fisheries development, programmes such as prevention of *"jatka"* netting, creation of sanctuaries to protect the local variety of the species, community-based fisheries management in water bodies and flood plains, and microcredit programmes designed to generate alternative employment have been undertaken. Establishment of a Broodstock Bank is essential for production of quality fingerlings. The Finance Minister may consider this for inclusion in the budget.

2.5.2 Industry

Figure 2.9: Changes in Production of Selected Industries



Source: Bangladesh Bureau of Statistics (BBS).

Industrial sector has experienced a number of changes and challenges in FY2008-09. Low level growth of industrial sector (5.92 per cent in FY2008-09) and low investment-GDP ratio (24.2 per cent) had been major features of FY2008-09 in this context, which runs parallel with the performance in recent years. FY2008-09 performance also faced the adverse consequences of the global financial crisis on Bangladesh economy particularly on production, export and employment in major industrial sectors (Figure 2.9). In view of this, the national budget 2009-10 had to address the added challenge of undertaking fiscal measures and budgetary support to provide the required stimulus to industrial production, exports and generation of employment opportunities, which could revitalise industrial growth in FY2009-10. The budget for FY2009-10 should also be seen as an important document to implement the industrial policy recently adopted by the government.

Support to Domestic Industries

Reduction/increase of CD, SD and VAT is likely to raise effective rate of protection for domestic industries

In view of the global economic slowdown, sustaining the growth of domestic market-oriented industries through necessary fiscal and budgetary support were perceived to be major policy plank in the budget for FY2009-10 (the budget projected a growth of 6 to 6.5 per cent for the industrial sector). The FY2009-10 budget has proposed reduction/increase of CD, SD and VAT for various imported raw materials, intermediate products and finished products, which is likely to raise effective rate of protection for domestic industries. However, these changes would perhaps have insignificant impact on TTI - the estimates carried out by CPD indicate a reduction of (-)1.5 per cent.[12] In view of the proposed changes, industries such as footwear, ceramic, tiles, tableware, sanitaryware and other ceramic items, liquid glucose, dextrose and other pharmaceutical products, and hard board would be benefited. Government has proposed to raise SD for a number of imported materials such as particle board, hard board, medium density fibre board, plywood, leather goods, mosquito coil, imitation jewelry, corrugated cartoons and tooth brush. These initiatives were expected to be helpful to import-substituting industries.

Domestic manufacturers of refrigerators and motorcycles were expected to be beneficiary with the withdrawal of VAT

Domestic manufacturers of refrigerators and motorcycles were expected to be beneficiary; thanks to withdrawal of VAT over these industries. The budget has proposed withdrawal of VAT on aluminum, bidi, unani, herbal and *ayurvedic*, glass sheets, furniture and machine made biscuits which would help local industries. However, domestic TV assembling industries are likely to be adversely affected because of the proposed same duty (25 per cent for items like loaded PCB (picture circuit board)) for both commercial and industrial import.

[12]For details see Section 2.3. The Finance Bill for FY2009-10, however, was approved with a number of changes relating to duties on raw materials. Import duty on industrial salt was reduced to 5 per cent from 15 per cent; similarly, duty on import of dextrose-hydrose has been waived. Besides, VAT on bulk import of powdered milk was fixed at 2.5 per cent. The VAT on cigarette was increased to 28 per cent from the proposed 23 per cent. Import duty on raw materials for electric cables was fixed at 5 per cent.

Stimulus Package

A second package was announced with an allocation of Tk. 5,000 crore

The government announced a special package of Tk. 3,424 crore for FY2008-09 targeting industries which were affected by the global financial crisis. A second package was announced at the time of budget for FY2009-10 with an allocation of Tk. 5,000 crore (Table 2.9). However, details of this block allocation were not spelt out in the budget document. It appears that disbursement of this fund for FY2009-10 will be based on the guidelines for the stimulus package announced earlier (FY2008-09).[13]

As part of this package, adversely affected export-oriented industries such as jute goods, leather and leather products, frozen foods and shrimp were selected for

Table 2.9: Stimulus Package for Industrial Enterprises: FY2008-09 and FY2009-10

Indicator	Item	Before Announcement of Stimulus Package, April 2009	Stimulus Package	
			FY2008-09	FY2009-10
Total package			Tk. 3424 crore	Tk. 5000 crore
Fiscal support to selected sectors				
Jute	Export incentive	7.5%	10.0%	10.0%
Leather and leather products	Export incentive	15.0%	17.5%	17.5%
Shrimp and other fish products	Export incentive	10.0%	12.5%	12.5%
Local fabrics	Export incentive	5.0%	5.0%	5.0%
Product made of hoogla, straw, coir of sugarcane	Export incentive	15.0-20.0%	15.0-20.0%	15.0-20.0%
Agri and agri-processed products including vegetables & fruits	Export incentive	20.0%	20.0%	20.0%
Tobacco	Export incentive	10.0%	10.0%	10.0%
Potato	Export incentive	10.0%	10.0%	10.0%
Bicycle	Export incentive	15.0%	15.0%	15.0%
Crushed bone	Export incentive	15.0%	15.0%	15.0%
Hatching eggs and day-old chicks	Export incentive	15.0%	15.0%	15.0%
Light engineering products	Export incentive	10.0%	10.0%	10.0%
Liquid glucose (only for EPZ area)	Export incentive	20.0%	20.0%	20.0%
Halal meat	Export incentive	20.0%	20.0%	20.0%
Budgetary and policy support				
SME fund	Increase allocation by Tk. 100 crore	Tk. 500 crore	Tk. 600 crore	-
IPFF			Tk. 400 crore	-
Equity capital		Tk. 300 crore	Tk. 300 crore	Tk. 100 crore (ICT)
Export development fund	Credit limit increased from USD 1 million to USD 1.5 million	USD 100 million	USD 150 million	-
Export credit facility	Coverage of concessional rate (7%) Expansion of repayment period	Not for all export products	All export products 120 days	All export products 120 days
Rationing support for garment workers			Available	Available
Mode of payment of cash subsidy			Instant payment of 70% of subsidy	Instant payment of 70% of subsidy

Source: Finance Division.

[13] In the budget dialogue organised by the CPD on 20 June 2009, Finance Minister mentioned that the earlier disbursement modalities will be followed in the FY2009-10.

additional support (to the tune of 2.5 per cent in addition to existing subsidies ranging from 10-15 per cent). Backward linkage textile, bicycle, light engineering products, agro processing, which are already receiving cash incentive will continue to receive such financial support. Besides, the government has announced several policy measures in support of export-oriented industries in the form of timely disbursement of cash incentive, increased allocation under export development fund, expansion of export credit to all sectors at a reduced rate (7 per cent), and rationing support for garment workers. Such initiatives would cushion additional cost burden for the affected industries.

The government has announced several policy measures in support of export-oriented industries

Government has announced special financing schemes in the stimulus package for FY2008-09 to stimulate investment and economic activities. These included IPFF worth Tk. 400 crore, SME fund of Tk. 600 crore, house building fund of Tk. 500 crore, and Equity Entrepreneurship Fund (EEF) of Tk. 300 crore. However, a large part of these funds has remained unutilised which would be available for use in FY2009-10.

CPD in its budget proposal had also suggested for establishment of a number of funds in support of technical and operational efficiency in different sectors, and for improving the quality of products. The proposal include Technology Upgradation Fund to promote and support industrial upgradation in major industries, Cluster Development Fund for development of cluster-based industrial areas in different parts of the country and funds for taking preventive actions against bacterial infection on shrimps for curative measures at the level of shrimp production. Government should consider establishment of these funds under the ADP of FY2009-10.

A large part of these funds has remained unutilised which would be available for use in FY2009-10

2.5.3 Small and Medium Enterprise (SME) Development

Increased allocation for SME sector and their appropriate utilisation will be critical to attaining the target level of growth of industrial sector in FY2009-10. Budget FY2009-10 has proposed establishment of three funds with a seed money of Tk. 1,000 crore to provide refinancing facilities to SMEs through commercial banks and financial institutions. As part of the stimulus package, an additional allocation of Tk. 100 crore will be disbursed through the "SME Fund" which will increase overall allocation under this fund to Tk. 600 crore. Allocation to the EEF relating to ICT promotion has been increased from Tk. 100 crore to Tk. 200 crore. Even after acknowledging the positive contribution of this additional allocation to the ICT sector, it would not be an exaggeration to mention that much more will need to be done for the development of this sector. In addition, a number of non-traditional sectors have demonstrated their potentials in terms of production, export and employment, and these sectors should also be included under the government's various support programmes.[14] In this context a recent decision taken by the commercial banks to fix the upper limit of interest rate for project loan and working capital at 13 per cent is a step in the right direction and should be enforced with due urgency. More importantly, this interest rate should also be applicable for all commercial loans disbursed to SMEs.

A recent decision taken by the commercial banks to fix the upper limit of interest rate for project loan and working capital at 13 per cent should also be applicable for all commercial loans disbursed to SMEs

The SME Foundation needs to strengthen its management and operation to provide effective services to SMEs. The Foundation's "credit wholesaling programme" has yet to come out from the experimental stage. No special allocation was made in favour of the Foundation in the budget FY2009-10. Government should put appropriate measures to develop SME Foundation as the focal institution for development activities related to SME sector. In this context,

[14] Disbursement from this fund may be made to other potential labour-intensive industries, such as light engineering, plastic, melamine, and electronics.

targeted measures should be put in place to improve the operational, technical, and managerial capacities of the Foundation.

While a number of projects related to small and cottage industries were included in ADP for FY2009-10, no specific allocation was made for these projects. Such projects include establishment of garments industrial park, expansion of Bangladesh Small and Cottage Industries Corporation (BSCIC) industrial estates, reconstruction of two BSCIC estates, support for *monga* affected people through establishment of small and cottage units, development of *benarosy palli*, BSCIC plastic estate, BSCIC automobile estate, expansion of three BSCIC estates, and an industrial park. Taking into account the importance of these projects, it is expected that the government will allocate the required funds for these projects.

It is envisaged that the proposal for at least 15 per cent of the allocation of all SME finances, to be earmarked for women with an interest rate of 10 per cent

Women entrepreneurship in Bangladesh is yet to be duly promoted through state sponsored initiatives. SME financing initiatives of the government targeting women entrepreneurs could contribute significantly towards development of women entrepreneurs in the country. It is envisaged that the proposal for at least 15 per cent of the allocation of all SME finances, to be earmarked for women with an interest rate of 10 per cent, would have positive contribution on women enterprises.

Cottage Industries

Development of cottage industries in Bangladesh has been constrained by financial, technical and other related difficulties. Cottage industries are currently exempted from VAT; instead, these industries pay turnover tax at the rate of 4 per cent which results in low cost of production. In the budget FY2009-10, eligibility for exemption of VAT for cottage industries has been widened by bringing under its ambit, relatively larger cottage units that have plants and machineries with an amount of up to Tk. 25 lakh from the current applicable limit of Tk. 15 lakh (Table 2.10). Withdrawal of the provision barring subcontracting industries to be enlisted as VAT registered units under the category of cottage industry will hopefully widen the coverage of beneficiaries of existing facilities. Besides, the threshold which has been proposed to increase to Tk. 40 lakh from existing Tk. 24 lakh will hopefully reduce tax-related costs of the cottage industries. The government has also encouraged small time savers to save more by increasing their bank deposit level to Tk. 20,000 instead of Tk. 10,000 for the purpose of exemption from excise duty.

Table 2.10: VAT Exemption for Cottage Industries

Item	FY2008-09	Budget FY2009-10
Status of business units	Not a company	Not a company
Value of plants and machineries	<Tk. 15 lakh	<Tk. 25 lakh
Turnover	<Tk. 24 lakh	<Tk. 40 lakh
Subcontracting	Not allowed	Allowed

Source: CPD compilation from budget documents.

SMEs and cottage industries need technical support as regards product development, quality improvements and market intelligence to enable them to compete in the domestic and global markets

Though lack of adequate access to finance is a major bottleneck to SMEs, its development has been constrained by various other constraints such as functional, marketing, information-related, customer-related, procedural and non-tariff barriers (NTBs). SMEs and cottage industries need technical support as regards product development, quality improvements and market intelligence to enable them to compete in the domestic and global markets.

2.5.4 Service-related Industries

Although services sector contributes about half of the country's GDP, the sector tends to receive relatively less attention in government's fiscal and budgetary measures. In the budget for FY2009-10, some of the service-related industries, particularly human resources supply and management and manpower export sector, were brought under the VAT net through truncated base VAT system (30 per cent). This would raise processing cost for the aspirant migrant workers since additional burden of VAT would most likely be passed on to workers in the form of processing cost.[15] The budget proposed to exempt physicians' fees out of the VAT net. It is unclear to what extent this exemption would lower the fees of poor patients, particularly because such changes in the tax structure is not adjusted with the fees charged by physicians.

VAT on manpower export would raise processing cost for the aspirant migrant workers since additional burden of VAT would most likely be passed on to workers in the form of processing cost

The ADP allocation for the Ministry of Civil Aviation and Tourism has increased in FY2009-10 (Tk. 200 crore); its budget was Tk. 25 crore in the RADP for FY2008-09. The ADP allocation for this ministry was to be used for infrastructure development such as building tourism resorts at Teknaf and Saint Martins, and building tourism facilities in five different parts of the country. There may be no arguing the fact that along with the public investment for the development of tourism industry, private investment is also equally important, in dispersed locations that are relatively underdeveloped. Common facilities will need to be built up in those areas, mainly through private investment.

A "Skill Development Fund" has been proposed in the budget FY2009-10 with an allocation of Tk. 70 crore; CPD in its budget proposal had earlier mentioned about the need for such a fund. According to the budget for FY2009-10, this fund would be used for such purposes as expand labour market abroad, conduct research for exploring new labour markets, provide training for prospective workers and retraining of returned migrants. Although this is a welcome initiative, more resources should be allocated in view of the need to provide support for the unemployed and underemployed workers in the country since an additional 0.3 million workers are likely to join domestic labour market during FY2008-09 because of economic downturn.

An additional 0.3 million workers are likely to join domestic labour market during FY2008-09 because of economic downturn

2.5.5 Development of Capital Market

In spite of the buoyancy seen in the market in recent times, capital market suffers various structural weaknesses and constraints. The number of listed companies would need to rise. The participation of large companies especially needs to be further encouraged. Strengthening of monitoring and supervision by the Securities and Exchange Commission (SEC) should be an ongoing effort; new financial products should be introduced to widen the market. The national budget for FY2009-10 has proposed to maintain a gap of 10 per cent in corporate taxes between listed and non-listed companies in order to encourage participation of non-listed companies in the capital market. Taking into account the high tax burden faced by commercial banks and other financial institutions, government has shifted away from its earlier position of retaining the corporate tax rate at the level of 45 per cent, and slashed it down by 2.5 percentage points and fixed the rate at 42.5 per cent.

The corporate tax rate has been fixed the rate at 42.5 per cent

Although the government has put emphasis on consolidation of the capital market, not much progress has been achieved till now. Registration of a number of nationalised commercial banks (NCBs) as merchant banks, a recent initiative of the government, will deepen competitive environment only when the SEC enforces the required vigilance. The offloading process of initial public offering (IPO) of Grameenphone, after a protracted process, has gained momentum.[16] Capital Market Institute, which is established in the SEC, would hopefully contribute to

[15] Government had changed its position later on; as a result VAT on manpower exports have been withdrawn in the Finance Bill approved on 30 June 2009.

[16] A part of the shares of Grameenphone have now been offloaded.

Table 2.11: DSE Vision 2013 (5-year Plan)

Issue	Base Year (2008)	Target (2013)
Monetary		
Increase market capitalisation	USD 13 billion	USD 30 billion
Increase market capitalisation to GDP ratio	19.74 %	35%
Increase daily trade volume	Tk. 300 core	Tk. 2000 crore
Non-monetary		
		Expansion of trading facilities across the country Introduction of Book Building Method Introduction of Financial Derivatives Activation of fixed income investment market Introduction of internet trading Integration of 3 million families with trading Professionalisation of human resources Expansion of state-of-the-art ICT set up Set up true online National Clearing House Review necessary rules and regulations to match *DSE Vision 2013* Strengthen investors' awareness programme

Source: DSE (2008).

strengthening research and training, particularly to enhance investors' awareness. Introduction of a market-based system to categorise shares of different companies based on their risk undertakings in order to raise awareness of investors, alongside establishment of a separate judiciary mechanism within a specified time limit for settlement of disputes in the share markets, are two of the more important initiatives which need to be implemented.

Offloading of shares of state-owned enterprises (SoEs) could be an effective mechanism to deepen the base of the capital market. Offloading of shares of 21 SoEs which were earlier earmarked for converting into public limited companies has not progressed well, mainly because of various administrative constraints. To expedite the process of offloading shares of SoEs, a time-bound operational modality needs to be set in. Raising capital from the stock market for proposed projects under the PPP will also contribute to deepen the market base. Mobilisation of a part of required fund for the establishment of the "Padma Bridge" by offloading bond in the market could be an effective mechanism in this respect. The *DSE Vision 2013*, to strengthen the Dhaka Stock Exchange (DSE), calls for substantial upgradation of trading system, introduction of new financial products, strengthening e-network and improvement of monitoring mechanism of the SEC (Table 2.11).[17]

To expedite the process of offloading shares of SoEs, a time-bound operational modality needs to be set in. Raising capital from the stock market for proposed projects under the PPP will also contribute to deepen the market base

2.5.6 Support to State-owned Enterprises

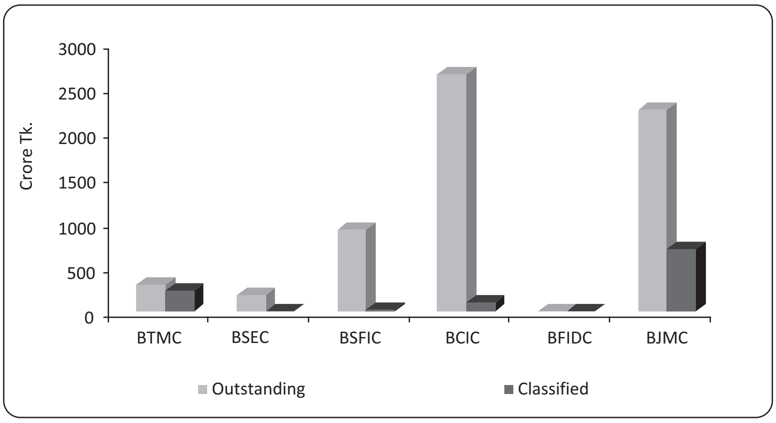
With the view to restructuring SoEs, the budget for FY2009-10, in principle, followed major guidelines mentioned in the Draft Industrial Policy 2009. According to the budget document, government will not pursue divestment/privatisation of any SoE in FY2009-10 without ensuring alternative jobs for displaced workers. It is pertinent to mention here that government's policy stand is not compatible with policies and acts related to privatisation of public enterprises such as Privatisation Act 2000, Privatisation Policy 2007 and various sector specific policies such as Jute Policy 2005. A coherent policy is needed.

ADP for FY2009-10 has proposed a number of projects for modernisation and upgradation of SoEs; however no specific allocation has been made towards these

[17] The targets set forth under the *DSE Vision 2013* are increasing market capitalisation to USD 30 billion which would be equivalent to 35 per cent of Bangladesh's GDP, increasing daily transaction of Tk. 2,000 crore from the base level of Tk. 300 crore, introduction of various systems, facilities, reviewing existing rules and regulations etc.

projects. These projects include transplanting machineries in seven sugar mills, BMR (balancing, modernisation and replacements) of Faridpur Sugar Mill, establishment of organic fertiliser plant at Carew, boiler transplant project in several sugar mills, ten projects under BSCIC, six projects under the Textile and Jute Ministry, and one project under the Bangladesh Standards and Testing Institution (BSTI).[18] However, without addressing the huge operating losses, bad debts and poor performance of SoEs, revival of SoEs would hardly make these units efficient and competitive. It is important to note that SoEs are heavily indebted - their classified loan was to the tune of Tk. 1,054.6 crore by the end of December 2008, which was 16.7 per cent of their total outstanding loan. Figure 2.10 shows status of overall outstanding and classified loans of various state-owned corporations.

Figure 2.10: Overall Outstanding and Classified Loan of Selected SoEs



Source: Bangladesh Economic Survey 2008-09.
Note: BTMC: Bangladesh Textile Mills Corporation; BSEC: Bangladesh Steal and Engineering Corporation; BSFIC: Bangladesh Sugar and Food Industries Corporation; BCIC: Bangladesh Chemical Industries Corporation; BFIDC: Bangladesh Forest Industries Development Corporation; BJMC: Bangladesh Jute Mills Corporation.

Privatisation Commission is in charge of privatisation of selected SoEs; a total of 26 SoEs is currently under the process of being privatised. Although government has decided to bear all liabilities of the selected SoEs, no specific budgetary allocation has been made in the budget for meeting the burden of these debts and liabilities.

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2.5.7 Real Estate and Housing

Various budgetary measures announced in the national budget for FY2009-10 is expected to contribute towards development of the real estate and housing sector. Government has mentioned about taking steps to revise the National Housing Policy 1999, and to reform Bangladesh National Building Code 1993. Reforming National Land Use Policy, as mentioned in the national budget for FY2009-10, is another important initiative towards ensuring efficient use of land.

National budget for FY2009-10 has provided an opportunity to potential buyers by accepting investments in the purchase of flat or in construction of house, without asking too many questions about sources of capital, subject to payment of tax at a specified rate (according to the measurement of the flat/house). Such provisions would have significant impact on the real estate sector; a large amount of undisclosed money may target real estate sector by taking advantage of the provision for investment of undisclosed money.

A large amount of undisclosed money may target real estate sector by taking advantage of the provision for investment of undisclosed money

ADP allocation for the Ministry of Housing and Public Works will increase substantially in FY2009-10. Total ADP allocation will increase by 70 per cent from Tk. 319.12 crore in FY2008-09 to Tk. 544.61 crore in FY2009-10. The concerned ministry has worked out a 3-year plan to develop 22,800 plots and construct 26,000 apartments for lower and middle-income people. These are continuation of projects which were undertaken in the previous year. Initiatives to provide accommodation for insolvent freedom fighters and build shelter homes for the floating population of urban areas are well appreciated. The formulation of a

[18] Government has recently decided to reopen 13 closed jute mills within next two years.

separate policy for distribution of *khas* land among landless and poor people is also a welcome initiative.

2.5.8 Physical Infrastructure

Information and Communication Technology (ICT)

Budget proposals in the ICT sector for FY2009-10 are mostly in line with the government's vision for a Digital Bangladesh

In the budget for FY2009-10, allocation for ICT under the ADP was proposed to be Tk. 544.47 crore for 64 projects which were to be implemented under different ministries. In terms of ADP, it is 85 per cent higher than the RADP for FY2008-09 (Tk. 294.31 crore). However, ADP allocation for the Ministry of Science and Information and Communication Technology (MoSICT) has been proposed to the tune of Tk. 142 crore for FY2009-10, which is a mere 0.47 per cent of the total ADP allocation.

Budget proposals in the ICT sector for FY2009-10 are mostly in line with the government's vision for a *Digital Bangladesh*. The government has expressed its commitment towards turning the file-based administration into a digital one with a view to ensuring effective electronic governance (e-governance). The ICT Road Map is expected to be finalised within the shortest possible time which will be a key step forward towards this end. The budget has also mentioned implementation of e-commerce by 2012. Besides, in a bid to encourage e-Business, commitments have been made with regard to providing incentives for the software industry, expanding internet services to remote areas, and reducing internet charges.[19] Nevertheless, concerns remain since no specific indication has been given with regard to the coverage and price of internet connectivity.

The budget has also mentioned implementation of e-commerce by 2012

The announcement of 25 per cent SD on mobile phone sets on an ad valorem basis in place of the existing specific duty of Tk. 300 per set would have several implications. This would have entailed a high markup price on higher duty sets and low price on lower duty sets. However, at a later stage, import duty on low cost mobile phone sets was trimmed to 12 per cent from 25 per cent. Besides, the proposed allocation of Tk. 100 crore to meet emergency expenditure in the ICT sector could be a necessity if the industry is impacted by the ongoing global economic turmoil.

Corporate tax rate for mobile phone operators, if enlisted in the share market, at 35 per cent is not a new proposal. No tangible progress had so far been observed among mobile telephone operators other than the Grameen Phone, to offload their respective shares by taking advantage of the reduced tax rate. The proposal for building an access network covering 23 districts including 6 divisional headquarters is a commendable one; it is likely to make Bangladesh more integrated in terms of business, education and other activities.

The proposal for building an access network covering 23 districts including 6 divisional headquarters is a commendable one

2.5.9 Power and Energy

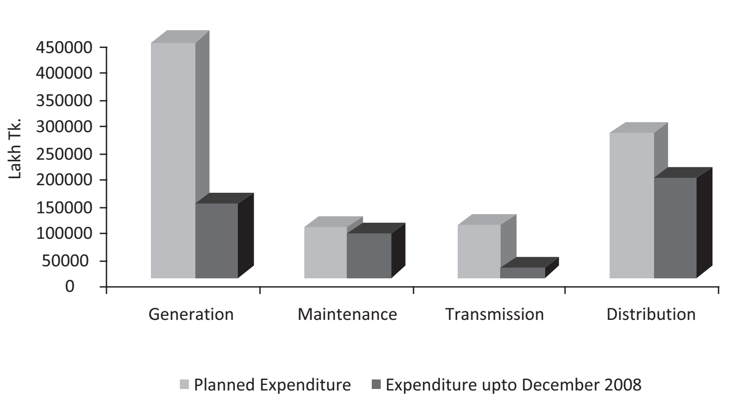
A number of issues were mentioned in the budget including retargeting of electricity generation (4,160 mega watt (MW) by 2013), emphasis on PPP, enhancing private sector electricity generation through IPP and greater use of renewable energy sources such as solar power, and import of coal. Figure 2.11 shows the investment scenario of power sector for different project purposes.

[19] It is also positive that at a later stage, the government decided to fully withdraw the proposed AIT on computer and related accessories.

The budget proposed an allocation of Tk. 4,310 crore for the development of power sector in FY2009-10, about 48 per cent higher than the revised budget. This ADP allocation was 33.54 per cent higher than the RADP for FY2008-09 and 2.0 per cent higher than original ADP of FY2008-09.

A total of Tk. 916.9 crore was allocated to the power sector projects scheduled to be completed by 2009, of which Tk. 429.7 crore (46.87 per cent) has been disbursed. Strikingly, of the projects targeted for electricity generation, only 31.5 per cent of the total project costs were disbursed. Though no newly approved projects were included in the ADP for FY2009-10, the government will need to complete the unfinished task of ADP for FY2008-09.

Figure 2.11: Investment on Power Sector Projects Scheduled to be Completed by 2009



Source: Annual Development Programme, GoB, 2009.

It is observed that there is a severe lack of implementation of big power projects (Table 2.12). All the projects shared the same fate - low completion rates. The Shikalbaha Power Plant, which was to be completed by 2010, has barely even started (project completion rate was only 0.16 per cent); and only 5.35 per cent of Sylhet Power Plant, which was to be completed by 2011, has been completed. The technical assistance for tendering process for IPPs project recorded the highest completion rate of 33.33 per cent, still lower than 50 per cent. Bangladesh Power Development Board's (BPDB) power plant maintenance and overhaul project also recorded low completion rate (12.11 per cent).

Though no newly approved projects were included in the ADP for FY2009-10, the government will need to complete the unfinished task of ADP for FY2008-09

The power crisis in the country is severe at the moment and calls for a solution on an urgent basis. By 2021, electricity demand will increase from 5,000 MW (June 2009) to 20,000 MW against the current generation capacity of only 3,800 MW. The government has set a target to generate an additional 5,000 MW by 2013. The budget mentioned generating an additional 940 MW by 2009, of which 500 MW would be from four public sector projects and 440 MW would be from 11 private sector projects. It also proposed generating an additional 4,160 MW by 2013, of which 2,810 MW would be from 13 public sector projects and 1,350 MW would be from three private sector projects. For power distribution purposes, the budget proposed building an additional 837 kilometres (km) of power grid line, 17 sub-stations and 15,000 km of

Table 2.12: Status of the Power Sector Project: Life Cycle 2010-2012

Type of Project	Planned Expenditure (in Lakh Tk.)	Expenditure upto December 2008	Completion (%)
A. Investment: Generation			
Shikalbaha 150 MW peaking power plant (by 2010)	77798	124	0.16
Sylhet 150 MW combined cycle power plant (by 2011)	103742	5550	5.35
Haripur 360 MW combined cycle power plant (by 2012)	327805	49	0.01
B. Technical Assistance: Others			
Power sector capacity development programme (2007-2010)	3999	2	0.05
Technical assistance for tendering process for IPPs (2007-2010)	447	149	33.33
C. Japan Debt Cancellation Fund (JDCF)			
BPDB-power plant maintenance and overhaul (renovation of the Karnaphuli 4th and 5th unit) (2005-2010)	21636	2621	12.11

Source: Annual Development Programme, GoB, 2009.

distribution line by 2013. However, no allocation has been made in the budget to implement the above mentioned generation and distribution projects.

The budget emphasised on finalisation of the draft Coal Policy. The government is also planning to import coal to run coal-fuelled power plants. A decision on an urgent basis is called for in this regard since this is a time consuming endeavour and upgradation of infrastructural facilities would also require a good deal of time.

The budget withdrew renewal fees on CPPs; as was mentioned, this was a proposal put forward by CPD

The government has announced a number of fiscal measures with regard to the renewable energy sector. The budget FY2009-10 has eliminated the existing CD of 3 per cent on solar panels, and exempted VAT at the stages of import, domestic production and supply. The budget has also allowed establishment of solar energy plant with the help of undisclosed income by placing this sector under the head of "eligible for investment." The budget also proposed to abolish 7 per cent import duty and VAT on parts/raw materials of florescent energy saving bulb. The budget mentioned that the Rural Electrification Board (REB) will take renewable energy to households in remote areas. Duty reduction on solar panel is expected to facilitate this initiative. Bangladesh Bank has also set up a Tk. 200 crore fund for private companies in providing solar panels. The budget withdrew renewal fees on CPPs; as was mentioned, this was a proposal put forward by CPD. The government is also considering setting up a GoB-financed nuclear power project at Rooppur with a capacity of 1,000 MW. However, no definitive statement has been made with regard to commencement of this project.

The budget has also stated about setting up a Gas Development Fund to enhance the capacity of BAPEX

Gas

Regarding gas exploration, the budget mentioned about drilling five development wells, four work-over wells and four production wells. Implementation of these initiatives is expected to provide an additional supply of 208 mmcf (million cubic feet). However, ADP allocation was not reflected in this regard. The budget mentioned about the commencement of exploration in offshore areas and a quick decision needs to be taken in this regard. The budget has also stated about setting up a Gas Development Fund to enhance the capacity of Bangladesh Petroleum Exploration & Production Company (BAPEX). Whilst these are good intentions, their implementation will be the key challenge. The budget has mentioned about initiatives to import gas from neighbouring countries through pipelines on the basis of mutual cooperation. However, the details and modalities are yet to be disclosed to the public.

2.5.10 Social Infrastructure

Climate Change and Environment

The government has increased allocation of Tk. 300 crore to Tk. 700 crore from their own resources to the Fund for Climate Change for FY2009-10

Environment has traditionally been a neglected area in Bangladesh particularly in terms of fiscal allocations. Due to increased international demand for environmental compliance requirements and radical changes in the global climate and its subsequent impact on Bangladesh, there has been some positive developments in terms of awareness in Bangladesh at various levels. In the budget, the government has increased allocation of Tk. 300 crore to Tk. 700 crore from their own resources to the Fund for Climate Change for FY2009-10 to provide an internal financial safety net against natural disasters. The government has also proposed taking up special initiatives to save the Buriganga River from pollution such as barring industrial units to be established in this area without appropriate waste disposal system.

The Japan International Cooperation Agency (JICA) has provided Tk. 490 crore as budgetary support to cope with environment-related disasters. At the same time Japan has proposed to contribute Tk. 700 crore from their Japan Debt Cancellation Fund (JDCF) facility to mitigate the risks of climate change. The creation of a multidonor Trust Fund with support from donors is also in progress with commitments of USD 97.9 million from the governments of UK and Denmark. The TTI for effluent treatment plant is found to be around 24 per cent. Though CPD had earlier put forward a suggestion to reduce this duty, no significant changes in this regard has been proposed by the budget. This needs to be considered in line with capital machineries as well.

The TTI for effluent treatment plant is found to be around 24 per cent. Though CPD had earlier put forward a suggestion to reduce this duty, no significant changes in this regard has been proposed by the budget

Health

To ensure universal primary health services, the FY2009-10 budget envisaged establishment of 13,500 community clinics (CCs) across the country. However, it was not specified whether all of these are going to be new establishments or includes the already operational 8,464 CCs. Nevertheless, it is hoped that these CCs, which are to be run on the basis of PPP, will play an important bridging role in providing basic health services to rural people, particularly for mother and child care, family planning services, sanitation, cleanliness, prevention of diarrhoea, nutrition and venereal disease related services.

Some other major proposals in the budget include allocation of Tk. 173 crore for extension of the National Nutrition Programme (NNP) to 134 upazilas, expansion of Maternal Healthcare Voucher Scheme to 45 upazilas (with an allocation of Tk. 70 crore) and modernisation of upazila level hospitals. Most of the proposed initiatives in the budget aspire to target development in the health sector. However, there is no specific statement or allocation for improvement of the institutional capacity and delivery systems of public hospitals and health care centres, which are perceived to be critically important areas in terms of raising the quality of the service delivery system.

The budget envisaged establishment of 13,500 community clinics across the country

Education

The FY2009-10 budget envisages that education sector would receive a total of Tk. 3,914.55 crore as ADP allocation. This was 40.72 per cent higher than that of the previous fiscal year. The budget proposed that taking into consideration their qualification, registered and community primary school teachers will be provided grants in the form of pay equivalent to the initial pay of government primary school teachers. This is a welcome initiative towards enhancing the quality of education. Proposals for recruitment of science teachers at the secondary level and setting up of laboratories in each secondary school are also commendable initiatives. It may be noted here that CPD's budget proposals included consideration of these measures.

The budget for FY2009-10 proposed initiation of three new programmes in the education sector. These are: (i) free education in phases upto graduation; (ii) stipend for male students; and (iii) modernisation of *madrasha* education. However, the budget did not propose any specific allocation or guidelines for successful implementation of these new programmes. In line with the vision of creating a *Digital Bangladesh* by 2021, the government has proposed to make ICT-related education compulsory at secondary and primary stages respectively by 2013 and 2021. The proposed withdrawal of VAT on the internet services in the educational institutions will hopefully help students to have access to the internet services. These are indeed pragmatic steps which are likely to make significant

The government has proposed to make ICT-related education compulsory at secondary and primary stages respectively by 2013 and 2021 positive contribution in terms of realising the vision of building a technologically skilled human resource base in the country.

Gender

This year's budget witnessed a positive move towards increasing the level of gender sensitivity in the context of the allocation of funds. The share of direct and

Table 2.13: Programmes under Gender Equity and Empowerment

Measures	FY2008-09	FY2009-10	Change	Implication
Gender Equity Expenditure	26.3% of total budget	No mention of change	-	To increase gender sensitivity
Allowance for Poor Destitute, Deserted and Widowed Women	Tk. 270 crore; Tk. 250/ month; Target: 900,000 women	No mention of change	-	This falls short of the anticipated rise to keep up with inflationary pressures
Maternity Allowance for Poor Lactating Mothers	Tk. 21.6 crore; Tk. 300/month; Target 60,000 women	Tk. 33.6 crore; Tk. 350/month; no mention of a change in target number	55.6 % increase in absolute allocation	A change of 16.67% in the monthly allowance announced. This is a positive step forward
Allowance for Lactating Low Income Working Mothers in Urban Areas	Tk. 20 crore	Tk. 25 crore	25% increase in absolute allocation	Another positive step taken to help ameliorate the position of poor women with children
Acid Burned and Disabled Women	Tk. 10 crore	Tk. 2 crore for acid victims and all disabled	80% decline in absolute terms	Hints at lower level of importance accorded to this particular sub-section within gender equity section of the budget

Source: Budget documents FY2008-09 and FY2009-10.

Table 2.14: Gender Sensitive New Measures under Budget FY2009-10

Initiative	Measure
Women and freedom fighters self-employment fund	Tk. 20 crore
Assistance to poultry farms	Tk. 100 crore
Projects for the poor	Tk. 170 crore for the *Rural Roads Maintenance Project* which employs poor working people; Tk. 76 crore for the *Rural Employment Facilities for the Protection of Government Assets;* Tk. 12.85 crore for *Employment Generation in the Northern Region for Hardcore Poor of Monga Area*; Tk. 75.60 crore for the *Rehabilitation Package for the Poor of Char Area;* and Tk. 57.83 crore for the *Economic Empowerment of the Poor* will be allocated. Most of the workers in such programmes will be women
Political empowerment	The number of reserved seats for the women in Parliament will be increased to 100. Direct election will be held against these seats
Women entrepreneurs	In order to encourage women entrepreneurship, the government will ensure separate banking arrangement, loan and technical facilities for women entrepreneurs. The budget also states the government's commitment towards eradicating gender differences not only in the field of business, but in all economic and social spheres with focus on having more women in top management positions

Source: Budget documents FY2008-09 and FY2009-10.

indirect gender equality expenditure was claimed to be 26.3 per cent in the proposed budget, similar to that for FY2008-09. For the first time a separate statement was presented before the Parliament regarding allocation that has been earmarked for women's advancement for the Ministries of Education, Social Welfare, Health and Family Welfare, and Food and Disaster Management. The share of participation of women in different activities and the level of service they are receiving from the government's activities will be available from that information. An increase in the allowance for poor lactating mothers by Tk. 50 to Tk. 350 is also on the cards (Table 2.13). This will require an allocation of Tk. 33.6 crore, which is Tk. 12.0 crore higher than last year. At the same time, Tk. 25 crore will be allocated for launching a similar programme namely "Allowance for Lactating Low Income Working Mothers in Urban Areas," reflecting a 25 per cent increase in absolute allocation. The new ventures mentioned in the budget show a total allocation of Tk. 222.28 crore kept for various projects for the poor, the majority of workers in such programmes being women (Table 2.14). Women are also being given special concessions in terms of income tax.

The new ventures mentioned in the budget show a total allocation of Tk. 222.28 crore kept for various projects for the poor, the majority of workers in such programmes being women

2.6 LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT

Decentralisation of power to the local government has been contentious issue which has attracted a lot of attention in Bangladesh in recent years because of its importance for the overall development of the country. Keeping this in view, the budget has committed a number of initiatives for strengthening the local government. To ensure regional parity and improved infrastructure, Tk. 3,628 crore has been allocated for local government institutions which is the third highest sectoral allocation (11.9 per cent of the total proposed ADP), after transport and education sector. This allocation is 1.2 per cent higher than the RADP for FY2008-09 and 3 per cent higher than the original ADP for FY2008-09. Total sectoral allocation for local government and rural development together in FY2009-10 is Tk. 8,321 crore which is 24 per cent higher than the allocation for the previous fiscal year. Total block allocation for development assistance for the local government is Tk. 1,729 crore which is 34.3 per cent higher than the RADP of FY2008-09, and 91.5 per cent higher than the original ADP for FY2008-09. In the previous fiscal year, Tk. 40 crore was allocated for poverty-stricken region as block allocation, which has been discontinued for FY2009-10.

"One Household-One Farm" is undertaken to generate employment for 2.9 million rural people over July 2009 to June 2014

A new project titled "One Household-One Farm" is undertaken to generate employment for 2.9 million rural people; this programme is to be implemented gradually over the duration of the project period (July 2009 to June 2014). Additionally, *khas* land will be provided where possible, for which the estimated cost of rehabilitation was Tk. 1,246 crore. During the first fiscal year Tk. 92 crore is expected to be spent for the implementation of the project. A total 5.8 lakh rural families will be benefited through village development initiatives as part of this project. If implemented, this will play a vital role in poverty reduction of rural areas.

The government also has a plan to achieve 100 per cent sanitation coverage by next year, which is ambitious but much-needed milestone

A total of Tk. 3,575 crore ADP allocation has been proposed in the FY2009-10 budget for the development of rural infrastructure. With this amount, the Local Government Engineering Department (LGED) is to construct about 13,700 km of roads and 54.26 km of bridges/culverts in the rural areas. Allocations have also been made for rural sanitation and supply of safe drinking water. Department of Public Health and Engineering (DPHE) will construct 6,114 arsenic-free water sources and will test a further 20,000 water sources for arsenic concentration. Along with this, the government also has a plan to achieve 100 per cent sanitation coverage by next year, which is ambitious but much-needed milestone.

The government has undertaken a project to construct a model school with all modern equipments and amenities in each of the 306 selected upazilas at a cost of Tk. 466 crore. The objective is to ensure regional parity in education by establishing standard educational institutions across various regions.

The government also plans to strengthen microcredit programme, expand ICT network in rural areas, raise agricultural production, protect environment, improve socioeconomic conditions and empower rural women, train people in income generating activities, develop rural human capital, and encourage applied research in rural development

For the upcoming fiscal year, the government has announced a number of programmes without any specific allocations which probably could be met from block allocation. The government also plans to strengthen microcredit programme, expand ICT network in rural areas, raise agricultural production, protect environment, improve socioeconomic conditions and empower rural women, train people in income generating activities, develop rural human capital, and encourage applied research in rural development. The government also proposed about putting emphasis on investment, and focus on rural and agriculture sector to address the sluggishness in the industrial labour market and manpower export. Taking up different programmes for the marginalised rural people by extending credit, imparting training on social and skill development, initiative to undertake activities towards women empowerment through Palli Karma-Sahayak Foundation (PKSF), has also been mentioned.

The budget has mentioned about unions and upazilas being focal points of development. It also talks of empowering people at grassroots level to ensure participation in governance. Towards this, *Rural Townships* would be developed at union headquarters with all municipal facilities. All upazila headquarters and trade centres are to be converted into municipalities with modern amenities which will also be developed as planned townships. Compact townships would also be developed at union centres, growth centres, growing villages, mufassil towns and suburbs of metropolitan cities. This initiative, if implemented properly, is expected to reduce pressure on agricultural land, and will also ease the growing pressure on large cities. Government will provide civic amenities and other incentives to attract private initiatives in identified areas for setting up the townships.

The government has reiterated its commitment to recognise the rights of the small groups, aboriginal people and other people from disadvantaged regions. In this regard special provision in terms of education and employment opportunities will be given for ethnic minorities and aborigines. With a view to narrow down regional disparity in higher education, government has also expressed its willingness to establish universities at Barisal, Rangamati and Gopalganj. All these are good intentions which will need to be followed up with concrete actions.

The government has proposed to increase the allowance per person and beneficiary coverage for most of the allowance programmes

2.7 SOCIAL SAFETY NET

The objective of bringing down poverty rate to 15 per cent by 2021 being a cornerstone of the government's policy, enhancement of social safety net has been identified as a priority area by the government in the budget. To this end, the government has proposed to increase the allowance per person and beneficiary coverage for most of the allowance programmes. This is a continuing initiative and reflects the government's commitment to protect the marginal people from social, economic and natural shocks. With regard to helping the poor and distressed through microcredit, the government has announced that the PKSF will distribute Tk. 200 crore, received from foreign sources. However, concerns remain as there was no specific comment on flexible repayment schedule or strengthening of microcredit programmes which are vital for social protection, and more fundamentally, social empowerment of the resource-poor people.

Some of the proposed new programmes include:

- Establishment of Disabled Service and Assistance Centre with an allocation of Tk. 5.41 crore.
- Stipend Programme for the Disabled Students with the allocation being to the tune of Tk. 9.8 crore. A portion of the fund will go to the schools for disabled students.
- Allocation of Tk. 5.67 crore for the welfare of the shelterless street children.
- Allocation of Tk. 144.55 crore to help the insolvent cultural personalities.
- Proposal for building shelter for urban homeless and initiate housing project for low and middle income groups.

The budget, however, did not specify any allocation for public food distribution through monetised channels

With regard to protecting food security for the poor and vulnerable, the government has proposed to allocate Tk. 5,877 crore under the non-development budget for the Food for Works (FFW) programme, vulnerable group feeding (VGF), vulnerable group development (VGD), test relief (TR) (Food), gratuitous relief (GR) (Food) and also for food assistance in the form of food security programmes for the Chittagong Hill Tracts (CHT). The budget, however, did not specify any allocation for public food distribution through monetised channels.

Employment Generation

The issue of employment generation has been addressed quite extensively in the budget for FY2009-10. As has been proposed, the government is targeting to create employment opportunities for seven lakh people which accounts for around 40 per cent of the 18 lakh new entrants in the labour force. It is commendable that with a view to overcoming the long standing criticism with regard to selection of beneficiaries, the government has proposed to prepare a new list using the database created for the National ID card. It may be noted here that CPD earlier had recommended such a measure to the government.

The new programme, titled Employment Generation for the Hardcore Poor, is expected to create employment opportunities for 49 lakh person-months

The government has proposed to modify the 100-Day Employment Generation Programme which was launched during the tenure of the CTG; the second phase of the programme has now been postponed. The new programme, titled *Employment Generation for the Hardcore Poor*, is expected to create employment opportunities for 49 lakh person-months with the proposed allocation to the tune of Tk. 1,176 crore. However, no details have been articulated with regard to regional targeting of the programme.

Introduction of the National Service Programme for Higher Secondary Certificate (HSC) or equivalent graduates with special allocation of Tk. 20 crore is a positive

Table 2.15: State Sponsored Employment Opportunities Prioritising Women

Projects	Allocation in FY2009-10 (in Crore Tk.)
Rural Roads Maintenance Project	170.00
Rural Employment Facilities for the Protection of Government Assets	76.00
Employment Generation in the Northern Region for Hardcore Poor of *Monga* Area	12.85
Employment for *Char Area*	75.60
Rehabilitation Package and Economic Empowerment for the poor	57.83

Source: FY2009-10 budget document.

initiative. As per initial planning, the programme will begin in Barguna and Kurigram districts on pilot basis. The beneficiaries will get three-months training and will be provided with employment for two-years in various fields in line with the training.

The beneficiaries of National Service Programme will get three-months training and will be provided with employment for two-years in various fields in line with the training

In addition to the above, the budget for FY2009-10 has proposed a number of new employment creation measures to be implemented in rural areas where poor women workers will get priority (Table 2.15). It is hoped that such an initiative will play a strategic and significant role in uplifting these women from poverty and distress.

2.8 REFORM AGENDA

2.8.1 Institutional and Policy Reform

The national budget has recognised the importance of structural and policy reforms. Implementation of these reforms will be one of the most crucial challenges facing the government in FY2009-10. To boost investment, significant importance has been given to reforming the financial sector. In this regard, the government has decided to merge Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Shangstha (BSRS) to create a public limited company. Noteworthy to mention, the government has prepared 5-year strategic business plans to enhance dynamism and quality of service in banking operation. The government has also enacted Money Laundering Prevention Act 2009 through which banks, financial institutions, money changers and insurance companies will be made accountable to the Bangladesh Bank. In order to facilitate women entrepreneurship, separate banking arrangements, loan and technical facilities have also been announced. To promote trade and investment in the country, the government has decided to continue with the Bangladesh Better Business Forum (BBF) which is definitely a wise move. However, the budget does not mention anything about the Regulatory Reforms Commission (RRC).[20] The government has declared establishment of special economic zones (SEZs) in the budget instead of export processing zones (EPZs), but no time table has been specified.

The budget does not mention anything about the Regulatory Reforms Commission (RRC)

To avoid the artificial dichotomy between non-development and development expenditure, decision has been taken to present a unified budget. Accordingly, budget allocation will be divided into capital and recurrent expenditure at disaggregated level to analyse the expenditure pattern. Decision has also been made to extend the three-years MTBF plan to five-years. In the MTBF, the government is planning to incorporate gender and poverty-related disaggregated data to address the gender issue separately in the budget. The government has also decided to reintroduce the FYP (2010-2015) format to reflect a more comprehensive development objective and to set specific medium-term targets for the country. With the ADP constituting the various annual components of the FYP, implementation of both ADP and the FYP targets will be challenging. Further, implementation of the FYP will be a major challenge recalling the previous experiences.

Decision has also been made to extend the three-years MTBF plan to five-years

To bring transparency and accountability in the government expenditure District Level Budget will be initiated from FY2010-11, initially for one district in each division. The Upazila Parishad Act 2009 has been enacted with a view to strengthen local government by bringing a balance in the duties and powers of the members of perliament (MPs) and the upazila chairmen. Under this Act, a separate budget allocation will be made and responsibility of implementation and

[20] The Finance Minister has indicated recently that a more high-powered entity will replace the RRC.

use will be assigned to the upazila administration. In order to empower local administration and decentralise the power of the central government, the union and upazila parishad will be vested with additional power.

In order to curb corruption in the public projects, reform will be initiated in procurement, selection, bidding, evaluation and project monitoring process. Effective steps are to be taken to get rid of the credit default culture and to monitor rescheduling of loans to the private sector. Though government has announced amendment of the Anti-Corruption Commission Act, no clear indication has been provided with regard to the nature of the amendments.

To move ahead towards Digital Bangladesh, use of ICT in various departments of the government, mainly in the law enforcement agencies, and land and tax administration will be ensured

To move ahead towards *Digital Bangladesh*, use of ICT in various departments of the government, mainly in the law enforcement agencies, and land and tax administration will be ensured. Time limit for delivery of land registration documents is to be reduced to 15 days, which will be further scaled down to two to seven days in future.

In a healthy move, the government has enacted the Consumer Rights Protection Act 2009 which is expected to help protect citizen's rights. The government has also recently approved the Access to Information Act 2009. To put the war criminals to trial, the Office of the Prosecutor, under the International Crimes (Tribunal) Act 1973, has been set up. The budget also mentions about the necessity to address the need of the backward community which includes socioeconomically deprived section of the society, irrespective of their religion and ethnic identity and talks of taking the required initiatives towards this.

The government has enacted the Access to Information Act 2009 and the Consumer Rights Protection Act 2009 which are expected to help protect citizen's rights

It will be a test of the capacity of the government to ensure that appropriate measures are taken to realise the declared intentions in a manner that serves the intended purpose.

2.9 CHALLENGES FOR IMPLEMENTATION

The preceding discussion has dealt with an analysis of the various proposals put forward by the government in the national budget for FY2009-10. It is to be noted that the thrust of the proposed budget indicates a willingness on the part of the newly elected government to move forward by maintaining trend growth and addressing the issues of increasing income and spatial inequality, reducing poverty through employment generation and expansion of safety nets. Attaining these objectives will critically depend on the efficacy of the delivery mechanisms to bring out the intended outcomes, for which the required administrative and regulatory reforms and institutional capacity building will need to be undertaken. Budget implementation is too important a matter to be left to the budget process alone. Following are some of the areas where it is felt that focused attention will be needed by the government as it gets on with the challenging task of implementing the budget.

Attaining these objectives will critically depend on the efficacy of the delivery mechanisms to bring out the intended outcomes, for which the required administrative and regulatory reforms and institutional capacity building will need to be undertaken

Ensuring Appropriate Utilisation of the Surplus National Savings, Excess Liquidity in the Banking System and Foreign Aid in the Pipeline

National savings rate (32.36 per cent of GDP) remains higher than the gross investment rate (24.18 per cent of GDP) in Bangladesh indicating availability of investible surplus.[21] The gap between the national savings rate and the

[21] There is a debate, though, as regards the extent of this surplus. The way remittance is treated for the purpose of estimating national savings (how much of it is actually savings) has come under scrutiny and has been questioned.

Ensuring timely delivery of the promised foreign aid, generation of the expected domestic resources and availability of the required borrowing needs, and overall, enhancing the capacity of the government will be critical to achieving the budgetary targets

investment rate, to the tune of about Tk. 500,000 crore (about 8 per cent of GDP) once again draws attention to the government's low capacity of implementation, and also to the potential scope for private sector investment. Compared to India and Vietnam, two of the countries which were able to enhance investment capacity significantly in recent times, Bangladesh's performance looks rather mediocre; these countries invest around 40 per cent of their national income. Capacity of the public sector to make the required investment in infrastructure and energy, that could in turn attract private investment, will need to be significantly strengthened.[22] Followed by the global financial crisis, lack of investment demand has resulted in high excess liquidity in the banking system. Providing necessary resources to underwrite the programmed fiscal deficit of the government for FY2009-10 would perhaps be easier in view of the existing surplus liquidity in the system, with less adverse impact in terms of availability of resources for the private sector. Earlier studies have rejected the crowding out hypothesis in the context of Bangladesh; on the contrary, evidence of crowding in effect predominates the picture. Ensuring timely delivery of the promised foreign aid, generation of the expected domestic resources and availability of the required borrowing needs, and overall, enhancing the capacity of the government will be critical to achieving the budgetary targets.

Maintaining Complementarity of Macroeconomic Framework, Fiscal Policy and Monetary Policy

The growth-investment nexus remains perplexing

Under the MTMF, the macroeconomic targets for FY2009-10 were set in view of the GDP growth target of 5.5 per cent, lowest target over the last six years. Investment target for FY2009-10 alludes to some deceleration in investment rate (as percentage of GDP) and indicates some deterioration in capital productivity. Considering average incremental capital-output ratio (ICOR) for the last five years (3.9), attainment of investment target (23.7 per cent of GDP) would imply GDP growth of about 6 per cent. As the projected ADP target (4.4 per cent of GDP) suggests, expectations about private investment is not presumed to be high in the budget. This contradicts the expectation in the budget about higher private investment, or this would mean apriori acceptance of the less than full delivery of the ADP. The growth-investment nexus remains perplexing, particularly considering the proposed fiscal structure. An expansionary fiscal stance was expected in view of the current context. While revenue earnings and revenue expenditure projections appears to be attuned to trends, realisation of budgetary targets would largely depend on implementation of the ADP. Under the proposed macroeconomic framework, advocated enhancement of domestic demand through higher public expenditure (reflected through higher deficit) as well as crowding in private investment through higher public investment does not tally with the projected growth-investment nexus. On the other hand, expected contraction of monetary growth would indicate conservative monetary expansion, while attempts being made to enhance private sector credit at the same time would mean a possible reduction in public sector credit growth. This could result in a potential mismatch between fiscal and monetary policy stance proposed in the macroeconomic framework. It is perceived that a moderately expansionary monetary policy stance might be put in place to ensure concordance with the proposed fiscal policy.

It is perceived that a moderately expansionary monetary policy stance might be put in place to ensure concordance with the proposed fiscal policy

[22]Recent CPD study titled *Delivering on Budget FY2009-10: A Set of Implementation Issues* has discussed the implementation issues in details, see Chapter 4.

Maintaining Integrity of the Public Finance Framework and Adhering to Fiscal Discipline

Reversals of the recent trends of maintaining higher earnings growth over expenditure have given rise to a sense of vulnerability in the fiscal framework. This, in turn, is likely to result in higher fiscal deficits in the future, subsequently creating further pressure on interest payments which is already claiming the second highest share in the total expenditure budget. Whilst a higher deficit is the need-of-the-day in view of the exceptional circumstances that prevail in FY2009-10, the medium-term goal should be to bring the deficit down to about 3 per cent of GDP. Generating domestic resources, particularly through greater efforts to widen the tax base will be key to this. Lower deficit should not be underwritten by lower implementation of the ADP. Widened income tax net to tap the tax evaders and non-taxpayers with taxable income, along with wider VAT coverage should receive the highest priority in this context. While mobilising foreign resources to finance deficits, emphasis should be put on negotiating higher grants as compared to loans and higher aid in the form of budgetary support.

Generating domestic resources, particularly through greater efforts to widen the tax base will be the key

Strengthening Capacity of the Line Ministries

Mobilising required resources on time and devising appropriate action plans are two of the essential pre-requisites for successful implementation of any project. Public sector institutions in Bangladesh have been criticised not only for lack of transparency and accountability, but also for their inability to utilise the allocated funds. This calls for prudent and effective leadership on the part of the line ministers' responsiblity. Project directors are usually appointed on a residual way, and often there is a disincentive on the part of project directors to ensure timely and effective delivery. Appropriate incentive mechanisms will need to be devised to address this practical problem. The government also needs to put in place a mechanism for carrying out periodic review of available resources in every department and division to identify areas for improvement both in terms of human and financial resources. A strategic plan to improve quality and delivery efficacy of public servants will be the key to higher rate of implementation of ADP. Clustering ministries for the purpose of building specific capacities within the civil service has been an option that has been successfully practiced in a number of countries.

A strategic plan to improve quality and delivery efficacy of public servants will be the key to higher rate of implementation of ADP

Building Fiscal and Financial Partnerships

The need for faster private sector involvement in development projects, particularly in areas such as infrastructure and power and energy is now universally recognised. This calls for institutions to be built that promotes effective partnership between public and private actors. Inclusion of PPP in the budgetary framework has created a platform for the private sector resources to be used towards implementation of various development projects. Most critically, a financing partnership between the government and the private sector should help in not only overcoming resource constraints in implementing large-scale development projects, but will also accelerate the rate of implementation by freeing the process from bureaucratic hurdles. However, effective design of such partnership frameworks must be given due importance so that there is an appropriate check and balance in place, and the partnership operates with due transparency and accountability, with appropriate provisions for settlement of dispute. The required legal and policy framework could be put in place through a PPP Act. Facilitating role of the public sector in conjunction with private sector entrepreneurship could foster strong partnership within the framework of the PPP. Recent experience of India in this connection could provide important

Facilitating role of the public sector in conjunction with private sector entrepreneurship could foster strong partnership within the framework of the PPP insights. Issues such as profit sharing, ownership and transfers need to be addressed upfront, in a participatory manner, to ensure success of such partnerships.

Ensuring competitive market behaviour, with adequate checks and balances, will be the key to successful implementation of budgetary targets

Strengthening Competitive Market Behaviour with Appropriate Checks and Balances

Whilst lessons must be drawn from the ongoing global economic crisis in terms of macroeconomic management, due diligence will need to be demonstrated in maintaining the fine balance between the need for providing the private sector the opportunities to take advantage of the market economy and the need for putting in place appropriate regulatory framework. Ensuring competitive market behaviour, with adequate checks and balances, will be the key to successful implementation of budgetary targets.

Catalysing Partnership with Private Development Agencies (including NGOs and CBOs)

Modalities towards proper use of the capacity of non-government actors will need to be developed so that programmes such as community clinic, vocational education and others can take advantage of their comparative strengths in providing the required service delivery to the poor

NGOs and community-based organisation (CBOs) have a strong track record in Bangladesh for engaging people at the grassroots level in terms of mobilising the poor, raising social awareness and undertaking development projects targeting the poor and the vulnerable. Already, the government has been partnering with private development agencies by way of operating microfinance projects through the PKSF and by making use of other avenues. Such partnerships are also in place in various areas including health and education. Government's intention to revitalise the CCs needs to be viewed positively in this connection. However, there have long been widespread criticisms from various corners with regard to the implementation mechanism and efficacy of critical social services such as public food distribution system (PFDS) and employment generation schemes for the poor. In view of this, modalities towards proper use of the capacity of non-government actors will need to be developed so that programmes such as community clinic, vocational education and others can take advantage of their comparative strengths in providing the required service delivery to the poor. A number of such successful partnerships are already there.

Pursuing Institutional Reforms

It is hoped that reforms of rules and regulations will be seen by the government as a continuing process

Many of the institutional reforms undertaken in the recent past have proved to be beneficial in raising the capacity of good governance in public administration. These should be continued and consolidated to raise the efficacy of development administration. Strengthening of local government institutions to ensure their participation in designing, implementing and monitoring of the budgetary process will be key to the success of budget FY2009-10. The capacities of RRC and BBF need to be utilised to ease regulatory burden which often acts as a strong deterrent to investment and productivity growth, and more importantly, to combat corruption by implementing simpler and more transparent rules and regulations. A number of recommendations of the BBF and RRC have already been implemented, with positive outcomes. Other recommendations await implementation. Whilst the government may have its own views with regard to these institutions and their continuity in the current form, fact remains that such bodies could be powerful allies of the government in ensuring not only good but also inclusive governance. It is hoped that reforms of rules and regulations will be seen by the government as a continuing process, since this will be the key to successful implementation of many of the budgetary targets.

CHAPTER 3

A Set of Proposals for the National Budget FY2009-10

3.1. ON THE MACROECONOMIC FRAMEWORK

The national budget for the FY2009-10 will be an important event on a number of counts, particularly in the current national and global contexts. From the national perspective, it will be the first one by the newly elected government. Arguably, it will be inspired by the election manifesto of the leading party of the ruling coalition. It is expected that the upcoming budget will accord allocations to a select set of commitments made by Awami League during the run-up to the elections.

The national budget for the FY2009-10 will be the first one by the newly elected government. Arguably, it will be inspired by the election manifesto of the leading party of the ruling coalition

However, the upcoming budget is going to be formulated in mid-term planning format which remains quite ambiguous in nature. While the present government has decided to restore the five-year planning format (supposedly from 2011), it is not obvious to what extent the poverty reduction strategy paper (PRSP) guidelines (as revised in 2008) will be a yardstick for the upcoming budget.

As the global economic crisis continues to brew, and given the overwhelmingly pessimistic short-term projections, the national budget for FY2009-10 has to take note of the challenging external environment. A set of incentives to address the negative impacts of the ongoing global crisis on Bangladesh economy has been already announced by the government. It is expected that the upcoming budget will fine tune these declared measures and probably broaden these further.

As the global economic crisis continues to brew, the national budget for FY2009-10 has to take note of the challenging external environment

In this backdrop, it is obvious that macroeconomic framework of the national budget will be underpinned by counter-cyclical fiscal measures, supported by a moderately expansionary monetary policy. To this end, the government will have to target a large public expenditure package with the possibility of running a higher deficit in the face of a modest growth of revenue collection.

Table 3.1 presents a projected fiscal structure of the upcoming budget based on the media reports. The fall in fuel import (subsidy) bill as well as net savings in food subsidy can together provide a fiscal space to the tune of Tk. 7,500 crore, as estimated by the Centre for Policy Dialogue (CPD). Indeed, the current low rate of inflation (around 5 per cent) will also be a conducive factor for the expected macro stance.

Table 3.1: Fiscal Structure of Budgets: FY2007-08 - FY2009-10

(in Crore Tk.)

Items	FY2007-08^A	FY2008-09^B	FY2009-10^P
GDP at current price	541262.5	613111.0	677733.0
Revenue earnings	58170.0	69338.0	78200.0
as % of GDP	10.7	11.3	11.5
Revenue expenditure	51453.2	61468.9	79500.0
as % of GDP	9.5	10.0	11.7
ADP	18492.0	25600.0	30500.0
as % of GDP	3.4	4.2	4.5
Total Budget	86085.0	99962.0	110000.0
as % of GDP	15.9	16.3	16.2
Deficit	25546.0	30580.0	31800.0
as % of GDP	4.7	5.0	4.7
Domestic financing as % of GDP	2.3	2.8	-
Foreign financing as % of GDP	2.5	2.2	-
Domestic financing as % of deficit	48.5	55.6	-
Foreign financing as % of deficit	51.5	44.4	-

Source: CPD-IRBD database.

Note: A stands for actual; B stands for budget; and P stands for projected figures.

Projected GDP for FY2009-10 has been calculated considering current point-to-point inflation rate of 5.04 per cent and 5.5 per cent projected real GDP growth.

Table 3.1 reveals that the fiscal structure of 2009-10, however, is not expected to undergo any dramatic change.

1. The total public expenditure package of 2009-10 may not experience any significant increase as a share of gross domestic product (GDP) (16.2 per cent).

2. The aggregate target of revenue collection, even when fully realised, will not improve the tax-GDP ratio discernibly in 2009-10 (11.5 per cent).

3. The proposed annual development programme (ADP), notwithstanding its increased size,

remains stagnant as a share of the domestic economy (4.5 per cent), although the distinction between productive and non-productive expenditures has become increasingly fuzzy.

4. The estimated deficit figures for FY2009-10, however, indicates that it may well remain within the most recent target of 5 per cent of GDP.

The defining features of the upcoming budget will be the ability of the development administration to deliver on the ADP

5. A critical aspect of deficit financing will be the ability to draw on foreign sources (particularly grant component) while domestic borrowing should not crowd out private investment demand.

The defining features of the upcoming budget will be the ability of the development administration to deliver on the ADP. In its absence the economy will be deprived of the much needed fiscal and monetary stimulus, and by default, the government will end up with a lower budget deficit.

The distinguishing aspect of implementation of the budget will be its capacity to flexibly respond to the changing global environment. A sophisticated monitoring mechanism will well serve the budget delivery mechanism in this respect.

The subsequent sections of this chapter will sequentially deal with recommendations for the budget FY2009-10 in the areas of overall fiscal measures as well as in specific sectors. Concrete proposals relating to ADP implementation and public-private partnership (PPP) has also been included here. These recommendations have been prepared by the CPD based on its own research as well as wide ranging consultations.

The distinguishing aspect of implementation of the budget will be its capacity to flexibly respond to the changing global environment

3.2 FISCAL MEASURES

3.2.1 Personal Income Tax

- Considering that the point-to-point rate of inflation has been over 10 per cent since June 2008, minimum limit for tax exemption could be re-fixed at Tk. 185,000 from the current threshold of Tk. 165,000.

- The minimum limit could be reset at Tk. 200,000 from the current level of Tk. 180,000 for women, senior citizens and disabled citizens.

- Minimum age limit for exemption of senior citizens may be reduced to 65 years from the existing 70 years (as retirement age of government employees at present is 57 years).

- In the previous budget, 25 per cent of the total income (with a maximum limit of Tk. 500,000) was set as investment allowance with a rebate of 10 per cent. This rate of rebate may be refixed at 15 per cent in order to encourage investments (maximum limit could be reset at Tk. 600,000).

Minimum limit for tax exemption could be re-fixed at Tk. 185,000 from the current threshold of Tk. 165,000

- In view of the rise in house rent, the ceiling of tax-free house rent allowance may be refixed at 60 per cent (currently 50 per cent or Tk. 15,000 whichever is lower) of the basic salary. However, the maximum limit may remain at Tk. 20,000. The measure will require the limit of total perquisite to be reset at Tk. 260,000.

- Tax on interest on Pratirakkha Sanchay Patra (PSP), Bangladesh Sanchay Patra (BSP), and 3-Monthly Profit bearing Sanchay Patra (3-MSP) should be waived.

- Section 16-D: Dividend Distribution Tax could be reintroduced.

3.2.2 Corporate Tax

- Corporate tax rate of 27.5 per cent for listed companies could continue in FY2009-10. For non-listed companies, the existing rate of 37.5 per cent could be reviewed downward to 35 per cent in view of the adverse impacts of the global economic slowdown.

For small and medium enterprises, the turnover limit could be refixed at Tk. 30 lakh

- Extend the ambit of the highest corporate tax slab (45 per cent) applicable in the cases of banks and insurance companies to include other high profit making service industries. Rebates could be provided to banks on income accruing from loan disbursed for industry (including SMEs) and agriculture sectors.

- In the budget for FY2008-09, small and medium enterprise (SME) sector was given income tax relief by defining SMEs as entities having annual turnover below Tk. 24 lakh. The turnover limit could be refixed at Tk. 30 lakh in view of the sector's increased role in exports and employment creation, as well as the recently experienced high inflation rate.

3.2.3 Value Added Tax (VAT)

- Dedicated funds should be allocated to ensure proper implementation of earlier decision on VAT inclusive maximum retail price (MRP).

- Government should enforce the use of electronic cash registers (ECRs) to enhance VAT collection for all medium and large enterprises located at divisional and district level towns.

Government should enforce the use of electronic cash registers to enhance VAT collection

3.2.4 Customs Duty (CD) and Supplementary Duty (SD)

- In view of the ongoing global crisis and its impact on domestic industries, the government may contemplate on temporarily adjusting tariff slabs.

    - The existing slab of 3 per cent on capital machineries, spare parts and industrial raw materials could be made zero tariff, perhaps only for this year. This has to be concurrently applicable for the 1 per cent duty imposed on imported capital machineries (which is used for export purpose).

    - However, the National Board of Revenue (NBR) will need to come up with a list of sensitive products, zero tariff import of which may affect domestic industries (a critical example may include the import of yarn which is domestically produced). Existing rates of duties on these sensitive products will need to continue.

    - To make up for the revenue loss the government may increase tariff rates on selected finished products (mainly luxury items). CD and SD on luxury goods (i.e. luxury cars above 1500 cc), all sorts of alcohols (except for alcohols imported for pharmaceutical usage) may be increased in order to compensate for the government's loss.

In view of the ongoing global crisis and its impact on domestic industries, the existing slab of 3 per cent on capital machineries, spare parts and industrial raw materials could be made zero tariff

- CD and SD on raw materials for manufacturing cigarettes and similar items could be increased (existing 60 per cent SD on the raw materials could be increased to 80 per cent, and 20 per cent SD on the papers used in packaging could be increased to 30 per cent) to reduce health hazards and environmental pollution.

- Companies/sectors enjoying tax holiday should be exempted from advance income tax (AIT) at import level.

- All dyes, chemicals and other raw materials used in the textile sector for the purpose of export may not have more than 5 per cent import duty for this year, in view of the financial crisis.

Emphasis needs to be put on establishing strategic SEZs with special tax incentives

- In case of products which are manufactured largely based on imported intermediate products, difference in the CD between raw materials and intermediate products may be narrowed down at a higher pace compared to the differences usually maintained between the two rates (from existing difference of 5 per cent to 3 per cent). However, this should be treated as a temporary measure.

3.2.5 General Export Support Measures

- Currently, the government subsidies availed by selected exporting sectors are subject to tax at a rate of 5 per cent. This tax could be withdrawn for this year.

- Emphasis needs to be put on establishing strategic special economic zones (SEZs) with special tax incentives (i.e. lower duty or zero tariffs on import).

3.2.6 General Measures for Import Substitution and Domestic Industrial Support

In order to promote the ship-building sector in the country, the government could provide bonded warehouse and tax exemption on raw materials to this sector

- While determining the income from industrial activities, deduction may be allowed for additional expenditure on compliance, expenditure incurred for the welfare of the employees, research and development (R&D) expenditure and sampling expenses.

- Government may consider allocating funds for establishment of an Integrated Textile Park (ITP). The main purpose of introducing the ITP is to provide entrepreneurs with adequate infrastructure facilities for setting up their textile units.

- The coverage of the Equity Entrepreneurship Fund (EEF) was targeted to information technology (IT)-related industries in FY2008-09 budget. In FY2007-08, EEF allocations were targeted to agro-based industries. To encourage and promote agro-processing industries, the government could consider allocating fresh EEF funds for this sector in the budget for FY2009-10.

- In order to promote the ship-building sector in the country, the government could provide bonded warehouse and tax exemption on raw materials to this sector. The government may also consider declaring this sector as a thrust sector when announcing the export policy.

To develop and strengthen backward linkage industries, a Technology Upgradation Fund may be created

- To develop and strengthen backward linkage industries (particularly for readymade garments (RMG), leather, textile, jute and other selected industries), a Technology Upgradation Fund may be created (perhaps with an allocation of Tk. 300 crore). Credit provided under this scheme on concessional rates of interest will assist industries to undertake technological restructuring initiatives and modernise their plants through installation of new machines and state-of-the-art technologies.

3.2.7 Special Tax Benefits

- The provision of legalising income from disclosed sources (where taxes were not paid before) by paying a penalty of 7 per cent on the tax payable, along with the regular taxes, may continue in FY2009-10.

- With regard to undisclosed income, it has been seen that in spite of repeated opportunities to legalise such money by paying fine at a certain per cent of the concerned money for each year of evasion, the experience has not been good, and no substantive amount could be harnessed by the taxation authorities. Besides, this also creates disincentive for honest and regular taxpayers. The measure has lost its teeth and continuation of this opportunity again in FY2009-10 budget can hardly be justified and need not be continued.

Opportunities to legalise undisclosed income again in FY2009-10 budget can hardly be justified and need not be continued

- Agro-based industries could be provided with tax holiday facility for the next five years (FY2009-10 - FY2013-14).

- Government, in light of the Industrial Policy 2009 (draft), may provide 100 per cent export-oriented industries located outside the export processing zone (EPZ) same incentives and facilities provided to the industries located in EPZs (where it is possible).

- Government may extend tax holiday facility to a number of potential new industries. These new industries may be included from the list of thrust sectors proposed in the draft "Industrial Policy 2009." For example, active pharmaceutical ingredients (API), polymer production industries, leather products, cosmetics and toiletries, furniture, etc.

Government may extend tax holiday facility to a number of potential new industries

- In the last budget, government increased the threshold level of turnover for imposition of VAT on SME enterprises from Tk. 20 lakh to Tk. 24 lakh. Considering high value addition, employment generation and substantial domestic market orientation by SMEs, government may consider increasing the limit to Tk. 30 lakh.

3.2.8 Retirement Age and Salary-scale of Government Employees

- Increase the retirement age of government employees from 57 years to 60 years.

- Make necessary provisions for speedy implementation of the recommendations of the Pay Commission report.

3.2.9 Miscellaneous

- Tax on not-for-profit research institutions should be waived since such taxes amount to tax on knowledge.

- Taking cognisance of the need to further curtail population growth rate, the government may design an incentive package (perhaps monetary) after a certain age, for all government employees who have only one child.

The ambit of LTU needs to be expanded in order to enhance opportunities for tax mobilisation

3.2.10 Restructuring Tax Administration

- The ambit of large taxpayers' unit (LTU) needs to be expanded in order to enhance opportunities for tax mobilisation. As is known, currently 51 banks, 61 insurance companies, 33 investment and leasing companies, 6 cell-phone operators, 9 cement companies, 11 pharmaceutical companies, 107 manufacturing companies, 4 newspapers, and 706 directors of the above mentioned companies are under the LTU jurisdiction.

- Evasion of CD could be reduced substantially if an appropriate monitoring system is developed within the NBR. Data on revenue collection could be passed on to the NBR monitoring cell on a regular basis if online network is developed between the customs points and the NBR.

Government may consider limiting the practice of making mid-term changes of duty through SRO

- Dispersion of duty rates needs to be reduced in the context of 4-digit tariff heads. This would reduce the scope for tax evasion and abuse of discretionary power by the tax authorities.

- If an assessee defaults in paying taxes, the Deputy Commissioner of Taxes (DCT) has the authority to impose penalty upto the amount of the defaulted tax. In this context, specific rates of penalty could be fixed (depending on the size of default) to reduce the scope for possible abuse of discretionary power of tax officials.

- Government should assess the impact of tax holiday and other incentive measures to explore relative advantages of alternative options (i.e. through accelerated depreciation charge or a uniform reduced tax rate) and introduce appropriate changes.

- Government may consider limiting the practice of making mid-term changes of duty through statutory regulatory order (SRO), except in exceptional cases like natural disasters and other emergencies.

VAT-related appeals should be settled within nine months instead of the current threshold of one year

- An employer has to submit information regarding payment of salary and tax deduction at source as per section 108 of Income Tax Ordinance 1984 to the concerned DCT office. Emphasis should be given for strict implementation of the provision. In this regard, each DCT office could prepare/update a list of organisations at the beginning of each financial year and serve notice for non-submission of return at the end of submission deadline.

- It needs to be ensured that certification of tax assessment is submitted at the time of trade (or any other) license renewal.

- VAT-related appeals should be settled within nine months instead of the current threshold of one year.

3.3 AGRICULTURE, RURAL DEVELOPMENT AND REGIONAL DEVELOPMENT

3.3.1 Agriculture

Special projects can be initiated for promotion of Boro rice cultivation in the coastal areas

Crop Sector

- *Promotion of Boro rice cultivation in the coastal areas:* Additional one million hectares (ha) of land in coastal areas could be brought under cultivation during the dry season (late Boro and Aus), if tillage and irrigation facilities can be created. It is also possible to increase area under high-yielding Aman rice particularly in the coastal belt. Therefore, special projects can be initiated under the ADP or allocation to the Department of Agricultural Extension (DAE) can be made for undertaking special projects to realise these opportunities.

- *Promotion of non-rice crops in the Barind Tract during the dry season:* Scarcity for irrigation water in the dry season is becoming increasingly prominent in the northern, and particularly in the Barind Tract region. Predictions about climate change indicate that the situation could aggravate in the coming years. Consequently, water-efficient crops (pulses, onions, maize) will need to be promoted during the Rabi season in those areas. Cultivation of different types of horticultural crops (mango, jujube, guava and other fruits) will also be beneficial. To this end, distribution of free seeds and saplings, supported by training of farmers would be necessary. Budgetary allocation to the Ministry of Agriculture and (MoA) Ministry of Forest and Environment for undertaking such programmes on a large-scale basis will be needed.

Cultivation of different types of horticultural crops and water-efficient crops will need to be promoted during the Rabi season in Barind region

- *Allocation of Tk. 100 crore as "Seed Production Fund" for production and distribution of improved seeds:* This fund may be utilised for: (i) production of Breeder's seed of recently released varieties of rice and other crops by different agricultural research institutes and universities, which will subsequently be distributed at a subsidised rate to the Bangladesh Agricultural Development Corporation (BADC), private seed companies and non-government organisations (NGOs) for production of truthful level (TFL) seed to be used for cultivation by the farmers; (ii) procurement of quality seeds, particularly those of recently released varieties such as BRRI Dhan 47 suitable for cultivation in salinity-prone areas during Boro season, and BRRI Dhan 40 and BRRI Dhan 41 suitable for cultivation in salinity-prone areas during the Aman season which will help increase the ability of the public sector to supply quality seed for rapid expansion of modern varieties; (iii) to distribute parental lines of hybrids, encourage production of hybrid rice seed within the country by the public sector agencies such as BADC, Bangladesh Rice Research Institute (BRRI), Bangladesh Institute of Nuclear Agriculture (BINA) and agricultural universities, as well as private seed companies and NGOs involved in seed production and marketing; and, (iv) production of improved seed for chickpea, lentil, onion, and true potato seed, and for distribution at a subsidised rate in areas with high production potential.

Tk. 100 crore may be allocated as "Seed Production Fund" for production and distribution of improved seeds

- *Allocation of adequate fund for fertiliser subsidy:* It is often argued that annual demand for fertilisers estimated by the MoA is less than the actual requirement for Urea, triple super phosphate (TSP) and muriate of potash (MoP) particularly in view of the recommendations made by the Bangladesh Agricultural Research Council (BARC) to attain high-yield goals. Based on a thorough review of actual fertiliser demand, adequate resources should be allocated as subsidy for fertilisers.

- *Continuation of subsidy on electricity for irrigation and promote electricity-operated modern irrigation system:* The existing provision of 20 per cent subsidy on electricity used for irrigation should be continued. Currently, one-fourth of the total irrigated area is under electricity-operated irrigation system. Bangladesh's irrigation cost (about Tk. 10,000 per ha) is 2-3 times higher than that of India (Punjab, Andhra Pradesh), Thailand and Vietnam mainly due to the prevalence of diesel-operated irrigation system in the country. Adequate supply of electricity for irrigation and extended coverage of rural electrification will reduce cost of irrigation and sustain economic activities in rural areas. Promotion of alternative energy sources (e.g. compressed natural gas (CNG)) will also be beneficial.

Adequate resources should be allocated as subsidy for fertilisers

- *Special allocation for training of farmers and extension officials:* Focused training programmes should be designed with adequate budgetary support for training of farmers, and upazila and block level agricultural extension workers.

Modernisation of extension system with greater use of information communication technology (ICT) for extension services such as toll-free mobile phones, dedicated programmes on the TV channels on production, processing and marketing techniques can be promoted through allocation of funds to the DAE and Agricultural Information Service (AIS) in the upcoming budget.

Minimum price with adequate incentives over the cost of production needs to be ensured

- *Allocation of adequate funds and incentives for agricultural research:* This is essential to foster technological innovation with priority for generation of technologies with tolerance against biotic stresses such as pests and diseases, and abiotic stresses such as drought, salinity and submergence. To this end, adequate investment for infrastructure development and capacity building for biotechnology, remote sensing and geographic information system (GIS) is needed. In the budget of FY2007-08, Tk. 350 crore was allocated as Endowment Fund for agricultural research which could not be utilised due to lack of utilisation procedure.

- *Ensuring minimum price with adequate incentives over the cost of production:* This is necessary for sustaining the high growth rates of crops. Procurement price can play an important role in this regard. Recently, rice and paddy prices in many areas went below the production cost. In this context, the government has set and declared procurement price of paddy at Tk. 14 per kg and that of rice at Tk. 22 per kg. This is roughly 10 per cent above the cost of production and it appears to be a reasonable price. Procurement target has been set at 12 lakh tonnes of rice and an upward revision of the procurement target will be required to have impact on market price. Similar initiatives need to be continued in FY2009-10.

Import duty of power pumps should be reduced to "zero" tariff

- *Imposition of duty on rice import:* Domestic rice production over the past few consecutive seasons had been commendable. However, this has had depressed the domestic market price of rice which has fallen below the production cost. India at present has a ban in place on rice export which might come to an end soon. Cost of rice production in India is lower than Bangladesh due to the substantial level of subsidy provided to the Indian farmers. Public food stocks in India are currently more than double of their buffer stock norm, and in this context Bangladesh should reimpose import duty at the rate of 15 per cent on rice with primary objective of discouraging rice import.

- *Allowing duty-free import of power pumps:* At present, import of power pumps requires paying 3 per cent duty. It should be reduced to "zero" tariff.

- *Reduction of duty on agricultural tractor:* CD on agricultural tractor (HS 8701.90.10) is 10 per cent, plus 3 per cent AIT, and 1 per cent at pre-shipment inspection (PSI). On the other hand, in case of road tractor custom duty is only 5 per cent. Duty on agricultural tractor should be about 5 per cent and the AIT should be withdrawn.

Government needs to undertake special programmes for vaccination of poultry birds in order to reduce the possibility of epidemics

Livestock and Poultry

- *Special projects to combat spread of contagious diseases like bird flu, foot and mouth disease:* Growth of poultry and livestock sector is constrained by prevalence of deadly diseases such as bird flu and foot and mouth disease. Government needs to undertake special programmes for vaccination of poultry birds in order to reduce the possibility of epidemics. Actions for prevention of bird flu need to be enhanced and further strengthened. Ongoing programmes to address the situation (about Tk. 40 crore annually under two projects) are inadequate particularly considering the development of other deadly diseases such as swine flu, which has been reported in many countries around the globe.

- *Expansion of medical and technical services for dairy and poultry development:* Production of all types of livestock and poultry products such as meat, milk and eggs have increased very rapidly in the recent past. Unfortunately, services provided for the livestock and poultry sector have not been able to keep pace with the recent rapid expansion of the sector. Therefore, the budget should take steps for expansion of service facility and provision for appointment of more livestock officers and veterinarians in districts and upazilas with intensive animal and poultry farming such as Gazipur, Narsingdi, Savar, Daudkandi (Comilla).

Medical and technical services for dairy and poultry development in districts and upazilas with intensive animal and poultry farming may be expanded

- *Increasing duty on import of milk powders:* Domestic milk producers are unable to compete with subsidised milk exports from international markets. Government could consider increasing existing CD from 12 per cent to 25 per cent (for HS code 0402.10.90 and 0402.21.90) on imports on milk to protect domestic producers and foster growth in domestic milk production.

- It is necessary to continue the existing policy of exemption from all duties and taxes on raw materials for dairy and poultry feed, medicine, other medical inputs and capital machineries required by the livestock and poultry sector.

- It is necessary to continue existing CD (25 per cent) on import of poultry products (mainly meat and eggs).

- Growth in milk production could be accelerated if a minimum price (20 per cent over the production cost) could be assured. Currently, several companies are engaged in milk processing. These companies may be provided with some incentives such as loan with low interest, and/or income tax exemption, if they guarantee a minimum price ensuring 20 per cent mark up over production cost for milk procurement.

Duty on import of milk powders may be increased to protect domestic producers and foster growth in domestic milk production

Fisheries

- *Establishment of Broodstock Banks:* Commercial cultivation of pond fish has increased enormously in recent years. However, lack of availability of quality fingerlings is a persisting problem that has inhibited growth of this sector. On the other hand, production and availability of quality fingerlings depend on the broodstock (mother fish). Demand for broodstock may be met through establishment of Broodstock Banks for different types of fish such as ruhi, katla, tilapia, freshwater prawn (Macrobrachium rosenbergii). It is difficult to internalise the benefits from such initiatives by the private sector. Appropriate allocation in the budget is urgently needed for establishment of Broodstock Banks.

- *Adequate allocation needs to be provided for development of water environment and increasing productivity in the open sources:* Fish production in rivers and canals has significantly decreased during the last three decades due to environmental degradation and unplanned extraction of these natural resources.

Improvement in water quality by introducing pollution tax to the polluting industries can be considered

- *Improvement in water quality by introducing pollution tax to the polluting industries:* Open water fisheries resources particularly in rivers, canals and creeks are facing water pollution mainly due to release of untreated industrial wastes and chemicals by the polluting industries established in the riverside. Industrial waste treatment should be mandatory and pollution tax must be imposed on the violators.

- *Special programmes to combat shrimp and fish diseases:* Shrimp and fish cultivation in the coastal belt is now being carried out on a small-scale basis. Many fish ponds are now owned by small farmers. Very often these small fish farmers have to face shrimp diseases which create a threat to their continuity in business. Special projects under the Directorate of Fisheries to cater to the need of small fisheries farmers and help sustain growth of fisheries production are urgently needed.

Setting up a Commission for Agricultural Costs and Prices can be considered with the responsibility of collecting information on cost of production of various agricultural commodities and suggesting procurement prices for commodities that government would like to procure

- Rapid growth in fisheries sector demands better services. Appointment of more fisheries officers in intensive fish cultivation areas such as Bagerhat, Satkhira, Khulna, Bhaluka, Muktagachha and Daudkandi is urgently needed. Budgetary allocation for filling up of vacant positions and creation of new positions would be required.

Overall Agricultural Development

- *Setting up a Commission for Agricultural Costs and Prices (CACP):* This Commission may be entrusted with the responsibility of collecting information on cost of production of various agricultural commodities and suggest procurement prices for commodities that government would like to procure.

- *Establishment of sanitary and phytosanitary (SPS) compliant facilities for promotion of exports of shrimps, fish, vegetables and fruits:* Exports of shrimp, fish products, vegetables, fruits and other agricultural commodities have increased in recent years. However, export growth has been constrained by lack of SPS compliant facilities and certification system. Provisions for establishment and functioning of such system through collaboration among Bangladesh Standards and Testing Institution (BSTI), MoA, Ministry of Livestock and Fisheries should be made through the budget.

Increased supply of agricultural credit is necessary in order to overcome shortage of working capital for production

- *Increased supply of agricultural credit:* This is necessary in order to overcome shortage of working capital for production of crop, livestock, poultry and fish. This can be achieved through a well coordinated initiative by the government by involving Krishi Banks, nationalised commercial banks (NCBs), private banks and NGOs providing microcredit. Targets for agricultural credit disbursement in FY2008-09 is Tk. 9,000 crore, and actual disbursement during July-March of FY2008-09 was Tk. 6,907 crore. Higher targets for agricultural loans may be set in the budget.

- *Extension of marketing opportunities:* Sustained growth in production depends on the extent of profit and availability of marketing opportunities for such products. Government needs to undertake a special programme for development and maintenance of rural road networks, establish different types of *krishi bazars* for farmers, particularly in the intensive production areas (for example, Munshiganj for potato, Jessore and Comilla for vegetables, Nawabganj and Naogaon for fruits).

Continuation of zero tariffs for import of necessary inputs should be emphasised

- *Continuation of zero tariffs for import of necessary inputs:* Continue zero tariffs/low tariffs for import of different kinds of seeds, breeding animals, and broodstock. Duty-free import of fertilisers should also be continued. For maintaining quality of products in agro-processing industries, import of vitamin and micronutrients may be exempted from any duty.

3.3.2 Regional Development

- Recently released poverty mapping, prepared by the Bangladesh Bureau of Statistics (BBS) and the World Bank, has identified major poverty-prone upazilas in Bangladesh. These are mainly concentrated in the Kurigram, Rangpur, Lalmonirhat, Mymensingh, Satkhira, Bagerhat, Patuakhali, Barguna and Bandarban districts. Along with special incentives for the lagging regions, adequate infrastructure, access to utilities, services and other forms of support will be required to be provided in order to stimulate investment facilities and employment opportunities. Although policymakers have expressed concerns about increasing regional inequality, and taken some steps to address the issue, public expenditure does not fully reflect this. Analysis of district-wise development and non-development expenditure of the government in FY2007-08 shows that the top three hardcore poverty-prone divisions (Barisal, Rajshahi and Khulna, according to Household Income and Expenditure Survey (HIES) 2005) had actually received the lowest (Tk. 5,800, Tk. 5,600 and Tk. 5,000 respectively) per capita government expenditure (combined development and non-development expenditure).

Along with special incentives for the lagging regions, adequate infrastructure, access to utilities, services and other forms of support will be required to be provided in order to stimulate investment facilities and employment opportunities

- Maximum attention should be accorded towards developing small towns to help them emerge as economic hubs of the respective regions. This would be beneficial for diverting growth of backward regions and decentralising the process of growth favouring the underdeveloped regions.

- Reactivation of Mongla Port is of utmost importance for increased income and employment opportunities in the western part of Bangladesh. Mongla is constrained by poor land and maritime accessibility and non-developed highway corridor with major ferry service. Dredging of the *Passur* river entrance to the Mongla Port (85 km) should be taken as a project under the ADP which can be a component of the overall development of the Mongla Port.

- Remittance is one of the major driving factors in reducing poverty level in Bangladesh. Initiatives need to be taken to send more people from lagging regions for overseas employment. Special skill development programmes and credit support programmes need to be initiated towards this. The initiatives taken in this regard by Palli Karma-Sahayak Foundation (PKSF) should be enhanced.

Reactivation of Mongla Port is of utmost importance for increased income and employment opportunities in the western part of Bangladesh

- Seasonal migratory workers are engaged in different farm-related activities in Netrakona, Sunamganj, Bhairab, Comilla and some other areas, and in non-farm activities in various different metropolitan cities. The government may think about establishing a service in the post office system to help the migratory workers send money quickly to their families with a minimum service charge.

- Government may allocate training and skill development fund for rural unemployed youth to train them for repairing agricultural machineries at the vocational training centres.

3.4 INDUSTRY, CAPITAL MARKET, CONSTRUCTION (REAL ESTATE) AND OTHER SECTORAL MEASURES

3.4.1 Sector-specific Proposals

Readymade Garments (RMG)

- Government may extend the time limit for exporters to submit their claim for duty draw back, which is currently fixed at 6 months.

Government may extend the time limit for RMG exporters to submit their claim for duty draw back

- Government may allocate fund for R&D in the RMG sector under the ADP of FY2009-10. This fund would be provided at a subsidised rate to RMG units having R&D facilities of their own.

- A Cluster Development Fund may be set up for entrepreneurs to obtain financial support and develop specialised service facilities in various RMG factory zones.

Government may consider raising existing level of cash incentives provided to backward linkage textile and yarn manufacturing units

Textile Industry

- Government may consider raising existing level of cash incentives (5 per cent) provided to backward linkage textile and yarn manufacturing units.

- In order to comply with international standards on environment, import duty on effluent treatment plant (ETP) can be reduced from the existing level of 1 per cent to 0 per cent. This measure should be applicable to ETP imported in completely knocked down (CKD) from multiple sources.

Jute Industry

- In order to ensure sustained level of growth of the jute industry, government should consider long-term measures for this industry with particular focus on enactment of laws for ensuring wider use of jute goods at domestic level. Establishment/expansion of separate academic departments dealing with production and innovation of jute products, under the institutional set up of textile colleges, should be considered with special importance.

Ship-building industry, which is included as a thrust sector in the draft Industrial Policy 2009, should enjoy special facilities including tax holiday and low interest credit facility

Frozen Foods Industry

- A special allocation is needed to take preventive action against bacterial infection of shrimp. This fund could be used for taking curative action at the level of shrimp production as well as development of laboratory testing facilities.

Ship-building Industry

- Ship-building industry, which is included as a thrust sector in the draft *Industrial Policy 2009*, should enjoy special facilities including tax holiday and low interest credit facility. The industry should get priority in the "Export Development Fund" which allows access to credit to the tune of USD 1.0 million to USD 1.5 million.

High-tech Industry

- The basic infrastructure for high-tech park (phase 1) at Kaliakoir should be completed as early as possible. However, the allocation of fund and its disbursement during FY2007-08 and FY2008-09 was not satisfactory. Government should increase ADP allocation for this park in FY2009-10, and complete the work within the shortest possible time.

In view of enhancing the ICT sector, government should consider extension of tax holiday facility for software and IT-enabled services for another 5 years

- Government should allocate ADP fund for the establishment of an integrated Software Technology Park.

- In view of enhancing ICT sector, government should consider extension of tax holiday facility for software and IT-enabled services for another 5 years.

- Government may allocate ADP fund for establishment of broadband internet-enabled common service centres in rural areas and put in place a scheme for establishing nationwide area networks.

- Government had allocated Tk. 7 crore in FY2008-09 for establishment of API Industry Park. In view of huge amount of fund required to establish such a park (Tk. 213 crore), the limit of fund should be increased in the next fiscal.

Worker-related issues

- It is worthwhile to mention that government has already initiated a programme to distribute rice among garment workers at a subsidised rate since April 2009 in four major areas. This is a welcome initiative, and it should be extended in other areas in a phase by phase manner.

The programme to distribute rice among garment workers at a subsidised rate should be extended in all areas in a phase by phase manner

- In FY2008-09, government has allocated fund (Tk. 20 crore) to support low-income workers particularly for working mothers in the garment sector. This programme should be continued in the next fiscal.

3.4.2 Budget Proposals related to SMEs

- Government may consider increasing allocation of fund under the EEF from the existing level of Tk. 300 crore to Tk. 500 crore. Higher share of this additional fund can be allocated for agro-based industries since application of fund for agro-based industries has exceeded existing allocated limit for this sector.

- The coverage of the EEF may be expanded beyond agro, agro-processing and IT-related projects. This fund may be extended to some other potential labour-intensive industries such as light engineering, plastic, melamine and electronics.

The coverage of the EEF may be expanded beyond agro, agro-processing and IT-related projects, such as light engineering, plastic, melamine and electronics

- Government has increased allocation for SME Fund from Tk. 500 crore to Tk. 600 crore as part of the stimulus package, which is a welcome step. However, government should take steps to make this fund available for entrepreneurs of SMEs from all over the country.

- Special budgetary allocation is needed to ensure SMEs' access to commercial credit. The allocation of fund under the Refinancing Scheme which was introduced earlier should be increased from its existing level of Tk. 100 crore to Tk. 300 crore.

- In order to support domestic market-oriented industries, various types of duties related to domestic market based SMEs, may be brought at the same level to that applicable to export-oriented SMEs.

- In accordance with the draft Industrial Policy 2009, government should allocate fund for development of infrastructural facilities in all BSCIC areas to make them operational.

- SME foundation needs to be made effective and operational to facilitate various services to SMEs of the country, including disbursement of credit under its "credit wholesaling programme."

3.4.3 Budget Proposals related to Capital Market

Special budgetary allocation is needed to ensure SMEs' access to commercial credit

- In the national budget of FY2008-09, government had declared its intention to offload shares of 21 state-owned enterprises (SoEs) (9 from power sector, 10 from industrial sector and 2 from telecommunication sector). Because of various administrative and other difficulties, offloading of all the shares could not be completed in time. Government should fix a timeline to offload shares of the SoEs in the capital market and implement this timeline.

- In view of the large amount of funds required to establish "Padma Bridge", government may offload bond in the capital market to mobilise a part of required fund.

In order to encourage non-listed companies to be listed in the capital market, tax rate differentials between listed and non-listed companies should be continued

- In addition to expediting the process of offloading shares of Grameen Phone, government should encourage other telecom companies to offload a certain portion of their shares in the capital market.

- In order to encourage non-listed companies to be listed in the capital market, tax rate differentials between listed and non-listed companies should be continued.

3.4.4 Budget Proposals related to Real Estate, Construction and Housing Sector

- Government may consider reduction of the rate of stamp duty and other ad valorem taxes and charges on sale/transfer of apartment buildings.

- The ban on the import of reconditioned equipments and machinery may be lifted and the import duty on new and reconditioned capital machineries should be reduced.

- All linked industries of the construction sector such as manufacturing of bricks, cement, rods, furniture, paints and tiles should be supported by various policies. AIT, advance trade VAT (ATV) on bricks, iron/steel may be withdrawn in order to reduce the cost of production of these materials. It is to be noted that India has slashed excise duty on bulk cement by 2 per cent in order to boost the cement industry which had been reeling under the slowdown.

Government may consider reduction of the rate of stamp duty and other ad valorem taxes and charges on sale/transfer of apartment buildings

- Government can set guiding rules for land pricing which may vary depending on location. It is important to rationalise land valuation by increasing existing rates to reflect market prices for different locations. Government could also consider rationalising the minimum value of flats and apartments for tax purposes reflecting current market prices and locational variations, and lower the registration fee.

- Government had initiated a number of projects in FY2007-08 for development of housing facilities for people with limited income in different regions, i.e. Dhaka, Chittagong and Pabna. Implementation of those projects as well as fresh allocation of fund for construction of new projects in other regions should be expedited.

- According to the budget speech of FY2008-09, during FY2007-08, 1,000 flats had been handed over to shelterless slum dwellers and low-income families and 5,000 flats were to be handed over to the underprivileged by December 2008. Government should allocate fund for continuation of these initiatives in FY2009-10.

Government can set guiding rules for land pricing which may vary depending on location

3.5 ENERGY, INFRASTRUCTURE AND COMMUNICATION

3.5.1 Energy

Electricity

- To accommodate the load shedding problems many industries have set up their own captive power generation facilities. However, there is a renewal registration fee (Tk. 500,000 per year) for using generators in the captive power plants which increases cost of production, and thus deters reinvestment in other captive plants. By waiving the renewal fee, the government could encourage entrepreneurs to invest in captive power generation.

By waiving the renewal fee, government could encourage entrepreneurs to invest in captive power generation

- Most of the power plants in Bangladesh are very old and worn-out and thus operates at less than efficient levels. This manifests itself in large amount of gas wastage in production. Work on complete overhauling of the power plants machineries (nearly 40 power plants with an installed capacity of 1,252 mega watt (MW) are more than 20 years old) may be initiated. Allocation may be granted in the ADP of the FY2009-10 budget for refurbishment of worn-out parts. This may be conducted in a phase by phase manner consisting of maintenance, repair and reconstruction of such machineries. Projects targeting refurbishment of other plants also need to be speeded up. Bheramara Power Plant Project has currently been halted due to shortage of gas. The supply of gas may be diverted to Bheramara by shutting down some of the old and worn-out power plants.

- Locally delivered finished goods to independent power producer (IPP) project, or rental power plants could be considered either as deemed export, or zero CD should be allowed for imported raw materials which are ultimately used to prepare those finished goods. The government may consider abolishing the 1.5 per cent ATV on import of generators.

Existing foreign and local companies in Bangladesh which are directly involved in rental and IPP project enjoy advantages of zero CD for importing transformers and all sorts of other electrical equipments. However, Bangladeshi companies which supply electrical transformers and other electrical equipments to those companies who are involved in rental and IPP projects are not being awarded same treatment. However, in India, local companies enjoy zero CD advantage or are considered as "deemed export" worthy when they supply goods to the companies related to IPP. Benefit of deemed export is also available for renovation and modernisation of power plants in India.

Allocation may be granted in the ADP for refurbishment of worn-out power plants parts. This may be conducted in a phase by phase manner consisting of maintenance, repair and reconstruction of such machineries

Renewable Energy

- Existing CD of 3 per cent and ATV of 1.5 per cent on solar panel may be eliminated.

- To promote in public interest, generation of electricity based on renewable sources, the renewable energy sector ought to be exempted from all duties. Government could consider providing assistance and support for the generation of localised renewable energy and its distribution.

Nuclear Energy

- Special fund may be allocated for techno-feasibility study on establishment of nuclear power plant.

- Modalities to safely store imported uranium and thorium needs to be identified and studies may be conducted on the techno-economic viability of production at prospective sites.

Special fund may be allocated for techno-feasibility study on establishment of nuclear power plant

Coal

- A special fund may be created for the creation of Coal Bangla (*Khani Bangla*) with a long-term strategic focus.

A separate entity is needed to deal with coal exploration, transmission and management issues. Once the Coal Policy is finalised, which should be done speedily, the Coal Bangla may design a master plan ranging from 5-10 years for coal exploration, and installation of a 2,000 MW coal-based power plant in the country (as was mentioned in the Coal Policy master plan). A number of tasks including human resource development and effective regulations need to be completed in this regard.

Once the Coal Policy is finalised, which should be done speedily, the Coal Bangla may design a master plan ranging from 5-10 years for coal exploration, and installation of a 2,000 MW coal-based power plant in the country

Gas

- A new allocation in ADP is required for gas exploration, transmission and management. The latest discovery of gas took place in May 2006 amounting to a paltry 0.44 trillion cubic feet (tcf) of gas at Bangura. There has been no major gas exploration effort since 1998 and consequently no major discovery of gas. Regrettably, last year's ADP did not mention about any project that was targeted towards gas exploration.

- It is imperative to install compressors at different points in the gas transport pipeline in order to increase pressure. This will help increase the flow of gas through the pipelines and will enable supply of adequate gas to the power plants, which are now operating at under capacity due to shortage of gas. According to CAIRNS, installing a compressor will extend field life by 15 years.

- A separate cell on National Resource Research wing can be set up under the respective ministry. A special allocation may be announced for this research cell in the FY2009-10 budget. The objective of such a cell would be to undertake 3D seismic readings of the country's geographic surface in order to aid gas, oil, and coal exploration and also to keep tabs on the state of the country's natural reserves.

New allocation in ADP is required for the project titled "Integrated Chittagong Port Modernisation Project for the Transportation of Coal"

3.5.2 Infrastructure and Communication

- New allocation in ADP is required for the project titled "Integrated Chittagong Port Modernisation Project for the Transportation of Coal."

- Government should demonstrate openness to the idea of importing coal. In order to do this, the draft of channels at Chittagong port needs to be improved (deepened and widened) so that high tonnage vessels could berth at these ports. This ought to be an integrated programme because to facilitate setting up of port-mouth plants, land needs to be identified, coal unloading facilities such as conveyer belts, development of rail-tracks for internal movement and other arrangements need to be made. Government may consider establishing coal based 1,000 MW power plant by importing coal either from Indonesia or Australia, for the time being, and in the mean time explore all possibilities of using our own coal resources for identifying modalities to exploit the highly potential coal resources of the country.

Allocation could be made in the ADP for conducting the techno-feasibility study, on "Establishing Rail Connection through Mongla Port"

- Allocation could be made in the ADP for conducting the techno-feasibility study, in terms of "Establishing Rail Connection through Mongla Port." The rail connection will establish a link between the South-West part of the country with Nepal and India as well as other parts of the South Asian region which will subsequently promote regional and global trade. As the project of establishing Padma Bridge is already under progress, in near future both these initiatives could be connected.

- It is urgently necessary to modernise and enhance cold storage facilities at the Dhaka and Chittagong Airports. Due to inadequate cold storage facility for export of perishable goods, essential life savings drugs, pharmaceuticals etc. at the airports, importers/exporters are facing problem in arranging a timely shipment schedule.

- Although ADP funds have been allocated to several ongoing infrastructural projects (e.g. four-lane Dhaka-Chittagong Express Highway, Jessore-Benapole Highway, Gulistan-Jatrabari Flyover, etc.), implementation of these funds need to be expedited.

The budget for FY2009-10 should introduce new support programmes for vulnerable and deprived people using the new poverty map as a point of reference

3.6 SOCIAL PROTECTION, HEALTH, EDUCATION AND ENVIRONMENT

3.6.1 Social Safety Net

Cash Transfer (Allowance) Programmes

- The adverse impact of the ongoing global financial crisis is being increasingly felt by Bangladesh economy. The impact and magnitude of the crisis vary across communities and groups. In this regard, existing social protection allowances for the people who are poor senior citizens, deserted and destitute women, poor lactating mother, orphan children and ethnic minorities' persons need to be revisited. These programmes should be strengthened by raising the existing per person allowance by 20-30 per cent and expanding the programme coverage by 20-30 per cent.

Government needs to incorporate Climate Change Refugees in its food security programmes

- New Poverty Map of 2005 identified poverty-prone geographical locations under different categories. More social protection allowance is needed in these areas in support of vulnerable and deprived groups. The budget for FY2009-10 should introduce new support programmes for these groups of people using the new poverty map as a point of reference. The budget should allocate dedicated funds for such programmes.

- Preparation of lists of beneficiaries for various safety net and allowance programmes has often been found to be biased and influenced by local and national politicians. In order to avoid such moral hazard, the government should take initiatives to prepare a fresh and up-to-date beneficiary list in order to support the real deprived and disadvantaged people. Essential allocation needs to be made under the new budget for making this new list. The government may use the National ID card to make the system simple, expeditious and free from nepotistic behaviour.

Food Security

- Government needs to incorporate Climate Change Refugees in its food security programmes. In this regard, government may assign upazila chairmen of the respective regions to identify the victims of climate change.

The TR allocation needs to be distributed through local government instead of MPs to ensure distributional transparency and efficiency

- The test relief (TR) allocation needs to be distributed through local government instead of members of the parliament (MPs) to ensure distributional transparency and efficiency.

- To ensure food security, government needs to strengthen its procurement capacity. In this connection, government may establish silos under public-private or donor-government joint initiative at upazila level.

- Bangladesh may pursue the task of getting funds from Global Food Crisis Response Program (GFRP) by World Bank to expand its vulnerable group feeding (VGF) programmes.

Fund for Climate Change should be properly allocated among the 18 ministries covering 37 sectors under the Climate Change Strategies and Action Plan

Social Empowerment through Microcredit

- Microcredit programmes offered by the PKSF, Social Development Foundation (SDF) and NGO Foundation should be more focused on social assistance and target groups that could be empowered with minimum assistance. Microcredit operations under the above mentioned agencies should be revised to allow flexible repayment schedule and fixing maximum interest rate which should range between 0-5 per cent depending on the level of poverty of the prospective beneficiaries.

- The government suffers from lack of manpower and limited physical infrastructure to successfully operate various microcredit programmes for the poor. The budget for FY2009-10 should allocate adequate funds for strengthening the capacity (e.g. recruiting new staff) of institutions which are responsible for implementation of such programmes.

Special Programme

- Bangladesh is recognised as one of those countries which are most vulnerable to the adverse impacts of climate change. In view of this, the Tk. 300 crore Fund for Climate Change needs to be effectively utilised. The Fund should be properly allocated among the 18 ministries covering 37 sectors under the Climate Change Strategies and Action Plan.

In view of the negative impacts of the global economic crisis on our domestic labour market, the government may consider reintroducing the Cash for Work Programme

- In view of the negative impacts of the global economic crisis on our domestic labour market, the government may consider reintroducing the Cash for Work Programme under the Ministry of Food and Disaster Management (MoFDM). To this end, appropriate allocations need to be made in the budget for FY2009-10.

- The government should introduce separate employment generation scheme for those women who are the only earning member of the family.

- Violence against women is a longstanding problem in our social context. Government should allocate separate funds for victims of violence to help them avail medical and legal support.

- In the past, the government has allocated funds for the welfare of female RMG workers which has tended to remain unutilised. Contributory Provident Fund (CPF) for garment workers may be introduced with an equal amount of contribution from the government and the company. The amount to be paid by the company as CPF may be accorded tax free status.

Contributory Provident Fund for garment workers may be introduced with an equal amount of contribution from the government and the company

3.6.2 Health

- Although urbanisation is one of the indicators of development, rapid growth in developing countries such as Bangladesh has created the problem of increasing number of urban slums which regularly struggle for basic health care facilities, especially lack of safe drinking water, sanitation, hygienic environment, primary treatment facilities, etc. Government may consider a special health care service improvement fund or medical centres for urban slums in major cities.

- Both institutional capacity and delivery systems of public health care systems, especially in the rural areas in Bangladesh are very poor. There is a lack of qualified doctors, medical assistants, trained health workers, beds and medical equipments in almost all public hospitals and health complexes in the country. Allocations should be made for the improvement and reform of the institutional capacity and delivery systems of public hospitals and thana/upazila complexes.

Government should introduce additional incentives for qualified medical practitioners to go to and serve in the rural areas

- Qualified modern practitioners are only a small proportion of the entire workforce and they are pre-dominantly available in the urban key points. Apart from some charity activities, rural people are deprived from quality health services. Government should introduce additional incentives (both monetary and in-kind) for qualified medical practitioners to go to and serve in the rural areas.

- Tax exemption for equipments for disabled people (e.g. wheel chair) is still limited. Government may consider reducing the duty on import of these items.

- VAT on physiotherapy services for disabled people may be exempted to reduce cost of medical support for this particular group of people.

3.6.3 Education

In line with the government's election pledge regarding primary teaching salary scale, two measures can be taken: (i) offer a higher salary scale and special incentive (monetary or in-kind) for head teachers; and (ii) provision to raise the general level of teachers' salary

- In line with the government's election pledge, provision should be made for enhancing primary teachers' salary scale. Two measures can be taken: (i) offer a higher salary scale and special incentive (monetary or in-kind) for head teachers who meet specific qualifications and requirements, and (ii) provision should also be there to raise the general level of teachers' salary (from current grade 15 to grade 12) subject to meeting specific qualification and performance criteria.

- At the secondary level, there is acute shortage of qualified Math, Science and English teachers. Budget provision should be made to appoint teachers (in selected 200 rural schools on a pilot basis) with specified academic qualifications and selected through a rigorous test. To attract well qualified people, government may introduce contractual appointment for up to five years at a sufficiently higher salary level. Such prospective teachers may also be recruited on a part-time basis, e.g. 20 hours of instruction per week, and the opportunity should be open to people who may currently be engaged in other professions or have retired from their professions.

- The quality of education in our colleges is extremely poor. On the other hand, these colleges train the prospective teachers for the primary and secondary levels. Therefore, proper attention needs to be given to upgrade the quality of education in the colleges. Budget provision should be made for introducing a phased programme to improve the situation regarding teachers' appointment, teacher-student ratio, library and lab facilities, classrooms, and student dormitories, etc. Such programme in at least 100 selected colleges should begin this year. With proper assessment of this experience, it can be extended to all colleges in the next 3-5 years.

In order to address the special needs of remote areas such as haors and chars, area-based specially designed educational system should be initiated

- Quality of overall education system in poverty-prone and geographically disadvantaged areas is very poor. In order to address the special needs of remote areas such as *haors* and *chars,* area-based specially designed educational system should be initiated.

- Education facilities in most of the public Technical and Vocational Education Training (TVET) institutions are outdated. However, if Bangladesh is to compete in the international market for manpower export, special attention needs to be given to create skilled manpower. To this end, government should allocate adequate fund to establish more TVET institutions and modernise the existing ones considering both domestic and international manpower demand.

Government should allocate adequate fund to establish more TVET institutions and modernise the existing ones considering both domestic and international manpower demand

- The budget for FY2009-10 should allocate specific fund to provide primary school students with a nutritious mid-day meal in selected areas in each division, with the aim of gathering experience to expand it nationwide over the next two to three years.

- Every year, more and more schools are being brought under the Monthly Pay Order (MPO) scheme. However, no assessment has been conducted whether the MPO receiving schools are compliant with the terms and conditions of the scheme. The budget for FY2009-10 should include the provision that every beneficiary school will undergo rigorous assessment within six months, and incidences of non-compliances will result in cancellation of the MPO.

- An e-Education Cell can be created under the Prime Minister's Office for coordinating and mainstreaming ICTs in education system so that it is at par with the global demand for quality human resources. This cell will coordinate with focal points in the relevant Ministries.

The budget may introduce a Tk. 250 per child stipend scheme for those government staff (belonging to the lowest seven pay grades) having upto two children

- In order to avoid the complexities with regard to distribution of textbooks to children in time, the government should direct National Curriculum and Textbook Board (NCTB) to publish all the textbooks on the web. This initiative would allow schools to start classes at the right time by taking print outs of initial chapters of the relevant textbooks from the website. This would also create pressure on the book publishers to print and distribute the books within the scheduled time.

- Special stipend programme should be introduced for children from low-income families going to universities.

- The budget may introduce a Tk. 250 per child stipend scheme for those government staff (belonging to the lowest seven pay grades) having upto two children. The stipend will be given during the child's/children's secondary and college level education.

3.6.4 Environment

- Different parts of ETP are treated as separate component, and customs authorities charge duty for each item separately and independently which increases the overall cost. It is necessary to consider all parts of ETP, whether imported together or separately from different sources, as an integral part of a whole machine and these should be provided with duty-free import facility.

A pollution tax or Green Tax of 5 per cent may be levied on all inorganic waste generated by different industries, particularly if ETPs are not installed within the stipulated period

- Old transport vehicles emitting carbon should be penalised. A carbon tax could help discourage them to run on the roads.

- The Polluters Pay Principle is a useful strategy to take actions against polluting and non-compliant industries. A pollution tax or Green Tax of 5 per cent may be levied on all inorganic waste generated by different industries, particularly if ETPs are not installed within the stipulated period.

- Industries may be provided soft loans for investment in pollution prevention and pollution control equipments. This may be done through the support from EEF.

- Government may allocate funds for SMEs to encourage and promote clean production technology for those units which lack adequate funds to do so.

- Government could make it mandatory for the recipients of funds from various stimulus packages that all expenditure from these packages have to be environment-friendly.

Industries may be provided soft loans for investment in pollution prevention and pollution control equipments

3.7 DEVELOPMENT ADMINISTRATION AND DELIVERY MECHANISM

3.7.1 ADP: Size and Improving Implementation Quality

ADP remains a major source of investment in Bangladesh. As a consequence, it is true that increase in public expenditure has not been matched by improved quantitative and qualitative monitoring of the ADP. In recent years, both the pace and quality of the ADP implementation has come under close scrutiny. There is always a tension between keeping the size of ADP low to ensure higher percentage of aid utilisation, and keeping the ADP relatively high but risking lower pace of disbursement. In view of the ongoing global economic crisis, there is a need this year to go for larger public investment to stimulate domestic investment. Although this could entail higher budgetary deficit, higher allocation for ADP for the FY2009-10, along with a renewed effort to raise the pace of disbursement and quality of implementation appears to be the required strategy for the upcoming budget. This will be a challenging task to accomplish.

The following strategies could be considered:

- Prepare project-wise action plans for timely completion of all the ongoing projects. These action plans should be prepared by the respective project authorities and to be approved by the head of their implementing agencies. As these projects have already been duly approved by the competent authorities, these action plans should not require further approval of any higher authority, like Executive Committee of National Economic Council (ECNEC) or Planning Commission.

- These action plans should take into account the current status of implementation and should take a realistic view on what could be achieved during the remaining period of the project with the available resources. Due regard should be given to the available capacity in the project for implementation.

- The plan should clearly spell out time bound monitorable actions and identify authorities responsible for implementation. Activities which are not implementable during the tenure of the project and are not of high priority may be dropped, and resource allocated for those may be suitably surrendered or reappropriated.

- The plan should give special attention to the procurement of goods and services, and provide specific time bound actions for meeting the procurement requirements of the project.

- The manpower requirements of the projects as per Development Project Proposals (DPP) should be fulfilled, vacant positions should be filled up

In view of the ongoing global economic crisis, there is a need this year to go for larger public investment to stimulate domestic investment. Although this could entail higher budgetary deficit, higher allocation for ADP, along with a renewed effort to raise the pace of disbursement and quality of implementation appears to be the required strategy for the upcoming budget immediately, specially the position of the Project Director. Full time project directors should be made available to all projects, unless DPP provides deployment of a part-time project director.

Each action plan should be prepared by the respective project authorities through a process of consultation with all the major key players involved in the implementation of the projects

- Each action plan should be prepared by the respective project authorities through a process of consultation with all the major key players involved in the implementation of the projects. Enhancing as far as possible the role of the local governments in the implementation of these action plans is also important.

- Funds allocated for local governments such as upazila and union parishad (UP) in the ADP may be released upfront preferably in the first quarter of the fiscal year, with first two quarters at a time so that these bodies can draw development schemes and start implementing them from the first quarter of the financial year. These schemes should be developed through local level planning in consultation with local stakeholders. Such schemes should be approved locally by the upazila parishad and should not require any approval or concurrence from any authority at Dhaka or at district headquarters.

- The implementation of these action plans should be started as early as possible, preferably from the beginning of the next financial year.

- A realistic monitoring mechanism may be designed for overseeing the timely implementation of these action plans. Where feasible, the stakeholders outside the project, including the local government bodies, may be appropriately engaged in the monitoring process.

Funds allocated for local governments such as upazila and UP in the ADP may be released upfront preferably in the first quarter of the fiscal year

For successful implementation of these action plans, availability of resources will not be a problem as they relate to approved ongoing projects for which resources have already been committed and in many cases budgeted through the Medium Term Budgetary Framework (MTBF). What will be needed is the strong ownership of the line ministries or implementing agencies. The top leadership in the government should see to it that such ownership does exist.

- Procurement Policy: Whilst the 2006 Procurement Policy has addressed a number of key concerns, in recent years this policy has come under increasing criticism because of delays involved with compliance. The government has set up the Central Procurement Technical Unit to improve the public procurement policy in Bangladesh. The government is at present reviewing the policy with a view to expediting the procurement process. However, this should not be done at the cost of compromising the weaknesses suffered by earlier system (e.g. poor specifications, non-disclosure of selection criteria and rebidding without adequate grounds). The review work should be completed as soon as possible.

- Over centralisation and bottlenecks in fund release will need to be addressed. A common policy could be that once included in the ADP, the projects should not require further approval by other agencies.

Investment in energy generation should be given priority given its critical importance

- Investment in energy generation should be given priority given its critical importance. Appropriate allocation will need to be made in the budget. Special monitoring mechanism will need to be developed for this sector. Synchronisation of various steps involved is important in this context. Finalisation of Coal Policy, exploitation of coal resources and coal-based electricity generation needs to be given priority in this context.

- An incentive based programme may be undertaken, where divisions or departments with successful completion of projects will be given priority in fund allocation.

- The Implementation Monitoring and Evaluation Division (IMED) should be strengthened substantively to ensure that implementation is adequately monitored, both in quantitative and qualitative terms. At present a technical assistance programme is in place to strengthen the IMED with support from the Asian Development Bank (ADB) and the Japan government. The idea of establishing a result-based monitoring (RBM) and evaluation knowledge management, training and research is being discussed along with further strengthening of human resources, as part of this capacity building project. RBM should be an integral part of IMED activities. Relevant staff of key line ministries should also be adequately trained in RBM.

Modalities will need to be developed to involve local governments in both design and formulation of projects and monitoring of their implementation

- Modalities will need to be developed to involve local governments in both design and formulation of projects and monitoring of their implementation. Dedicated committees may be constituted with participation of government officials, representatives of beneficiaries and experts to monitor quality of implementation in key result areas and timelines of implementation, particularly for major projects.

- Problems related to land acquisition, displacement, rehabilitation and resettlement often lead to delays in project implementation. There is an obvious need for striking a fair balance between the need for land for development purposes and taking care of those whose land is acquired. In view of this, there is a need to promote rehabilitation and resettlement policies with least displacement alternatives and putting in place adequate rehabilitation packages.

3.8 A NOTE ON PUBLIC-PRIVATE PARTNERSHIP BUDGET

Historically it has been the primary responsibility of the government to finance and develop infrastructure projects through budgetary allotments. However, ever increasing demand for infrastructure and increasingly limited access to resources has had motivated the public sector to turn to the private sector to provide financial resources, innovative practices and technical expertise.

While a PPP component in the budget will be a new initiative for Bangladesh, PPP-led projects operating in infrastructure building particularly in power generation through IPP has already been there for sometime now

The Finance Minister has mooted the idea of introducing a PPP component in this year's budget; this idea was also mentioned in the recently announced stimulus package document. While a PPP component in the budget will be a new initiative for Bangladesh, PPP-led projects operating in infrastructure building particularly in power generation (i.e. 330-450 MW combined cycle power plant at Bibiyana) through IPP has already been there for sometime now. A number of countries have such initiatives in place. Over 30 countries around the world are engaged in such partnerships, a majority of which are developed economies. Advanced developing countries including China, Brazil, Chile, South Africa, and to some extent, India are also involved.

Typical sectors where PPP's have been applied include:

- Transport
- Roads, bridges and railways
- Power and energy
- Telecommunications
- Water supply, sanitation and development

- Water resources
- Civil aviation

Most of the countries have tended to go for PPPs in transport and transport-related infrastructure projects at the initial stages of such partnerships

Most of the countries, however, have tended to go for PPPs in transport and transport-related infrastructure projects, at the initial stages of such partnerships. Starting off with transportation infrastructure projects, Korea has gradually expanded such partnerships into schools, hospitals and housing projects. PPPs in Spain mostly focused on transportation (PPP is set as a key component in the 2005-20 transportation plan of Spain). The French government concluded a 62-year concession contract with ALIS (Autoroute de Liaison Seine-Sarthe) to design, build, finance and operate a 125 km motorway in the north-west of France. The motorway was opened in late 2005. In addition, the French government had announced 35 PPP projects in transport, health, prison, public zoo and other public service sectors. Several municipalities in Germany use PPPs to deliver local government services. Portugal has extensively expanded partnership projects across various sectors. With a ratio of between 1.2 per cent and 1.3 per cent of GDP, Portugal has the highest PPP-to-GDP ratio in Europe (nearly double the UK ratio of between 0.6 per cent and 0.7 per cent). As a result of the major focus being on large transportation projects, Portugal also initiated PPP projects in water and waste management. Apart from transportation projects, Ireland has seen several water and waste projects under this arrangement. The Irish government also announced PPP deals in prisons, courts, and the health and education sectors. In Italy, PPP projects focus especially on transportation, but there are also projects in such sectors as health, water and central accommodation.

One of the most common elements of all governments that have undertaken PPPs is to set a formal partnership framework both in terms of institutional set up and legal framework

In Australia, the largest toll road has been constructed based on PPP; it includes a 40 km road in Melbourne. Other projects include the Sydney Harbour Tunnel, the M2, M4 and M5 motorways, the Eastern Distributor, the Western Sydney Orbital and the Lane Cove Tunnel. Turkey experienced some obstacles in implementing its PPP, especially in the energy sector, primarily due to a constitutional clause that prevents ownership transference of natural resources to any entity, public or private. Inadequate legal framework and unsupportive political standings are the other reasons which were identified to have hindered PPP implementation in Turkey. India has also used PPP route in certain activities, mostly in infrastructure and power projects.

Framework Requirement

One of the most common elements of all governments that have undertaken PPPs is to set a formal partnership framework both in terms of institutional set up and legal framework.

Institutional and Policy Framework

The general experience is that it is mainly the line ministries which initiate PPPs. However, a number of countries have established dedicated centres or departments to assist in PPP-related matters

The general experience is that it is mainly the line ministries which initiate PPPs. However, a number of countries have established dedicated centres or departments to assist in PPP-related matters. Even in the Asian region, a number of PPP centres are in existence. These include:

- Philippines BOT Centre
- PICKO - Established at Korea Research Institute for Human Settlements

As a starting point when developing a PPP programme, government must clearly identify what to achieve from the PPPs. Government also must be fully committed and be ready to accept the inevitable consequences that PPPs will trim down and modify the role of government in the deliverance of public services. However, since citizens as a result get better services, the political dividend in the ultimate analysis is accrued to the government.

Government's PPP plan ought to be formulated within the following framework of goals:

- Reduce the cost and risk faced by government in providing services/infrastructure by transferring these responsibilities to the private sector;
- Monitor the quality of the service/infrastructure being delivered;
- PPPs must focus on profit (value for money) to encourage private sector participation; and
- Ensure that any PPP is in the public interest.

It is necessary to develop legal set up to allow PPPs to be in place and function in the long run. Appropriate legislation will be needed in order to provide the private sector the necessary legal coverage to finance, build, operate and collect tolls or service payments from PPP projects

Legal Framework

It is necessary to develop legal set up to allow PPPs to be in place and function in the long run. Appropriate legislation will be needed in order to provide the private sector the necessary legal coverage to finance, build, operate and collect tolls or service payments from PPP projects.

For example, Korea has provided the required legal support with the "Act on Private Participation in Infrastructure (2002)." In Ireland, the legal coverage has been provided through State Authorities (Public Private Partnerships Arrangements).

Appropriate and adequate legislative framework is a necessary pre-requisite for PPPs to be successful. PPP initiatives in countries with incompatible legal framework had failed to deliver the desired outputs. China and Turkey have faced such difficulties and efforts have been initiated by their respective governments to help overcome these obstacles.

PPP and National Budget for FY2009-10

As seen from the country experiences in implementing PPPs, pre-requisites of successful partnerships are adequate legal and institutional set up. These will need to be put in place. The following proposals may be considered by the government:

A time-bound plan should be prepared to establish legal and institutional framework (e.g. PPP authority) to assist PPP projects which are included in the PPP budget. Adequate fund allocation should be made in the budget for FY2009-10 to this end

- A time-bound plan should be prepared to establish legal and institutional framework (e.g. PPP authority) to assist PPP projects which are included in the PPP budget. Adequate fund allocation should be made in the budget for FY2009-10 to this end.
- A high level committee with private sector representation may be constituted to come up with an action plan to implement the PPP budget.
- Infrastructure Investment Facilitation Center (IIFC) could assist the government in identifying potential projects and formulating PPP frameworks for individual projects.

It is reckoned that a good approach would be to start with a reasonably small PPP budget. With regard to initiation of projects, documents will need to be developed to assist in partnership formulation and to define procedural guidelines in project activities. As every project is unique in its features, standardisation in full perhaps is not possible and cannot necessarily be applied in all PPPs. However, it is necessary to identify the amount and type of minimal information that needs to be included in every PPP project. Besides, a standardised PPP agreement matrix may be developed. This could reduce administrative costs and time for project development, which can sometimes constitute a significant part of total project costs and duration. Possibility of developing other standardised documents should be examined. Documentation regarding procurement could serve as a reference point with all its strong points and also the subsequent weaknesses that were observed.

With regard to initiation of projects, documents will need to be developed to assist in partnership formulation and to define procedural guidelines in project activities

3.9 MITIGATING ADVERSE IMPACT OF THE GLOBAL FINANCIAL CRISIS

- Deficit financing could contribute towards higher growth, albeit with a cost in terms of higher inflation. To tackle the potential deceleration in growth during FY2009-10 as a consequence of global economic slowdown, the government should be ready to go for higher deficit (which may be around 5 per cent of GDP), taking advantage of the current decline in inflation rates which is expected to sustain in near future. In this connection, government should consider foreign financing as an important source because of the non-inflationary nature of this particular source (in the budget for FY2008-09 ratio of foreign and domestic financing to meet the deficit was 44.4: 55.6). If the government borrows more from domestic sources, the availability of private credit may be crowded out, which may have impact on government's effort to increase economic activities during the period of economic slowdown.

The government should be ready to go for higher deficit taking advantage of the current decline in inflation rates which is expected to sustain in near future

- Government has announced an additional support of Tk. 450 crore for export-oriented industries as cash compensation on top of the allocation of Tk. 1,050 crore in FY2008-09. Under this package most of the affected industries will get additional cash incentives: jute products (10 per cent), leather and leather goods (17.5 per cent), shrimp and frozen fishes (12.5 per cent). These benefits will continue in FY2009-10 as well. Government should ensure timely payment of these benefits to exporters of all affected industries.

- An Export Stabilisation Fund could be established, which will be of time bound nature, to provide credit support to sectors which have been adversely affected by the crisis. Any fund created to ensure credit availability with lower interest rates and extended repayment period should be subject to strict monitoring. Provisions should be made so that repayment cannot be delayed and opportunities for borrowers to take recourse to court action involving repayment are restricted.

An Export Stabilisation Fund could be established to provide credit support to sectors which have been adversely affected by the crisis

- Considering the increasingly important role of the SMEs in the domestic economy (in terms of employment generation and increased contribution to exports), a crisis management fund for SMEs may be established to mitigate adverse impacts of global financial crisis. This could be in addition to the Tk. 500 crore SME Fund which is being operated by the Bangladesh Bank.

- An amount of Tk. 1,050 crore was kept in the budget for FY2008-09 as export subsidy for 13 export-oriented industrial products. In view of the need to enhance the competitive strength and lower the costs of doing business in the country, this cash compensation scheme should continue in FY2009-10, and in some cases, be further enhanced. Cash subsidy of 5 per cent for backward linkage domestic textile industry may be increased to 10 per cent, in view of the fact that domestic cotton yarn manufacturers are facing increased competition from Indian yarn. This will also help forward linkage export oriented RMG sector.

Support may be put in place for exporters to new markets against additional export

- At the same time, timely disbursement of the subsidy needs to be ensured. Immediate steps are required to release the arrear of cash subsidy as per the decision of the government in the context of the stimulus package.

- As in India, support may be put in place for exporters to new markets (e.g. Japan, East Europe) against additional export (perhaps in the form of a certain percentage of incremental export).

- Returning workers may be provided soft loan from Foreign Workers' Welfare Fund to help them tide over bad times and for the purposes of lending money and help start businesses of their own. The initiative of establishing the "Probashi Bank" should be geared up.

A time-bound plan should be put in place so that workers willing to travel abroad have the opportunity to undergo skill upgradation training

- Efforts should now be strengthened so that Bangladesh is able to cater to the needs of new markets for migrant workers in the developed countries, particularly in caring services, nursing, medical technicians, etc. To this end, a time-bound plan should be put in place so that workers willing to travel abroad have the opportunity to undergo skill upgradation training. Quick implementation of such training programmes will be particularly important to take advantage of the global recovery and consequent demand enhancement for migrant workers, which is expected to begin in the later half of 2010. Willing learners should have access to loans to travel abroad.

CHAPTER 4

Delivering on Budget FY2009-10

A Set of Implementation Issues

Debapriya Bhattacharya

Md Ashiq Iqbal

Towfiqul Islam Khan

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4.1 INTRODUCTION

The newly elected government proposed its first budget on 11 June 2009 with a view to support a trajectory of moderate growth, reduce poverty through employment generation and expansion of safety nets, maintain low price level and tackle the impact of the global financial crisis. The Centre for Policy Dialogue (CPD) in its budget reaction pointed out that addressing these objectives will entail designing of a set of appropriate budgetary measures, but will depend much more on the efficacy of their delivery (CPD 2009a). Furthermore, such delivery will need a coherent, coordinated, consistent and committed participation of the total government machinery and all other development actors and stakeholders. It was encouraging to see that the Finance Minister publicly agreed with the analysts that implementation of the budget would be the most important challenge. In his post-budget press briefing on 12 June 2009, the Finance Minister stated: "While drawing up the budget, we knew its execution was going to pose a huge challenge" (The Daily Star 2009).

The Finance Minister publicly agreed with the analysts that implementation of the budget would be the most important challenge

In this context the present study seeks to facilitate an early kick-off of budget implementation in FY2009-10 and to complement the continuing monitoring process by the government. The study is based on analysis of secondary data, government policy documents and media reports. Interviews with the eminent stakeholders were also carried out to generate insights. Along with selective econometric exercise, academic literature was reviewed to strengthen the analysis.

Promoting economic growth is the primary objective of the budget implementation; conversely growth itself is a key determinant of successful implementation of budget. In this context, the paper sets off by exploring the growth prospect for FY2009-10 and its linkages with implementation of the budget. Resource mobilisation is one of the two pillars of a budgetary framework; subsequent two sections, thus, highlight the issues related to revenue mobilisation from domestic source and foreign assistance inflow. On the expenditure side, a select set of issues relating to the revenue expenditures have been examined, besides reviewing the challenges of annual development programme (ADP) delivery. As mainstreaming of the public-private partnership (PPP) has been one of the distinguishing features of the budget, a separate section has been devoted to the theme. The penultimate section of the paper brings the resource and expenditure sides together and discusses the issues relating to budget deficit and it's financing. The paper then rounds up with a set of possible scenarios along with a few concluding observations.

Promoting economic growth is the primary objective of the budget implementation

4.2 GROWTH PROSPECT AND BUDGET IMPLEMENTATION

4.2.1 Growth Prospect

In a year of democratic transition, uncertainties both in terms of policymaking and policy continuity, volatility in domestic economy and global financial meltdown, a growth rate of 5.9 per cent was recorded during FY2008-09. This has been considered to be respectable. A robust performance in the agricultural sector (growth rates of agricultural sector and crop sector were 4.7 per cent and 5.2 per cent respectively) and high export growth were the highlights of the preceding fiscal year (FY2008-09). With the apprehension of late entry and exit in the impact cycle of the global meltdown, the gross domestic product (GDP) growth target for FY2009-10 was initially set at 5.5 per cent. Compared to the almost 6.0 per cent growth in the volatile year of FY2008-09 and considering the emergence of "silver lining" in the global economy and proposed counter-cyclical expansionary fiscal stance, the target was termed "rather conservative" by CPD in its reactions to the

Compared to the almost 6.0 per cent growth in the volatile year of FY2008-09 and considering the emergence of "silver lining" in the global economy and proposed counter-cyclical expansionary fiscal stance, the GDP target was termed "rather conservative" by CPD national budget for FY2009-10. Such a characterisation was also informed by the high level ambition espoused by the election manifesto of the ruling coalition. The Finance Minister, however, in his post-budget press briefing on 12 June 2009 mentioned that the GDP growth rate in FY2009-10 will be between 5.5-6.0 per cent.[1] Later, the Monetary Policy Statement (MPS) of the Bangladesh Bank pitched the GDP growth in FY2009-10 "in the range of 5.5 to 6.0 per cent" as "projected conservatively" and expected that it may "outperform" given some positive developments at home and abroad (Bangladesh Bank 2009). Such a reassessment of the growth outlook for FY2009-10 is well appreciated.

To attain a 6.0 per cent growth and beyond, the sectors of the economy are required to demonstrate comparatively an above-average performance

4.2.2 Sectoral Composition

Given the structural composition of the GDP, achieving a growth target of 5.5 per cent usually does not require an exceptional performance (CPD 2009a). However, to attain a 6.0 per cent growth and beyond, the sectors of the economy are required to demonstrate comparatively an above-average performance. Unfortunately the government's projections on sectoral GDP growth targets for FY2009-10 are not available. In Table 4.1, projection of the sectoral GDP growth target was attempted in view of the aggregate target of around 6.0 per cent.

Table 4.1: Projection of Sectoral Growth Targets

Sector	Growth FY09	Growth FY10*
Agriculture	4.7	3.5
Industry	5.9	6.5-7.0
Services	6.3	6.5
GDP	5.9	6.0-6.3

Source: Authors' projection and MoF (2009a).
Note: *Sectoral growth rates are projected in view of GDP growth target.

The central bank in its recent MPS has mentioned that it aims to pursue monetary policy to attain 4.0 per cent growth in agriculture sector. In the backdrop of high benchmark of agricultural production (4.7 per cent in FY2008-09), attaining such a target will be pretty challenging. It is rather expected that, in the event of continuing policy support and given absence of any natural disaster affecting the crop sector other than the impact of drought during ongoing Aman, a near 3.5 per cent growth in this sector may be realistic.

The average growth rate of industrial sector[2] during this decade (FY2000-01 – FY2008-09) has been around 7.5 per cent. It can be expected that below par performance by industrial sector in FY2008-09 (at 5.9 per cent) will continue during the first half of this fiscal year. Following global economic recovery, it may revert to its trend growth in the second half of FY2009-10. However, in view of rather discouraging investment scenario in the domestic front, industrial growth at the end of the year may very well stay below its trend, but is expected to beat last year's growth. Thus, the authors have estimated growth between 6.5 to 7.0 per cent for this sector in FY2009-10. But manufacturing growth at the margin will determine GDP growth beyond 5.5 per cent.

Manufacturing growth at the margin will determine GDP growth beyond 5.5 per cent

Historically, steady performance by the services sector has been underpinned by moderate achievements in the real sectors. An average growth of the services sector during FY2000-01–FY2008-09 (6.5 per cent), given the expected performance by the other two, may be secured, and hence the targeted growth rate for GDP could be achieved.

4.2.3 Growth-Investment Nexus

One may recall that, CPD identified that energising investment would be one of the most crucial challenges for Bangladesh economy during FY2009-10 (CPD 2009b). Investment target, as stated in the budget suggests that the government

[1] *ibid*.
[2] Includes mining & quarrying, manufacturing, electricity, gas & water and construction.

is expecting a decrease in the investment rate (as a percentage of GDP) from 24.2 per cent in FY2008-09 to 23.6 per cent in FY2009-10 (Table 4.2). A significant enhancement in public investment (in terms of ADP) would thus imply a rather depressing FY2009-10 for private investment as it is going to decline further as percentage of GDP (from 19.6 per cent in FY2008-09). This would imply either a complete contradiction to the expectation expressed in the budget about private investment or a priori acceptance of less than full delivery of ADP.

Table 4.2: Growth-Investment Framework for FY2009-10

Indicator	FY09 (Provisional)	FY10 (Projected)
Real GDP growth (%)	5.9	5.5-6.0
Gross investment (as % of GDP)	24.2	23.6
ICOR	4.1	3.9-4.3
ADP (as % of GDP)	3.7	4.4

Source: Authors' calculation based on Medium Term Macroeconomic Framework (MTMF).

The incremental capital-output ratio (ICOR) is also projected to increase to 4.3 in FY2009-10 given the growth target would remain at 5.5 per cent, hence a further deceleration of capital productivity has been projected. To achieve a 6.0 per cent growth, with the same level of investment, capital productivity in terms of ICOR requires an improvement to 3.9. Thus, in order to achieve target growth rate, a significant upward movement would be required to take place regarding investment flow - both public and private. In the absence of adequate investment flow, capital productivity has to increase through better capacity utilisation and/or technological upgradation. These, on their own, will also define the revenue collection prospect.

In the absence of adequate investment flow, capital productivity has to increase through better capacity utilisation and/or technological upgradation

4.2.4 Determinations of Domestic Resource Mobilisation

It is not only the expenditure side of a budget that influences aggregate economic outcome such as GDP growth; GDP growth performance, from the other side, may also determine potential for domestic resource mobilisation. The present study carried out a quantitative analysis for understanding the determinants of total tax revenue in Bangladesh. A time series regression is estimated considering (ln of) total tax revenue collection as the dependent variable during the time period of FY1980-81 to FY2007-08. Apart from the basic determinants of resource mobilisation (e.g. per capita income) for any country, to capture the effects of institutional measures initiated in revenue collection efforts, two dummy variables for value added tax (VAT) and large taxpayers unit (LTU) were introduced. Although, no serial correlation was found using Durbin-Watson test, standard procedure was followed for this study in time series analysis by running the Prais-Winsten correction. Prais-Winsten uses the generalised least-squares method to estimate the parameters in a linear regression model in which the errors are serially correlated. However, no significant changes in the results are found.

The time series regression results, as reported in Table 4.3, suggest the following:

Per capita income has the highest influence on the level of resource mobilisation in Bangladesh

a) Per capita income has the highest influence on the level of resource mobilisation in Bangladesh. Accordingly, one per cent increase in per capita income would result around 0.8 per cent increase in tax collection. Findings from several other studies - both cross-country and country-specific - also confirm this result (Bahl 1971; Chelliah 1971; and Rasheed 2006).

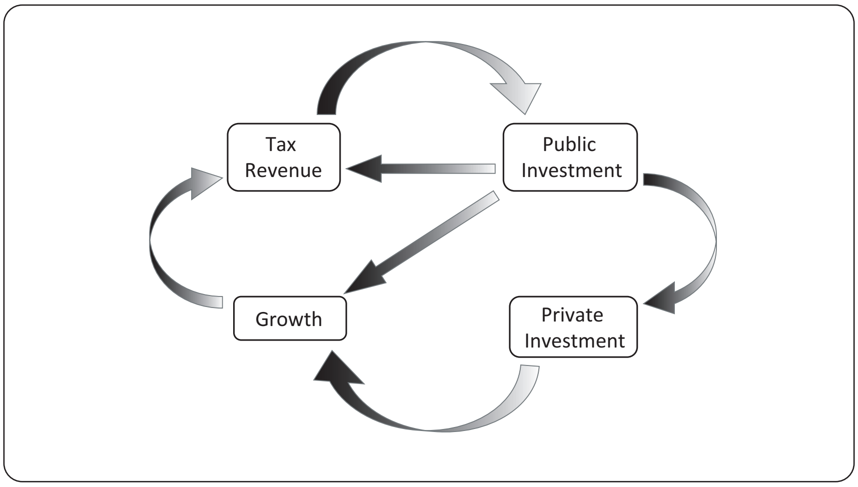
b) Investment in the private sector is largely related to import and destined to modern sector of the economy. Thus excluding investment in private sector, we consider the public investment only, as a determinant of tax revenue mobilisation. It is found that public sector investment in Bangladesh, in turn,

Table 4.3: Determinants of Resource Mobilisation in Bangladesh

Variables	Model I	Model II
	OLS	Prais-Winsten
Per capita income (ln)	0.78***	0.76***
	(0.01)	(0.19)
Public investment as % of GDP	0.17*	0.18**
	(0.09)	(0.08)
Import (log)	0.15*	0.13*
	(0.08)	(0.07)
Share of modern sector in GDP	0.01	0.02
	(0.02)	(0.02)
VAT Dummy (1=Introduction of VAT and 0=otherwise)	0.24***	0.25***
	(0.04)	(0.04)
LTU Dummy (1=Introduction of LTU and 0=otherwise)	0.09**	0.10***
	(0.04)	(0.04)
Constant	-2.60***	-2.64***
	(0.83)	(0.78)
R-Squared	0.99	0.99
Durbin-Watson Statistics	1.96	1.90
Number of observations	28	28

Source: Authors' estimation.
Note: 1. ***, ** and * denote significance level at 1 per cent, 5 per cent and 10 per cent respectively.
2. Figures within the parentheses are the standard errors.

Figure 4.1: Investment-Growth-Public Finance Cycle



Source: Authors' elaboration.

contributes to the tax revenue generation.

c) Relationship between tax revenue collection and import is also found positively significant. This corroborates the relatively high dependence of tax collection on import-related sources.

d) Influence of the share of modern sector, as a proxy of the economy's structure, is found correctly with positive sign, but insignificant.

e) Different institutional measures taken by the governments at different time have also positive impact on revenue generation, although the introduction of VAT in FY1990-91 has much larger influence compared to the introduction of LTU in FY2002-03.

Thus, implementation of the budget, on one hand, has a critical role in attaining GDP growth target for the economy; at the same time, the time series analysis confirms that the performance of the economy will also determine, to a large extent, the implementation of the proposed budget. In fact, from this result one can illustrate an interrelated macroeconomic framework in the fiscal context. One may also recall, in Bangladesh, public investment creates a "crowding in" effect for private investment (Majumder 2007), given excess liquidity in the financial system - an incidence prevailing at present circumstances. Thus, public investment along with the private counterpart can facilitate the economic growth. Economic growth and also higher public investment, as is found, accordingly have a positive effect on revenue mobilisation. Consequently, the incremental revenue will be utilised for development financing. This "Investment-Growth-Public Finance Cycle" has an important policy implication (Figure 4.1). This also reemphasises the need for energising investment to foster economic growth; not only from the expenditure side, but also from the revenue mobilisation perspective of budget implementation.

4.3. DOMESTIC RESOURCE MOBILISATION

4.3.1 Overall Revenue Targets

Total Revenue

Overall growth target in revenue earnings for FY2009-10 has been set at 15.7 per cent and achievement will depend on the performance of all the basic three revenue components, viz. National Board of Revenue (NBR) tax,[3] non-NBR tax,[4] and non-tax.[5] As trend analysis reveals (Table 4.4), barring FY2007-08, such growth in total revenue was never achieved over the last 17 years. It should be mentioned that FY2007-08 was an exceptional year for revenue mobilisation, as high growth rates for all the three revenue components were observed. Against an average growth of 13.8 per cent during FY2001-02 to FY2005-06, 24.9 per cent growth in total revenue collection was achieved in FY2007-08.

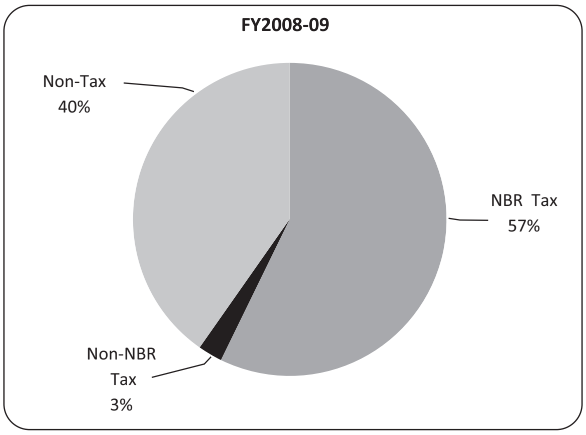
Table 4.4: Revenue Growth Trend over the Last Two Decades *(in Per cent)*

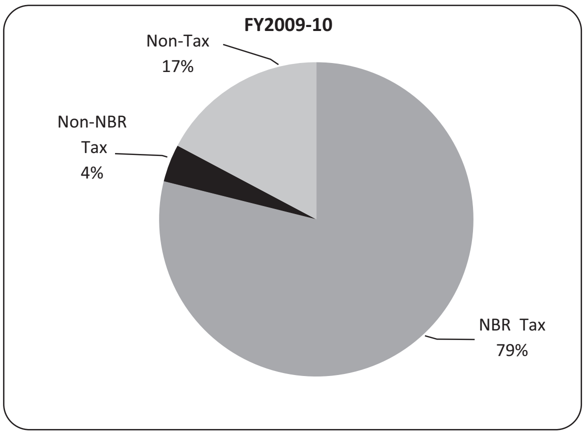
Components	FY92-FY96	FY97-FY01	FY02-FY06	FY07	FY08	FY09*	FY10 B**
Total Revenue	14.1	8.5	13.8	8.6	24.9	14.8	15.7
Total Tax	13.2	10.4	12.5	10.0	27.3	--	16.2
NBR Tax	13.2	10.8	12.7	9.5	27.4	10.7	16.1
Non-NBR Tax	13.5	5.0	9.0	21.6	24.6	17.3	17.0
Non-Tax	18.8	5.3	20.9	2.7	14.1	9.7	13.6

Source: Authors' estimate based on MoF data.[6]
Note: * Growth rates of FY2008-09 are for July-March period (July-June for NBR tax) over the same period of FY2007-08.
**B refers to Budget througout the chapter.

Therefore, it can be said that compared to the historical trend, total revenue growth target for FY2009-10 remains to be on the high side, but in comparison to FY2007-08, it is on the low side. To achieve this aggregate target, an overwhelming responsibility has been put on the NBR as it has to provide about 78.8 per cent of the total incremental revenue. The rest is to come from non-NBR tax (4.0 per cent) and non-tax (17.2 per cent) components. In FY2008-09 the relative contributions were more balanced (Figure 4.2).

Figure 4.2: Incremental Contribution of Sources in Revenue Growth: FY2008-09 and FY2009-10

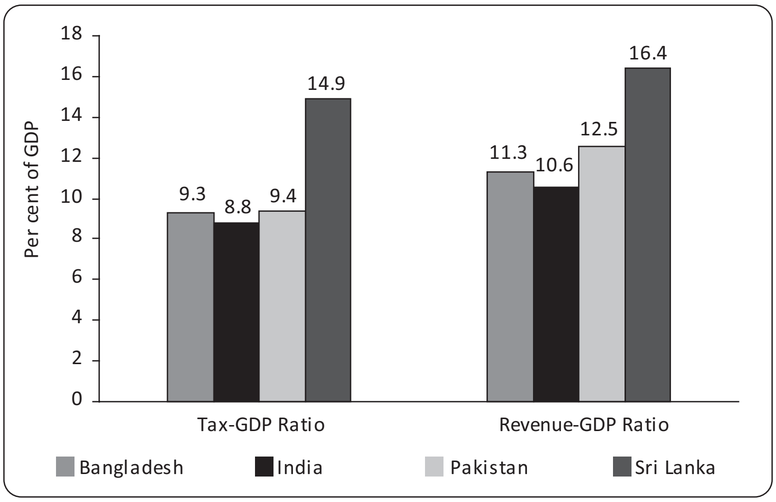




Source: MoF and NBR.[7]

[3]Includes income tax, VAT, import duty, supplementary duty (SD), electricity and others.
[4]Includes narcotics & liquor, vehicles, land and stamp.
[5]Includes dividend & profit, post office & railway, interest/fees/tolls and other receipts.
[6]http://www.mof.gov.bd/en/
[7] http://www.mof.gov.bd/en/ and http://www.nbr-bd.org/

Figure 4.3: Tax-GDP and Revenue-GDP Ratio in South Asian Countries: FY2008-09



Source: Budget Documents and Economic Reviews of the respective countries.
Note: 1Revised budget estimates for FY2008-09. Actual FY2008-09 figure for India.
2 India's ratio low because it is only for federal taxes. The state taxes are included, the ratio goes up significantly.

Tax Revenue

Total tax revenue (NBR tax and non-NBR tax) is targeted to increase by 16.2 per cent in FY2009-10, which will be higher than its trend growth over the last several years (excluding FY2007-08). This high growth target for total tax revenue is largely based on the high expectations from the NBR in FY2009-10, particularly on account of income tax. However, even if the total tax revenue target is achieved, tax-GDP ratio of Bangladesh will reach at 11.6 per cent, remaining unfavourable compared to most of its neighbours (Figure 4.3).

NBR Tax

Average growth of NBR tax, for the period between FY2001-02 and FY2005-06 has been 12.7 per cent. FY2006-07 posted a small growth of only 9.5 per cent. After a robust performance in the following year (posting 27.4 per cent growth) a small growth of 10.7 per cent was recorded in FY2008-09. It needs to be borne in mind that one of the important factors behind the higher revenue growth achieved in FY2007-08 was due to import growth (in value terms) and high commodity prices in the international markets at that time. Vigorous administrative drive to increase revenue coverage and strict monitoring to avoid evasion by the then caretaker government (CTG) were other contributing factors. In the backdrop of much lower level of international prices of commodities and associated slowdown in import, duty collection in recent months along with return to business-as-usual situation in administrative proceedings, it appears that attaining the 16.1 per cent growth target for the NBR in FY2009-10 could be quite uphill.

Attaining the 16.1 per cent growth target for the NBR in FY2009-10 could be quite uphill

Non-NBR Tax

For the non-NBR tax component, a growth target of 17.0 per cent has been set for FY2009-10. Notwithstanding the fact that average growth during FY2001-02 to FY2005-06 was rather low at 9.0 per cent; high growth was achieved in two consecutive years - FY2006-07 (21.6 per cent) and FY2007-08 (24.8 per cent), and was sustained, to an extent, during the first three quarters of FY2008-09 (17.3 per cent during July-March period). Therefore, the target of non-NBR tax collection for FY2009-10 appears to be an achievable one.

Non-Tax Revenue

Target of non-NBR tax collection for FY2009-10 appears to be an achievable one

As Table 4.4 indicates, growth trend of non-tax revenue was quite inconsistent over the years compared to other revenue components. Against high average growth of 20.9 per cent for the period FY2001-02 to FY2005-06, only 2.7 per cent growth was achieved in FY2006-07. However, FY2007-08 posted a growth of 14.1 per cent[8], and even after the corporatisation of the Telegraph & Telephone (T&T) Board during the July-March period of FY2008-09, a respectable 9.7 per cent

[8]FY2006-07 figures for non-tax revenue were later revised upwards in December 2008 (FY2008-09), putting the growth figure at 21.5 per cent for FY2006-07 and negative (-)3.6 per cent for FY2007-08.

growth was recorded. From this perspective, growth target for non-tax revenue (13.6 per cent) in FY2009-10 appears to be conservative, and thus should be overachieved.

The fact remains that overall revenue growth target (15.7 per cent) for FY2009-10 is well above the average growth achieved in the recent times. Achievement of this target will hinge on strengthened administrative efforts in avoiding leakages and bringing in more eligible people within the tax net, and energising the revenue-sensitive sectors of the domestic economy. According to media reports, as of March 2009, Tk. 6,542 crore revenue was stuck-up in judicial process due to litigations. Special efforts should be initiated to expedite these cases not only to collect dues, but also to send a signal to the litigants.

There is enough scope to expand the tax base of Bangladesh with only around 7.5 lakh taxpayers as against over 70 lakh potential taxpayers

Apparently, based on Household Income and Expenditure Survey (HIES) data, there is enough scope to expand the tax base of Bangladesh with only around 7.5 lakh taxpayers as against over 70 lakh potential taxpayers. A drive to penetrate the newly emerging activities in the urban areas to bring them under the tax net would be critical in this regard. While there are provisions for tax collection from agricultural income, this sector is yet to contribute much since tax administration has not effectively reached the rural economy. Activities in the peri-urban areas also largely remain outside the tax net. Tax offices need to be set up at the upazila level to explore untapped revenue that could be earned from the peri-urban and rural economy.

4.3.2 Growth Target for Income Tax

Of the total Tk. 10,281 crore incremental revenue to be generated in FY2009-10 over FY2008-09, 29.4 per cent is targeted to come from higher income tax collection. Thus, success in achieving revenue target will largely depend on expanding the base of personal income tax, since the rates have been kept at the previous levels (other than corporate tax, which has been reduced by 2.5 per cent for the financial institutes).

The government's ability to provide public goods and services, such as law and order also affects people's inclination to voluntary compliance with tax provisions

As can be seen from the trends of the last ten years as depicted in Table 4.5, commendable success has been achieved by the NBR in mobilising income tax with growth rates averaging 18.3 per cent during FY1996-97 to FY2000-01 and 15.6 per cent during FY2001-02 to FY2005-06. As a result of the NBR drive to tap tax dodgers coupled with the government's anti-corruption drive, income tax growth achieved in FY2007-08 was as high as 34.7 per cent.

Table 4.5: Growth Trend of Income Tax Collection over the Last Decade

(in Per cent)

Component	FY92-FY96	FY97-FY01	FY02-FY06	FY07	FY08	FY09	FY10 B
Income tax collection	7.1	18.3	15.6	21.8	34.7	18.3	19.2

Source: NBR (2009) and budget documents FY2009-10.[9]

Attaining the growth target for income tax set for FY2009-10 (19.2 per cent) will still be a major task and needs to be based on multitude of efforts. The government has announced its plan to conduct a new tax survey to bring in at least 4 lakh new taxpayers under the tax net within the current fiscal year (FY2009-10). This effort needs to be supplemented with strict surveillance to prevent tax evasion. It is worthwhile to remember that the government's ability to provide public goods and services, such as law and order also affects people's inclination to voluntary compliance with tax provisions.

[9] http://www.mof.gov.bd/en/

It may be noted here that around 1.5 lakh government employees are within the total income tax coverage (i.e. about 20 per cent), who gets the amount refunded at the end of the year, making effective number of taxpayers to be around 6 lakh. The government is currently considering to discontinue the refunding provision for its employees from the current fiscal year, which may contribute towards attaining the income tax collection target, partly offsetting the potential loss from lower profitability of the companies in this era of economic depression (and also reduce the burden of implementing the higher pay-scale).

Positive relationship between lower tax rate and sectoral growth being a medium to long-term phenomenon, revenue collection may suffer in the short-term (in FY2009-10) due to this discount

4.3.3 Lower Corporate Tax Rate

As has been mentioned earlier, the targeted growth in revenue collection is largely based on growth in income tax collection, including corporate tax. Corporate tax is the largest contributor within total income tax accounting for about 60 per cent. During adoption of the budget in the parliament, corporate tax rate for financial institutions has been reduced to 42.5 per cent from the previous rate of 45 per cent. Positive relationship between lower tax rate and sectoral growth being a medium to long-term phenomenon, revenue collection may suffer in the short-term (in FY2009-10) due to this discount. The new rate is estimated to result in about Tk. 550 crore less revenue for the current fiscal year.

Effectiveness of the government's effort to stimulate investments in the country will have great implications for revenue prospects, particularly in FY2009-10

Expansion of the LTU should be given due priority in minimising any potential revenue loss occurring from the lower rate. LTU contributes over 37 per cent of the total income tax collection and includes 981 taxpayers, 281 of which are companies. The government has targeted Tk. 6,000 crore to be mobilised from them, Tk. 1,100 core more than what was achieved last year, with majority of the additional revenue to come from the companies. However, many of these companies have already registered losses (55 companies) and nine of them are not functioning at all, while another nine are enjoying tax holidays. Global developments will make its mark on the income and profitability of these companies and the revenue earned from them. Thus, effectiveness of the government's effort to stimulate investments in the country will have great implications for revenue prospects, particularly in FY2009-10.

4.3.4 Growth Target for VAT

As Table 4.6 shows that a 13.2 per cent growth target has been set for VAT collection in FY2009-10, implying about a quarter of the incremental revenue of the current fiscal is set to come from increased VAT collection. This growth target, however, appears achievable in the background of 14.2 per cent average growth achieved during FY2001-02 to FY2005-06. Although FY2006-07 posted a lower growth of 11.5 per cent, as was the case for income tax, FY2007-08 was an exceptional year in terms growth of VAT collection (28.2 per cent), while the rate subsequently slowed down to 13.9 per cent in the following year (FY2008-09).

Table 4.6: Growth Trend of VAT Collection: FY1992-93 – FY2009-10 *(in Per cent)*

Component	FY93-FY96	FY97-FY01	FY02-FY06	FY07	FY08	FY09	FY10 B
Total VAT	23.1	10.8	14.2	11.5	28.2	13.9	13.2
VAT Import	20.0	7.8	10.0	7.2	34.5	8.2	NA
VAT Domestic	32.1	15.9	19.2	15.4	22.9	19.2	NA

Source: NBR (2009) and budget documents FY2009-10.[10]

Given the uncertainties afflicting global economic situation in the coming year including volatility of prices, VAT collection at the import stage may suffer in FY2009-10. Since around 50 per cent of the total VAT collection in Bangladesh

[10] http://www.mof.gov.bd/en/

comes at the import stage, one needs to be energetic in mobilising VAT at the domestic level so as to offset any fall in the former. At the same time, challenge will be there to cover the loss arising from withdrawal of VAT from a number of products and from professions (e.g. medical doctors).[11] A time-bound approach in implementation of the decision to compulsory installation of electronic cash register (ECR) by all sales units should also be prioritised. Efforts undertaken in the last two years, such as legal action against VAT dodgers and mass drive to collect VAT from retail stores should be continued to meet the VAT collection target. There is also a need to reconcile the income tax and VAT figures of business establishments.

A time-bound approach in implementation of the decision to compulsory installation of electronic cash register by all sales units should also be prioritised

4.3.5 Revenue Implications of the Global Economic Crisis

Fall in commodity prices in international markets during FY2008-09 resulted in a fall in import duty collection in Bangladesh (Table 4.7). Month-on-month comparison as presented in Figure 4.4, clearly bears it out as growth rate of import duty collection fell from 35.7 per cent to (-)27.9 per cent between the month of July 2008 and June 2009. It is to be noted that the annual growth target for import duty collection of 13.1 per cent for FY2008-09 was later revised at a negative (-)0.3 per cent in view of the monthly progress. Table 4.7 reveals that at the end of the fiscal year even the targeted level of negative growth was not achieved and settled with a negative (-) 2.8 per cent growth. In-take of total import related duties was also lower than the targeted growth of 5.1 per cent (originally targeted at 13.5 per cent for FY2008-09, later revised at 7.4 per cent).

Table 4.7: Growth Trend of Import Duty Collection: FY1992-93 – FY2009-10

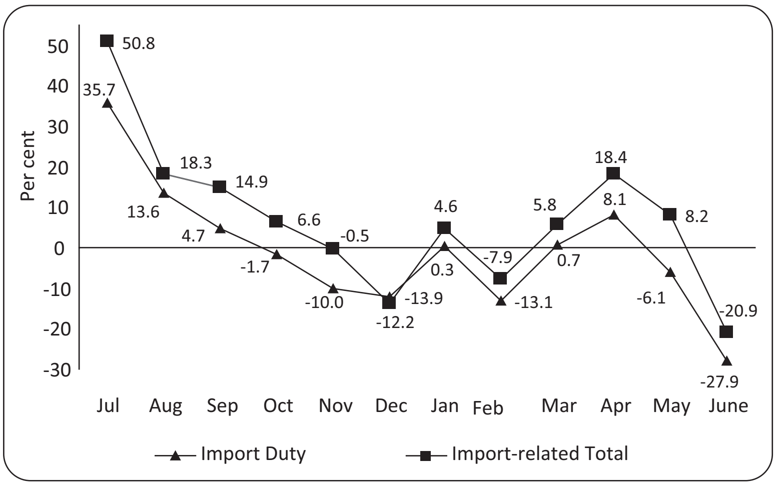
(in Per cent)

Component	FY92-FY96	FY97-FY01	FY02-FY06	FY07	FY08	FY09	FY10 B
Import duty collection	10.0	6.7	9.2	4.2	17.7	-2.8	11.8

Source: NBR and MoF.[12]

Import duty and other import-related duties together constitute over 40 per cent of the total NBR revenue collection in Bangladesh (34 per cent of the total revenue). Thus, developments in the global economic crisis may have significant implications for revenue collection in FY2009-10. However, as various projections indicate, the second half of FY2009-10 may experience some global economic healing and there are already signs of upward movement of prices in the international market. Fuel prices recently reached around USD 70, which was as low as USD 40 in December 2008. According to the recent World Economic Outlook (April 2009) of the International Monetary Fund (IMF), fuel prices may stand higher in the second half of FY2009-10 compared to the current levels. IMF also projects a higher Commodity Price Index for 2010 (120.6) compared to that of 2009 (107.9), indicating a rise in average commodity prices in the coming year. Therefore, assuming that the

Figure 4.4: Slowdown in Import Duty Collection: FY2008-09



Source: NBR.[13]

[11]At the manufacturing stage, electricity, cancer preventive drugs, hard board, electric generator, refrigerator, motor cycle, solar panel and goods carrier trailer have been exempted from VAT in the budget for FY2009-10. At the same time, internet service provided to educational institutions, specialised doctors and maize (corn) seeds at the trade stage have been exempted from VAT.

[12]http://www.mof.gov.bd/en/

[13]http://www.nbr-bd.org/

budget FY2009-10 is based on May-June (2009) prices (which was the case for budget FY2008-09), duties collected at the import stage may increase and positively contribute to realisation of import duty collection target in FY2009-10.

Achieving 11.8 per cent growth in import duty collection could be one of the major challenges facing the government in the effort to mobilise revenue in FY2009-10

Having said that, it also needs to be mentioned that growth target for import duty collection in FY2009-10 is well above the recent trend (only exception being FY2007-08). At the same time, even if the free fall is over, global economic recovery could be a "U" shaped phenomenon, rather than a "V" shaped one, according to apprehensions of many. Therefore, achieving 11.8 per cent growth in import duty collection could be one of the major challenges facing the government in the effort to mobilise revenue in FY2009-10.

4.3.6 New Duty Structure

The proposed duty structure marks reduction in duties on import of industrial raw materials from 7 per cent to 5 per cent. There is, however, an effort to balance the loss from the reduction with increased duties on imports of finished/luxury goods (cars, air conditions, etc.). At the same time, 5 per cent regulatory duty has been imposed on milk powder and on luxury items having customs duty (CD) of 25 per cent.

While the favourable duty structure should help in increasing import-related duties, this will also depend on the growth of imports and movement of prices in the international market

CPD estimates show that the current duty structure, if applied on FY2007-08 imports, would have resulted in 5.65 per cent additional revenue in FY2007-08. This implies that the new duty structure would achieve an import duty growth of 5.6 per cent even with a zero growth in imports. Assuming a 13 per cent growth in imports for FY2009-10, as has been projected in the MTMF, it is estimated that earnings from imports in FY2009-10 would be near about 11.2 per cent higher than FY2008-09. While the favourable duty structure should help in increasing import-related duties, this will also depend on the growth of imports and movement of prices in the international market.

4.3.7 Provision for Legalising Undisclosed Income

The budget for FY2009-10 maintains provision for legalising undisclosed income. Major concerns emerges from three aspects of its design - i) no differentiation between legally earned and illegally earned income; ii) tax to be paid at 10 per cent, lower than minimum rate of regular income tax; and iii) no penalty rates are applicable. In fact, in cases where undisclosed money is to be legalised through investments in flats or houses, the applicable rate may even be lower than 1 per cent. These aspects of the provision may discourage regular taxpayers, with negative implications for revenue mobilisation.

The provision might not contribute much to attract investments in the thrust sectors or to higher revenue mobilisation

In addition to the curious opportunity of purchasing flats/houses, the provision allows investment of undisclosed money with a payment of 10 per cent tax in infrastructure development and in 44 industrial sectors along with the capital market. It would have been more logical to prioritise thrust sectors rather than an economy-wide scope for investments. At the same time, while the stock exchanges may attract increased capital flow, it is more likely that most of the disclosers will take advantage of the low effective rates applicable for purchasing flats/houses, which is also a highly profitable sector for investment. As a result, the provision might not contribute much to attract investments in the thrust sectors or to higher revenue mobilisation.

It is to be noted that revenue earnings from undisclosed legal income gradually slowed down, amounting to Tk. 105 crore in FY2008-09, compared to Tk. 803 crore in FY2007-08. The number of people availing this facility also has decreased in

FY2008-09 to 14,216 from 42,000 in the preceding year. This reflects that the nature of the provision is such that continuation of it over the years tends to reduce its incremental benefits. With no penalty rates and lower than minimum applied tax rate, outcomes of the provision in FY2009-10 may not meet the expectations.

4.3.8 Administrative Capacity in Revenue Mobilisation

With a population of over 14 crore, Bangladesh has around 23 lakh registered income taxpayers, i.e. TIN holders, among whom only about 7.5 lakh pay taxes on a regular basis

With a population of over 14 crore, Bangladesh has around 23 lakh registered income taxpayers, i.e. Tax Identification Number (TIN) holders, among whom only about 7.5 lakh pay taxes on a regular basis. About 1.5 lakh government employees later get tax refund, making the number of effective taxpayers to around 6 lakh only. The revenue-GDP ratio for FY2008-09 (according to the revised targets) was only about 11.2 per cent. In light of growing development spending needs and the expansionary measures planned by the government in the budget for FY2009-10, there is an urgent demand to strengthen the tax administration, particularly the NBR. The major issues that need immediate attention have been discussed below.

Manpower: Due to legal disputes, NBR has not been able to properly expand its manpower capacity since the mid-1980s. These disputes must be settled and an effective revenue administration, staffed with a well-trained and motivated workforce must be developed to realise the revenue objectives. It is estimated that there are currently 8,000 vacancies at different levels in NBR. Unless these vacancies are filled, it will be increasingly difficult to achieve the revenue targets.

It is estimated that there are currently 8,000 vacancies at different levels in NBR. Unless these vacancies are filled, it will be increasingly difficult to achieve the revenue targets

Expansion of NBR to reach the untapped potential: In the last two decades, income levels in the municipality and upazila areas have increased substantially. However, due to the lack of presence of tax officials at the peri-urban levels, collection of taxes from these areas has not increased.

Simplification and updating of income tax laws: In order to ensure clarity, transparency and predictability, the tax law must be made taxpayer friendly and consider circumstances in Bangladesh. Many of the laws were written in the British era; the language and references have not been changed since. The last major amendment to the income tax laws were made in 1984 (Income Tax Ordinance 1984); as a result, many of these laws are outdated and does not pertain to the horizontal economic expansion that has taken place in Bangladesh in the last two decades. These laws also do not always cover the shift away from foreign aid dependency towards a greater reliance on domestic resources which in theory should generate higher taxes.

Cutting off intermediaries: Promoting the use of "self-assessment system" may significantly increase revenue of the government by bringing the taxpayers in personal contact with the revenue administration, without the help of intermediaries. Involvement of the intermediaries in the tax payment procedure often makes the willing taxpayers to shy away, leading to tax evasion. However, the system must be simple enough to be trusted by the general public and for their rights to be legally ensured.

Monitoring the real estate sector is especially crucial in light of the "black money-whitening" scheme being allowed by the government

Audit and monitoring: Designing a fair, responsible and effective enforcement mechanism that directly responds to changes in the economic environment and technological opportunities will minimise leakages from the system, e.g. under-invoicing to evade taxes. Monitoring the real estate sector is especially crucial in light of the "black money-whitening" scheme being allowed by the government. There are approximately five lakh credit card holders in the country, the NBR should make an effort to ensure that the taxes on them are properly assessed.

End-use data relating to money disclosed under the tax amnesty scheme has to be properly maintained.

Developing a modern IT-based tax administration will help to reduce corruption, and improve transparency and efficiency of tax collection

Modernisation: Developing a modern information technology (IT)-based tax administration will help to reduce corruption, and improve transparency and efficiency of tax collection. NBR should undertake a programme to popularise online submission of tax returns. Ensuring the use of ECR and modernising customs facilities in the major ports and entrance points will also help increase the government's revenue. Using the National ID Card database could be helpful in expanding the tax net.

Increasing the effectiveness of NBR's organisational structure along functional lines, developing legal and regulatory systems, and fostering an ethos of taxpayer service are some of the broader aspects that should be considered at the earliest.

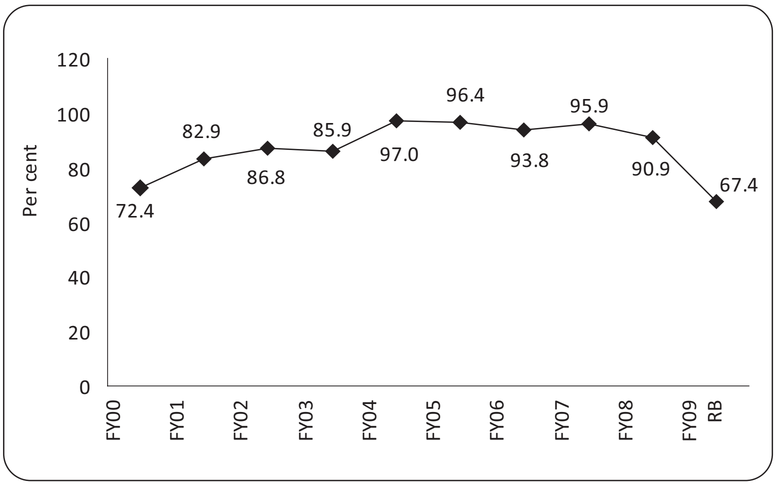
4.4 FOREIGN RESOURCE INFLOW

The government needs to put in a vigorous effort to access the accumulated foreign aid in pipeline, which is around USD 7.0 billion

In order to underwrite the overall fiscal deficit, the budget for FY2009-10 envisaged a gross foreign financing inflow of about USD 2.6 billion (Tk. 18,345 crore). This amount is equivalent to around 40 per cent of the planned fiscal deficit for the current year (see Section 4.8 for details).

If the targeted foreign financing is realised, then this will be the highest ever inflow of foreign resources in a single year. Apart from its size, the nature and mode of this inflow will be of critical importance. While aiming for higher amount in meeting budgetary demands, crucial aspects of foreign financing in FY2009-10, inter alia, will be the following: (i) share of budgetary support (compared to project aid), (ii) share of grants (as against loans), iii) share of concessional low interest loans (vis-à-vis commercial loans/suppliers' credit), and iv) aid conditionalities (including those relating to the Poverty Reduction Strategy Paper (PRSP) which currently remains in an ambivalent state).

Figure 4.5: Share of Project Aid in Total Foreign Financing: FY1999-00 - FY2008-09



Source: Bangladesh Bank and MoF.[14]

Note: RB denotes Revised Budget.

Out of the projected total of USD 2.60 billion of foreign financing, USD 1.82 billion (about 70 per cent) is supposed to come as project aid. This would imply that about 26 per cent more project aid has to be disbursed in FY2009-10, in comparison to what was disbursed in FY2008-09 (according to revised ADP (RADP)). Therefore, the government needs to put in a vigorous effort to access the accumulated foreign aid in pipeline, which is around USD 7.0 billion. The government also needs to negotiate new projects to cater for the future foreign aid need. It may be recalled here that while overall foreign financing declined over the last two fiscal years (FY2007-08 and FY2008-09) due to low level of ADP implementation, the share of project aid in total foreign financing declined as well (Figure 4.5). This happened because the CTG could successfully negotiate a large volume of budgetary support from the donors, the World Bank in

[14] http://www.bangladesh-bank.org/; http://www.mof.gov.bd/en/

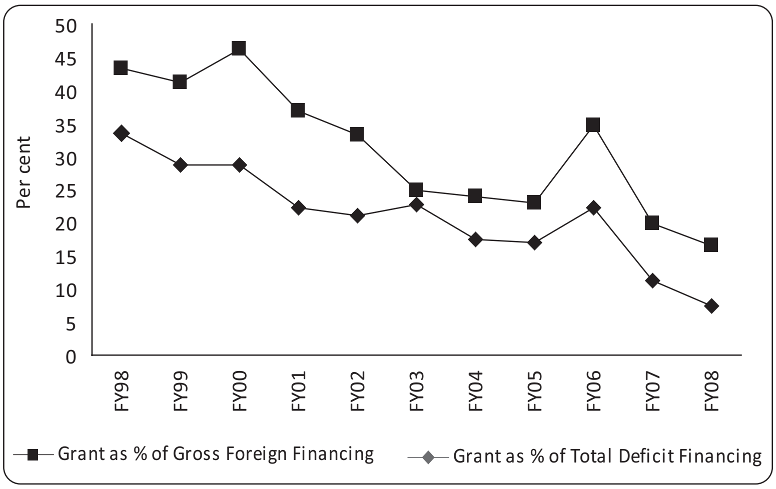
particular. To maintain flexibility of fund use, the current government will also have to continue its efforts to access budgetary support not only from the multilateral sources (World Bank and Asian Development Bank (ADB)), but also from large bilateral donors (e.g. Department for International Development (DFID)).

An overwhelming share (72.0 per cent) of the incremental foreign financing for FY2009-10 is supposed to come as loans, however, only 28.0 per cent of it as grants. While the share of grants in foreign financing had been on gradual decline in the recent past (Figure 4.6), efforts to receive more foreign aid in the form of grants needs to be stepped up, particularly to keep debt servicing liability (DSL) sustainable. Although foreign DSL accounted for about 2 per cent of the revenue budget in FY2008-09, the share may go up in the coming years. Indeed, in the context of various international assistance promises (particularly at the Group of 20 (G-20) meeting) in connection with mitigating adverse impact of global economic crisis on low-income economies, Bangladesh needs to initiate proper processes to tap such potential sources.

Governments thrust on receiving higher foreign aid in FY2009-10 is already visible from its requests sent to many multilateral and bilateral donors to fund different large-scale projects and support budgetary deficits. Some progress is also evident from the declarative statements so far made by the development partners. These include the announcements by the World Bank and the ADB to enhance assistance programme to Bangladesh by 20 per cent and 33 per cent respectively.

While commitments made by the donors in the current fiscal year looks promising in view of the large aid requirement for the year, a number of concerns is emerging as well. One particular concern relates to the government's willingness to receive foreign financing at high rate of interest. Recently, Bangladesh has shown interest in receiving USD 500 million from the ADB which the multilateral donor has offered as commercial lending at a "LIBOR plus" rate.

Figure 4.6: Trend of Inflow of Grants as a Share of Foreign Financing: FY1997-98 - FY2007-08



Source: MoF (2009a).

Efforts to receive more foreign aid in the form of grants needs to be stepped up, particularly to keep debt servicing liability sustainable

Box 4.1: Some Recent Commitments by Multilateral and Bilateral Donors

Recently the ADB committed USD 200 million, the Japan government and the World Bank have assured of providing USD 100 million and USD 200 million respectively. ADB announced that it is going to increase the annual assistance package to Bangladesh by 33 per cent to USD 800 million annually during 2009-11. It is also considering the government's request for USD 500 million in aid from its special fund to tackle the adverse impact of the global financial crisis. ADB may also provide further USD 76 million to support small and medium enterprises (SMEs) in Bangladesh.

World Bank also recently approved USD 130 million worth of credit for Bangladesh to increase the country's access to electricity through installation of affordable solar home systems in rural areas, and it has decided to increase aid by 20 per cent to USD 1.0 billion per annum for the next three years.

The government is also negotiating USD 4.7 billion assistance in the form of project aid with the Chinese government, expected to be realised over the next few years.

Furthermore, the USD 4.7 billion assistance requested from the Chinese government consists of a number of projects, and will possibly include "suppliers' credit" components. Indeed, Bangladesh has refrained from taking such loans during the last few years due to high interest rate usually attached to them.

One will have to carefully look at the core conditionalities of the IMF, so that they do not ultimately disrupt the implementation of the government's economic programme and dissuade other donors

On the other hand, conditionalities of these assistances need to be carefully scrutinised. It has been reported in the media that the government has embarked on a discussion to access IMF loans. It may be pointed out that IMF loans usually address balance of payment (BOP) problems, which thankfully do not exist currently in Bangladesh. Loans offered by the IMF are to have lower interest rate (of 0.25 per cent). In the post-global crisis period IMF is also supposed to have relaxed some of its stringent conditionalities. However, one will have to carefully look at the core conditionalities of the IMF so that they do not ultimately disrupt the implementation of the government's economic programme and dissuade other donors.

4.5 SELECTED EXPENDITURE ISSUES

4.5.1 Implementation of the New Pay-scale

The new pay-scale is expected to be finalised after the Eid-ul-Fitr, but effective from July 2009

The Pay Commission in its initial recommendations made in April 2009, proposed an average increment of 79.7 per cent for the government employees (Table 4.8). Later in July 2009, the Secretaries' Committee revised the Pay Commission proposals and recommended an average 64.1 per cent rise. It will be pertinent to mention here that the last amendment in the government pay structure was made in May 2005 and took its retrospective effect from January 2005. Currently the proposed salary structure is awaiting approval of the cabinet. The new pay-scale is expected to be finalised after the Eid-ul-Fitr (but effective from July 2009).

Indications are that the government is going for an average 65 per cent increase in salaries for the government employees, this would create an additional fiscal burden of about Tk. 3,500 crore in FY2009-10. Full implementation will take place over a period of two years, as only the salary increase is planned to be implemented in the current year, and increase in bonuses and other allowances are to take effect from the next year. In the overall context of resource issue, the most important aspect will relate to inflationary impact of the decision and its management. Concern will also be there for the middle-income salaried people outside the government sector if such increases are not endorsed by the private sector.

How the final salary structure of the government balances the trade-off between rewarding high level positions and ensuring a sense of equity for the low-paid ones, will be the centre of attention

How the final salary structure of the government balances the trade-off between rewarding high level positions and ensuring a sense of equity for the low-paid ones,[15] will be the centre of attention. The proposed structure has already raised some concerns regarding the distribution of increments between the salary grades. According to the recommendations of the Secretaries' Committee, the top grade (grade 1) will receive an increase of 73.9 per cent in their basic salaries. On the other hand, the bottom grade (grade 20) will have a 70.8 per cent increment. Average increment for the first class gazetted officers will be 68.0 per cent, while for the rest (second to fourth class), it will average at 60.9 per cent.

What may bother many is that the Pay Commission award is being implemented without concomitant reform of the public administration. Indeed the government

[15]According to the current pay-scale ratio between grades 20 and 1 is 1:9.6, whereas ratio in the proposed pay-scale by Secretaries' Committee was 1:9.8 (Table 4.8).

will be well advised to revisit with retrospective the recommendations of the Public Administration Reform Committee (set up by the Awami League Government in 1996) while finalising the pay-scale and other benefits for the public servants.

Table 4.8: Current and Proposed Pay Structures (Basic) for the Government Employees

Grade	Present Scale	Recommendation of Pay Commission		Recommendation of Secretaries' Committee		Average Increment (Recommendation of Secretaries' Committee)
		Proposed Scale	Proposed Increment	Proposed Scale	Proposed Increment	
1st Class	23000	45000	95.7	40000	73.9	68.0
	19300	37750	95.6	33500	73.6	
	16800	32600	94.0	29000	72.6	
	15000	28850	92.3	25750	71.7	
	13750	26230	90.8	22250	61.8	
	11000	20800	89.1	18500	68.2	
	9000	16900	87.8	15000	66.7	
	7400	13750	85.8	12000	62.2	
	6800	12900	89.7	11000	61.8	
2nd Class	5100	9300	82.4	8000	56.9	56.9
3rd Class	4100	7000	70.7	6400	56.1	57.5
	3700	6400	73.0	5900	59.5	
	3500	6000	71.4	5500	57.1	
	3300	5600	69.7	5200	57.6	
	3100	5300	71.0	4900	58.1	
	3000	5000	66.7	4700	56.7	
4th Class	2850	4700	64.9	4500	57.9	67.0
	2600	4400	69.2	4400	69.2	
	2500	4200	68.0	4250	70.0	
	2400	4000	66.7	4100	70.8	
Ratio (Top and Bottom Grades)	**1:9.6**	**1:11.3**		**1:9.8**		

Source: Authors' calculation from *The Daily Star* (11 May 2009) and *The Daily Janakantha* (20 July 2009).

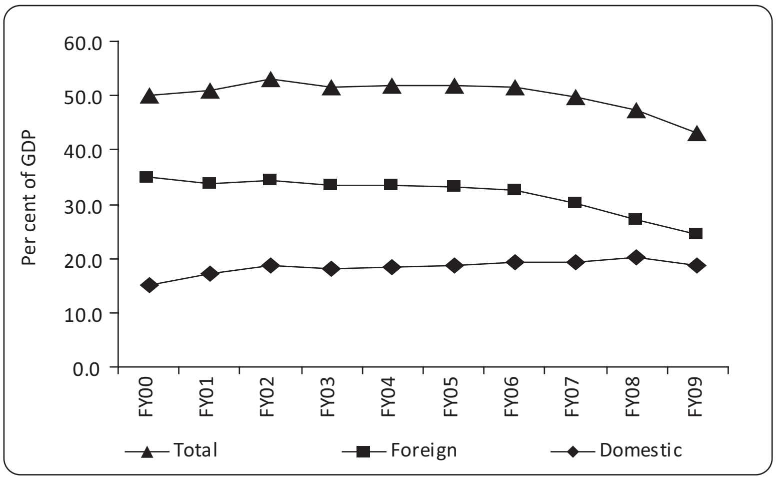
4.5.2 Stimulus Package

In order to counter the effects of the global financial crisis, the government declared its first "stimulus package" of Tk. 3,420 crore in April 2009. The fund, meant to be used over the last quarter of FY2008-09, allocated Tk. 450 crore in cash subsidies for the export industries most affected by the crisis. From the rest of the allocations, Tk. 1,500 crore was provided for agriculture, Tk. 600 crore for the power sector, Tk. 500 crore for recapitalisation of agriculture loans, and Tk. 374 crore for social safety net programmes. The disbursement procedure of these funds was also simplified. Presumptive payment of 75 per cent of the claim was to be made available "immediately," while the settlement of the rest of the claim was to be done after audit scrutiny.

While details on the new package are not available yet, it has been announced that it will continue the policies set forth by the first package

A provision of Tk. 5,000 crore has been made in the budget for FY2009-10 as a second stimulus package. While details on the new package are not available yet, it has been announced that it will continue the policies set forth by the first package. As such, it is supposed to include a credit component as well as other

Figure 4.7: Outstanding Debt as Share of GDP: FY1999-00 - FY2008-09



Source: MoF (2009a).

fiscal support measures. Keeping in mind the poor implementation rate of public investment projects, the essential objective for the government should be to emphasise the timely disbursement of funds and realisation of the policy support to fully utilise resources provided in the stimulus packages. In this process, the Ministry of Finance (MoF) has to flexibly adjust its sectoral focus of support taking note of the impact of the global crisis on domestic economy.

4.5.3 Interest Payments and Debt Situation

Total public debt (domestic and foreign) as per cent of GDP followed an upward trend until FY1993-94, when it reached a peak of 53.5 per cent of GDP. This has been on the decline since then and amounted to 43.2 per cent of GDP in FY2008-09 (upto March). Outstanding foreign debt as per cent of GDP was 27.2 per cent in FY2007-08 and 24.4 per cent in FY2008-09 (upto March) (Figure 4.7). On the other hand, outstanding domestic debt as per cent of GDP increased from 7.6 per cent on average in the 90's to 16.9 per cent in FY2008-09. Even then, debt situation of Bangladesh fares much better than that of comparable economies. However, budget deficit has been on the rise in recent years and consequently the debt situation may become a concern in the near future.

Table 4.9: Share of Interest Payment in Total Revenue Expenditure: FY1996-97 - FY2009-10

Interest Payment	Average (FY97-FY01)	Average (FY02-FY06)	FY07	FY08	FY09 (Revised Budget)	FY10 (Budget)
Total	17.6	20.5	20.2	20.8	19.8	21.7
Domestic	12.9	16.8	17.3	18.5	17.9	19.8
Foreign	4.7	3.7	2.9	2.3	2.0	1.8

Source: MoF (2009a).

Growth in interest payment is projected at 18.7 per cent in the budget for FY2009-10; 20.6 per cent in domestic interest payments and 2.0 per cent in foreign interest payments. This could become a major concern as interest payment will claim the second highest share (13.9 per cent) in the budget for FY2009-10, although this was marginally higher at 14.1 per cent in FY2008-09. Domestic and foreign interest payments as a share of total budget will be 12.7 per cent and 1.2 per cent respectively in FY2009-10 (19.8 per cent and 1.8 per cent of revenue expenditure respectively) (Table 4.9).

Table 4.10: Trend of Foreign Debt Servicing Liability: FY1999-00 - FY2007-08

Year	Total DSL as % of Total Export Earnings	Total DSL as % of Total Foreign Exchange Earnings
FY1999-00	10.7	7.2
FY2000-01	9.2	6.5
FY2001-02	9.8	6.3
FY2002-03	9.3	5.8
FY2003-04	7.7	4.9
FY2004-05	7.6	4.8
FY2005-06	6.4	4.1
FY2006-07	5.9	3.7
FY2007-08	5.5	3.6

Source: Collated from MoF (2009a).

DSL as percentage of foreign exchange earnings (or total export earnings) also shows a gradual declining trend over the last decade (Table 4.10). However, concern may emerge (as mentioned in Section 4.4) with the fact that, to finance the deficit in FY2009-10, the government has shown its intentions to go for commercial lending at high rate of interest along with conventional forms of foreign financing. While the debt financing as a whole may not be a cause for concern, currently as the composition of foreign financing is gradually shifting in favour of this, loans may very well become an issue in the future.

Currently as the composition of foreign financing is gradually shifting in favour of loans, it may very well become an issue in the future

4.5.4 Subsidy and Transfers

Size of subsidy demand as dictated by international prices (particularly for food, fuel and fertiliser) has been a source of inconsistency between budgetary targets and actual expenditure of the government in Bangladesh. In FY2007-08, actual subsidy requirement was 94.5 per cent higher than the original allocation. This was mainly due to substantial increases in food, fuel and fertiliser prices in the international market. Allocation for agricultural subsidy and Bangladesh Petroleum Corporation (BPC) had to be increased by Tk. 2,142 crore (152.8 per cent) and Tk. 4,117 crore (343.1 per cent) respectively in FY2007-08 over FY2006-07.

In FY2008-09, the government had budgeted Tk. 13,641 crore for subsidy payments. Although, the information on the final amount of subsidies paid in the last fiscal year is not available, it is estimated that the actual payments will be considerably less than the original allocation. Decline in the prices of food and fuel had eased the pressure on subsidy requirement, and this along with a favourable harvest of crops and low ADP implementation resulted in a lower than projected budget deficit.

In order to facilitate effective monitoring of progress and ensure transparency of the budgetary process, information on subsidy allocations and their disbursements should be made public on a regular basis

While subsidy demand for FY2009-10 will depend on the same factors as in FY2007-08 and FY2008-09, expectation of the government in this regard is not clear as the budget did not provide detailed information on allocations for subsidy payments. At the same time, how much of subsidy is being included in the stimulus packages is not clear. The budget documents did not mention the major subsidy allocations such as that for BPC and Bangladesh Power Development Board (BPDB). Only the allocation for agriculture (Tk. 3,600 crore) has been mentioned in the budget. In order to facilitate effective monitoring of progress and ensure transparency of the budgetary process, information on subsidy allocations and their disbursements should be made public on a regular basis.

Allocations for safety net programmes in FY2009-10 have been increased by 25.1 per cent over the revised budget of FY2008-09. This allocation is approximately 15.2 per cent of the total budget and includes an employment generation programme for the hard core poor with an allocation of Tk. 1,176 crore. The implementation of these programmes will have an impact on the growth of total expenditure.

If the Employment Generation Programme for the Hard Core Poor, which replaced the 100-Day Employment Generation Programme targets the same period, the planning and coordination should be started at the earliest

The *100-Day Employment Generation Programme* targeted the lean period for agriculture (between mid-September to mid-November). If the *Employment Generation Programme for the Hard Core Poor,* which replaced the *100-Day Employment Generation Programme* targets the same period, the planning and coordination should be started at the earliest. The previous experience suggests, hurried implementation with insufficient time spent on planning may turn out as a major obstacle to the programme's success.

4.5.5 Contingent Liabilities

The FY2009-10 budget will need to address the issue of contingent liabilities as the costs occurring from losses incurred by the state-owned enterprises (SoEs) are yet to cease. In FY2007-08, the overall cost to the government emanating from SoE operations was a staggering Tk. 9,982.9 crore, of which BPC accounted for Tk. 9,553.5 crore from subsidisation of imported fuel at retail level. The estimated loss to the government (for all SoEs) in FY2008-09 was rather low at Tk. 154.5 crore (April 2009).

Comparative low oil price prevailing in the international market may creepingly increase, and again the government can be burdened with higher funding requirement for the BPC

In FY2008-09, Bangladesh Oil, Gas and Mineral Corporation (BOGMC) and BPDB also suffered major losses to the tune of Tk. 1,026.21 crore and Tk. 993.2 crore respectively. With the decision of the government not to privatise anymore SoEs in near future (not to say restructuring of some), the budget will have to be ready to absorb such costs. It also needs to be considered that comparative low oil price prevailing in the international market may creepingly increase, and again the government can be burdened with higher funding requirement for the BPC. Whatsoever, the bottom line is that the government needs to practice fiscal transparency regarding its contingent liabilities and make such figures public to give an objective picture of public liabilities.

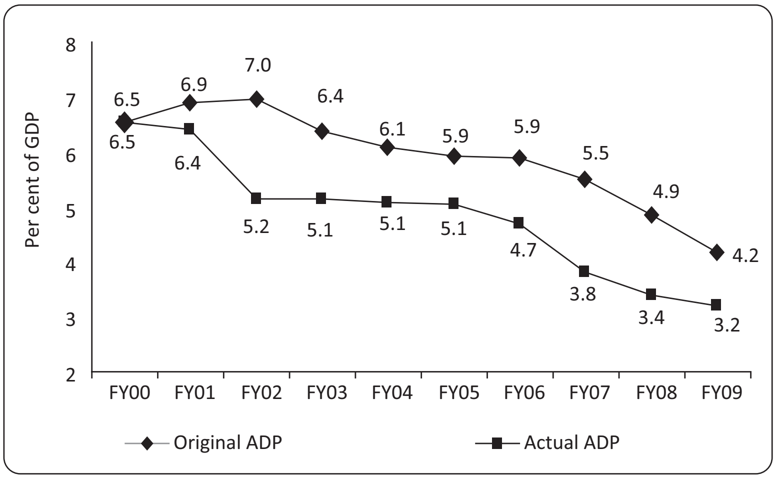
4.6 IMPLEMENTATION OF ANNUAL DEVELOPMENT PROGRAMME

ADP allocation and implementation rates (Figure 4.8) (as percentage of GDP) have been on the decline over the last decade. Actual ADP implementation was 92.8 per cent of the originally allocated ADP in FY2000-01, 85.1 per cent in FY2004-05, and 69.8 per cent in FY2007-08. In FY2008-09, 76.7 per cent of the original ADP allocation of Tk. 25,600 crore was utilised (85.4 per cent of the revised allocation of Tk. 23,000 crore), owing not to the improvement in implementation, rather to the fact that original ADP of FY2008-09 was smaller than that of FY2007-08 by Tk. 900 crore. Following the usual trend, implementation of ADP has experienced a rushed spending during the last two-three months of FY2008-09 (only 46.3 per cent of the original allocation was spent at the end of April 2009). This "last quarter syndrome" is often criticised as it affects quality of the projects. At the end, however, actual ADP spending in FY2008-09 did not cross the cut-off mark of Tk. 20,000 crore and ended up at Tk. 19,646 crore.[16] This would imply an ADP-GDP ratio of only 3.19 per cent achieved in FY2008-09, which is the lowest ever.

Poor implementation of ADP seems to be a combined consequence of three factors: i) resource constraints; ii) unrealistic targeting; and iii) lack of implementation capacity

Poor implementation of ADP seems to be a combined consequence of three factors (listed below in ascending order in view of their importance): i) resource constraints; ii) unrealistic targeting; and iii) lack of implementation capacity.

Figure 4.8: Original and Actual ADP as Share of GDP: FY1999-00 – FY2008-09



Source: MoF.

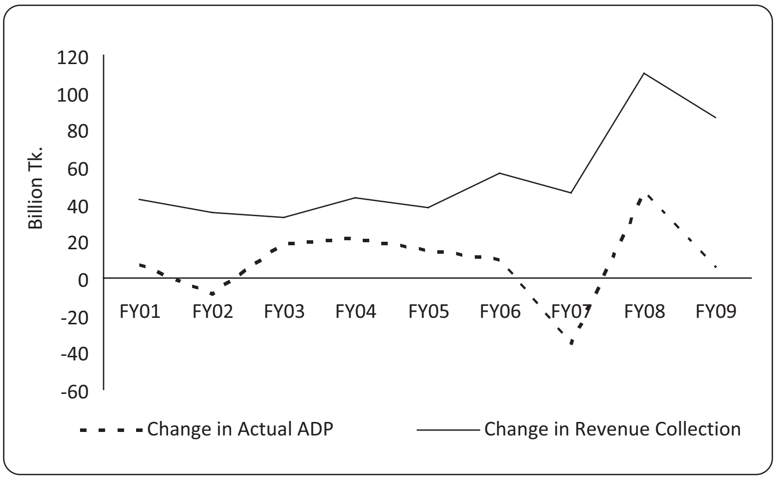
Resource constraints: Over the last decade or so, annual change in actual delivery of ADP has roughly followed the trend of annual change in revenue earnings as shown by Figure 4.9.[17] An earlier CPD study (CPD 2007) indicated that implementation of ADP can be mostly explained by revenue collection. This indicates the possibility of resource constraints as a key factor determining the level of ADP implementation. This aspect is barely highlighted in policy analysis.

Unrealistic targeting/potential investment demand: A sizeable ADP of Tk. 30,500 crore has been earmarked for FY2009-10, with an ADP-GDP ratio target of 4.4 per cent. The

[16] CPD's projection for actual ADP implementation was Tk. 19,500 crore (CPD 2009b).
[17] Out of nine observations (between FY2000-01 and FY2008-09), seven times changes were in similar direction.

issue of targeting emerges from the fact that size of ADP gradually increased irrespective of the stagnated implementation level. Between FY2000-01 and FY2007-08, actual ADP increased by only 13.9 per cent while the size of original ADP has increased by 51.4 per cent. This increase is a reflection of the potential investment demand of a developing economy. From the previous trend in ADP implementation over the last ten years, highest annual increase of 23.7 per cent in actual ADP was achieved in FY1999-00, while the lowest was of (-)13.2 per cent in FY2001-02 (averaging 5.8 per cent). Applying these figures over the actual ADP of FY2008-09 (which is Tk. 19,646 crore), the best case scenario for FY2009-10 would be of an actual ADP of about Tk. 24,300 crore (3.5 per cent of the targeted GDP), i.e. about Tk. 6,200 crore less than the original. On the other hand, an ADP of Tk. 20,800 crore (3.0 per cent of the targeted GDP and Tk. 9,700 crore less than the original) is a possibility if one considers the average increase of the last ten years. The budget analysis of CPD mentioned how size of ADP carries over the burden from the backlog of "expired" and/or "aged" projects. This issue may get further aggravated in the next fiscal year with the possibility of a higher gap that may be experienced between the targeted and actual ADP of FY2009-10.

Figure 4.9: Trend of Change in Actual ADP and Revenue Collection: FY2000-01 – FY2008-09



Source: Authors' calculation based on MoF data.[18]

Table 4.11: Ranking of Problems Related to ADP Implementation by Various Ministries[a]

Reason	Rank FY00	Rank FY05	Rank FY09 (As of Q3)
Delay in tender process	5	3	1
Delay in land acquisition	5	13	2
Delay in project amendment	11	10	3
Delay in fund release	1	10	4
Lack of manpower	1	7	5
Poor planning	11	5	6
Delay in procurement	5	1	7
Delay in project approval	8	2	7
Delay in billing/payments	14	10	7
Others[b]	3	7	10
Delay in appointing consultants	8	9	10
Legal problems	8	14	12
Lack of decision making capacity	11	3	12
Lack of Syncronisation with donors	4	5	14
Allocation is less than required	14	14	14

Source: Authors' compilation from various IMED reports.[19]
Note: [a]Same ranking depicts that the problems have been reported equal number of times.
[b]Others include: delay due to natural disasters, delay due to increase in prices of materials, withdrawal of funds, delay due to lack of communication, no parliamentary sessions, authorities not being able to meet the necessary conditions, etc.

Lack of implementation capacity: Present low public investment to GDP ratio would call for immediate initiatives to strengthen the administrative capacity. Implementation Monitoring and Evaluation Division (IMED) traditionally conducts a survey on the ministries and divisions which underperforms compared to the overall achievement in ADP implementation. In FY1999-00 and FY2004-05, the number of such ministries and divisions were 30 and 45 respectively. At the end of the third quarter of FY2008-09, the survey covered 25 ministries and divisions under the same criteria. Table 4.11 presents the ranking of major reasons behind poor ADP implementation as identified by the IMED Survey in FY1999-00, FY2004-05 and FY2008-09.

[18]MoF (2009a).
[19]IMED (2000), (2005) and (2009).

Over time, vortex of the impediments has moved upstream. In other words, nowadays launching of the projects itself has become a challenge

In FY1999-00, the top three causes of poor implementation related to: (a) delay in fund release, (b) lack of manpower, and (c) lack of coordination with donors. In FY2004-05, the corresponding factors were: (a) delay in procurement, (b) delay in project approval, and (c) delay in tender processing. According to the most recent report of the IMED, the three reported problems of implementation from the top as reported by the ministries are: (a) delay in tender processing, (b) delay in land procurement, and (c) delays caused by project amendment. One may observe a number of features emerging from these self-assessments of ministries and divisions. Firstly, resource availability, both in terms of financial and human capital, as a constraint to ADP implementation is losing its significance. Secondly, coordination with the donors must have improved significantly, perhaps a positive outcome of initiatives like "Harmonisation of Action Plans." Thirdly, and most detrimentally, issues related to early stages of ADP implementation, such as "tender process" and "land acquisition," have emerged as the major bottlenecks. This implies that over time, vortex of the impediments has moved upstream. In other words, nowadays launching of the projects itself has become a challenge.

Addressing factors inducing such delay in setting ADP in motion (i.e. tendering, land acquisition and other procurements) could lead to some improvement in implementation capacity of the agencies, but delivering public investment could require a more comprehensive strategy. Earlier, Medium Term Budgetary Framework (MTBF) was initiated in view of facilitating better delivery of ADP. Nevertheless, under the MTBF, greater involvement of the ministries in preparing their budget did not help in improving ADP implementation by them.[20]

The Finance Minister in his budget speech expressed government's interest to undertake a number of measures to improve ADP implementation

It is worthwhile to recall that, the Finance Minister in his budget speech expressed government's interest to undertake the following measures to improve ADP implementation.

- Establish Planning and Budget Wing/Branch in each Ministry.
- Faster approval of projects and strengthened monitoring.
- Strengthening of monitoring in 10 Ministries with total ADP allocation of 78 per cent.
- Reform of project approval process.
- Amend both Public Procurement Rules (PPR) and Public Procurement Act (PPA).
- Improving efficiency of project directors.
- Monitor some of the major processes through Critical Path Method (CPM).

Earlier CPD had put forward a set of recommendations on ADP in its pre-budget proposal (CPD 2009c; Choudhury 2009). A number of the policy interests expressed in the budget speech have been in line with the CPD's recommendations; however, revisiting those recommendations in this platform may be useful.

Action Plan

It is important to prepare project-wise action plans for timely completion of all the ongoing projects

It is important to prepare project-wise action plans for timely completion of all the ongoing projects. These action plans should be prepared by the respective project authorities and be approved by the head of their implementing agencies. As these projects have already been duly approved by the competent authorities, these action plans should not require further approval of any higher authority, such as Executive Committee on National Economic Council (ECNEC) or Planning Commission.

[20] Till date, 20 ministries are operative under MTBF.

These action plans should take into account the current status of implementation and should take a realistic view on what could be achieved during the remaining period of the project with the available resources. Due regard should be given to the available capacity in the project for implementation.

The plan should clearly spell out time-bound monitorable actions and identify authorities responsible for implementation. Activities which are not implementable during the tenure of the project and are not of high priority may be dropped, and resource allocated for those may be suitably surrendered or reappropriated.

The plan should clearly spell out time-bound monitorable actions and identify authorities responsible for implementation

The plan should give special attention to the procurement of goods and services and provide specific time-bound actions for meeting the procurement requirements of the project.

The manpower requirements of the projects as per Development Project Proposals (DPPs) should be fulfilled, vacant positions should be filled up immediately, specially the position of the Project Director. Full time project director should be made available to all projects, unless DPP provides the deployment of a part-time position.

Each action plan should be prepared by the respective project authorities through a process of consultation with all the major key players involved in the implementation of the projects. Enhancing as far as possible the role of the local governments in the implementation of these action plans is also important.

Funds allocated for local governments such as upazila and union parishad (UP) in the ADP may be released upfront, preferably in the first quarter of the fiscal year, with first two quarters at a time, so that these bodies can draw development schemes and start implementing them from the first quarter of the financial year. These schemes should be developed through local level planning in consultation with local stakeholders. Such schemes should be approved locally by the upazila parishad and should not require any approval or concurrence from any authority at Dhaka or at district head quarters.

Funds allocated for local governments such as upazila and UP in the ADP may be released upfront, preferably in the first quarter of the fiscal year

The implementation of these action plans should be started as early as possible, preferably from the beginning of the next financial year.

Monitoring Mechanism

A realistic monitoring mechanism may be designed for overseeing the timely implementation of the above mentioned action plans. Where feasible, the stakeholders outside the project, including the local government bodies, may be appropriately associated in the monitoring process.

Where feasible, the stakeholders outside the project, including the local government bodies, may be appropriately associated in the monitoring process

The IMED should be strengthened substantively to ensure that implementation is adequately monitored, both in quantitative and qualitative terms. At present a technical assistance programme is in place to strengthen the IMED with support from the ADB and the Japan government. The idea of establishing a result-based monitoring (RBM) and evaluation, knowledge management, training and research is being discussed along with further strengthening of human resources, as part of this capacity building project. RBM should be an integral part of IMED activities. Relevant staff of key line ministries should also be adequately trained in RBM.

Ownership

For successful implementation of these action plans, availability of resources will not be a problem as they relate to approved ongoing projects for which resources have already been committed, and in many cases budgeted through the MTBF. What will be needed is the strong ownership of the line ministries or implementing agencies. The top leadership in the government should see to it that such ownership does exist.

Problems related to land acquisition, displacement, rehabilitation and resettlement often lead to delays in project implementation

Procurement Policy

Whilst the 2006 Procurement Policy has addressed a number of key concerns, in recent years this policy has come under criticism because of delays involved with compliance. The government has set up the Central Procurement Technical Unit to improve the public procurement policy in Bangladesh. The government at present is reviewing the policy with a view to expediting the procurement process. However, this should not be done at the cost of compromising the weaknesses suffered by earlier system (e.g. poor specifications, non-disclosure of selection criteria and rebidding without adequate grounds). The review work should be completed as soon as possible.

Problems related to land acquisition, displacement, rehabilitation and resettlement often lead to delays in project implementation. There is an obvious need for striking a fair balance between the need for land for development purposes and taking care of those whose land is acquired. In view of this, there is a need to promote rehabilitation and resettlement policies with least displacement alternatives and putting in place adequate rehabilitation packages.

Investment in energy generation should be prioritised given its critical importance

Fund Release

Over centralisation and bottlenecks in fund release will need to be addressed. A common policy could be that once included in the ADP, the projects should not require further approval by other agencies.

Sectoral Priority

Investment in energy generation should be prioritised given its critical importance. Appropriate allocation will need to be made in the budget. Special monitoring mechanism will need to be developed for this sector. Synchronisation of various steps involved is important in this context. Finalisation of coal policy, exploitation of coal resources and coal-based electricity generation should be given priority in this context.

An incentive-based programme may be undertaken, where divisions or departments with successful completion of projects will be given priority in fund allocation.

Modalities will need to be developed to involve local governments in both design and formulation of projects and monitoring of their implementation

Local Government

Lack of synergy between central and local authorities has been a growing concern for ADP implementation. The role of the associated stakeholders at the grassroots level must be clearly defined for the sake of enhancing ADP implementation.

Modalities will need to be developed to involve local governments in both design and formulation of projects and monitoring of their implementation. Dedicated committees may be constituted with participation of government officials, representatives of beneficiaries and experts to monitor quality of implementation in key result areas and timelines of implementation, particularly for major projects.

In this context, we can recall Professor Paul Krugman, the 2008 Nobel Prize winner in Economics, who has consistently argued in favour of "Keynesian solutions" and regulations.[21] One may also remember that, Keynesian fiscal stimulus is not simply spending; it is a spending with an eye to restoring equilibrium, and then recapturing enough to pay back this stimulus. But perhaps the most critical factor, in determining a poverty reducing growth, will depend on improving public investments - not only by its contribution in meeting the investment gap, but also in creating a conducive environment for private sectors to get more actively involved in the process. In a globalised economy, public investment has become more critical to creating good jobs, and ensuring the strength of the increasingly knowledge-based economy (Baldacci *et al*. 2004). It will be also vital from the perspective of global crisis and mitigating its impacts. Public investment, beginning with a programme to rebuild public infrastructure, is ideally suited to new challenges of the post-global financial crisis era (Schwartz and Schwenninger 2008). It is not only the fastest and most reliable way to create good jobs in the short run, but also the best way, in an economy with surplus capital, to stimulate new private investment, and thus set off investment, innovation and productivity growth.

Keynesian fiscal stimulus is not simply spending; it is a spending with an eye to restoring equilibrium, and then recapturing enough to pay back this stimulus

4.7 INTRODUCTION OF PUBLIC-PRIVATE PARTNERSHIP WITHIN THE BUDGETARY FRAMEWORK

Inadequate infrastructural services, particularly power and communication, remains major constraints for investments in Bangladesh. Historically it has been the primary responsibility of the public sector to finance and develop infrastructure projects through budgetary allocations. However, ever increasing demand for infrastructural facilities in the backdrop of inadequate investible resources has motivated the governments across the world during the past couple of decades to turn to the private sector to provide financial resources, innovative practices and technical expertise. This phenomenon has been styled as public-private partnership (PPP). Now over 30 countries around the world have such initiatives in place, including a number of emerging economies (e.g. China, India, Brazil, South Africa, Chile, etc.) (European Commission 2003; and Gawlick 2004). While a PPP component in the budget will be a new initiative for Bangladesh, PPP-led projects operating in infrastructure building particularly in power generation through independent power producers (IPPs), has already been there for sometime now.

However, ever increasing demand for infrastructural facilities in the backdrop of inadequate investible resources has motivated the governments across the world during the past couple of decades to turn to the private sector to provide financial resources, innovative practices and technical expertise

Allocation

Most of the countries, however, have tended to go for PPPs in transport-related infrastructure projects; Bangladesh is no exception. Until now, a number of mega projects have been placed under the new PPP initiative, all of those relate to transport and power sectors. Tk. 2,500 crore (2.2 per cent of the total budget) has been allocated for PPPs in the budget for FY2009-10 under three head, viz. Tk. 100 crore for fund for technical assistance, Tk. 300 crore for viability gap funding as subsidy or seed money, and the rest for an infrastructure investment fund as loan and equity participation. The position paper prepared by the MoF hinted that in the future, a new fund, Bangladesh Infrastructure Investment Fund (BIIF) might be created. According to the

Until now, a number of mega projects have been placed under the new PPP initiative, all of those relate to transport and power sectors

[21] http://krugman.blogs.nytimes.com/

preliminary estimates of MoF, an investment deficit worth Tk. 73,500 crore is projected for FY2009-10 in view of GDP growth target of 6 per cent, and is expected to bridge the gap through PPP mechanism.

Institution

A number of countries have established dedicated "centres" or "departments" to assist in PPP-related matters

During the ongoing fiscal year, however, the major challenge will be to constitute a formal partnership framework, both in terms of institutional set-up and legal entity. The general experience is that it is mainly the line ministries which initiate PPPs. However, a number of countries have established dedicated "centres" or "departments" to assist in PPP-related matters, e.g. BOT Centre in Philippines, Private Infrastructure Investment Center of Korea (PICKO) (European Commission 2003). The government is expected to form a PPP cell under Finance Division and PPP budget management will be fully operational by September next. The MoF recently formed a seven-member "core group," chaired by an Additional Secretary, to formulate three separate guidelines related to loan or equity fund, VGF and allocation for technical assistance, and asked to submit draft regulations latest by 30 August 2009. As per the terms of reference, core group will formulate eligibility criteria for getting allocation from each of the three funds, identify priority sectors for PPP allocation, conditions for resource disbursement, outline method and mechanism in sanctioning allocation, and recommend the highest ceiling for government's allocation under the new initiative. It is also expected that the Infrastructure Investment Facilitation Center (IIFC) will be assigned to conduct a study for the purpose of identifying immediate projects and formulating a roadmap accordingly.

PPP initiatives in countries with incompatible legal framework had often failed to deliver the desired outputs

Legal Framework

A comprehensive legal framework is a necessary pre-requisite for PPPs to be competently in place and function in the long run. Korea has provided the required legal support with the "Act on Private Participation in Infrastructure (2002)," while in Philippines, "The Philippines BOT Law" enacted in 1993 is being followed. In Ireland, the legal coverage has been provided through State Authorities (Public Private Partnerships Arrangements). PPP initiatives in countries with incompatible legal framework had often failed to deliver the desired outputs. China and Turkey have faced such difficulties, and efforts have been initiated by their respective governments to help overcome these obstacles (European Commission 2003; and Gawlick 2004). A high-powered *Reform Committee*, headed by Finance Division Secretary, is already engaged in finalisation of the regulatory framework to guide the PPP. In view of past experiences, the government will be well advised to formulate a "PPP Act" through the national parliament, after undertaking a substantive consultation with the business community and other stakeholders. Legal framework must be transparent and detailed to provide the private sector with necessary legal coverage to finance, build, operate and collect revenues or service payments from PPP projects. Issues relating to procurement regulations, land acquisition, risk and profit sharing, pricing of services, and handover of the facilities are also to be covered adequately to avert future confusions and disputes. It is desirable that the proposed legal framework would also address the monitoring and dispute settlements mechanisms.

Issues relating to procurement regulations, land acquisition, risk and profit sharing, pricing of services, and handover of the facilities are also to be covered adequately to avert future confusions and disputes

Issues for Discussion

In addition to the broad issues discussed already, a number of critical questions must be addressed with regard to implementation of the PPP.

I. How the ongoing projects under the PPP approach will be integrated with the newly developed legal and institutional framework? Currently 64 projects are being implemented under Infrastructure Development Company Ltd. (IDCOL), Investment Promotion and Financing Facility (IPFF) and Infrastructure Investment Facilitation Center (IIFC). Management of these projects has to be vested in the new PPP set-up.

The projected PPP led investment is more than double of the allocated ADP and the difference between the two may widen further in case of successful implementation of the PPP plan in medium-term

II. The projected PPP led investment is more than double of the allocated ADP and the difference between the two may widen further in case of successful implementation of the PPP plan in medium-term. Considering the sluggish ADP ulitisation record during the recent past, will it be used deliberately as an alternative mechanism to ease pressure on the ADP as an instrument to deliver energy, infrastructure and social services?

III. What will be the desired model(s) to be followed for the new PPP initiatives? PPP can follow one or all of the existing models based on the type of the project: Build-Own-Operate (BOO), Build-Operate-Transfer (BOT) and Build-Own-Operate-Transfer (BOOT). The guideline on how a particular framework would be suggested for a particular project will be critical for success of the PPP approach.

IV. The question of acquiring land is an important one, particularly in case of big projects like monorail, elevated express highway. Necessary laws have to be formulated and enacted in this regard. What would be the guideline for determining price of the procured land? Will Public Procurement Act 2006 and Public Procurement Rules 2008 be applicable for PPP projects?

What should be the tax incentives for PPP initiatives?

V. What should be the tax incentives for PPP initiatives? Should there be a provision for differential fiscal treatments among the PPP projects? The position paper on PPP (MoF 2009c) has proposed three sets of tax incentives - firstly, tax exemption to be given or minimum tax rate to be imposed on the amount invested; secondly, import tax at the lowest rate to be granted on capital items for PPP projects; and thirdly, profit from operating/managing to be taxed at the lowest rate for a specific time period. It is a must that these proposed fiscal incentives are harmonised with the incentives granted to other foreign direct investment (FDI) and export-oriented investments, and do not discriminate against other domestic investors.

Pricing of products could be one of the decisive factors for PPP

VI. Pricing of products could be one of the decisive factors for PPP. What would be the pricing formula for the products of PPP projects? Transparency and technical capacity will be the key for a win-win outcome with regard to pricing of the products.

VII. Will PPP act as a major incentive for FDI? Despite a number of incentives being offered, FDI inflow in Bangladesh has not been promising compared to her neighbours. It is also pertinent to determine, whether provision for FDI-plus incentives will be kept for an FDI-involved PPP project in contrast to other PPP or FDI proposals.

Can PPP projects be donor funded?

VIII. The financing of a PPP project will be the centre of the negotiation. Can PPP projects be donor funded? Will the donor fund be treated as a loan to government or it will be a three-party agreement? Can capital market or foreign commercial loans be considered for PPP? Will stock-market listing be obligatory?

IX. Will PPP be allowed in social sectors including health and education? How the access cost for the users will be determined in these projects? Will public finance be used for private profit here?

Documentation

With regard to initiation of projects, documents will need to be developed to assist in partnership formulation and to define procedural guidelines in project activities. As every project is unique in its features, standardisation in full perhaps is not possible and cannot necessarily be applied in all PPPs. However, it is necessary to identify the amount and type of minimal information that needs to be included in every PPP project. Besides, a standardised PPP agreement matrix may be developed. This could reduce administrative costs and time for project development, which can sometimes constitute a significant part of total project costs and duration. Possibility of developing other standardised documents should be examined. Documentation regarding procurement could serve as a reference point with all its strengths and weaknesses that were observed.

A standardised PPP agreement matrix may be developed

While PPP can play an important catalysing role in infrastructure projects, a broader partnership between the government and private sector in policy formulation and implementation can also help overcome slow policy implementation. If the government cannot improve its administrative efficiency and capacity for negotiation, the PPP concept would not succeed. As a starting point, when developing a PPP programme, government must clearly identify what to achieve from the particular PPP project. Government's PPP plan ought to be formulated within the following framework of goals:

Government also must be fully committed and be ready to accept the inevitable consequences that PPPs will trim down and modify the role of government in the delivery of public services

i. Reduce the cost and risk faced by the government in providing services/infrastructure by transferring these responsibilities to the private sector;

ii. Monitor the quality of the service/infrastructure being delivered;

iii. PPPs must focus on profit (value for money) to encourage private sector participation; and

iv. Ensure that any PPP is in the public interest.

Government also must be fully committed and be ready to accept the inevitable consequences that PPPs will trim down and modify the role of government in the delivery of public services. However, the oversight function of the government will increase tremendously. Since citizens as a result are expected to get better services, the political dividend in the ultimate analysis is accrued to the government, in case of successful delivery of the PPP projects.

4.8 FINANCING OF BUDGET DEFICIT

Total deficit as a percentage of GDP has been targeted at 5 per cent for FY2009-10 (Tk. 34,358 crore). While as a percentage of GDP the projected deficit for FY2009-10 is identical to the targeted deficit of FY2008-09, in absolute terms this deficit would be 37.7 per cent higher than the revised estimate, and 12.4 per cent higher than the original estimate for FY2008-09. However, a usual low ADP implementation rate at the end of the fiscal year may bring the deficit-GDP ratio down to around 4 per cent, which would then approximate the revised estimates for FY2008-09 (4.1 per cent of GDP). For several countries, empirical studies also found that the budget deficit has a significant positive impact on economic growth (Al-Khedair 1996). To support an employment friendly growth, perhaps it is advisable to accept a moderately high deficit that may result in desired outputs. Indeed, many economists do not regard deficit as a major cause for concern, but rather the gap between national investment and

To support an employment friendly growth, perhaps it is advisable to accept a moderately high deficit that may result in desired outputs national savings (Baldacci *et al*. 2004), a persistent feature for Bangladesh economy. Deficit-GDP ratio for FY2009-10 may not be much of a concern, although the modality of financing this deficit should be carefully chosen.

As Table 4.12 depicts, between FY1991-92 and FY2007-08 foreign sources has made way to domestic sources in financing budget deficit. During FY1991-92 to FY1995-96, net foreign sources accounted on average for about 73 per cent of financing the budget deficit, in FY2007-08 it was as low as 29 per cent. Foreign financing, however, increased last year and is projected to be 40 per cent of total financing in FY2009-10.

During the last few years, a compositional change in domestic sources is observed as well in financing deficits. Share of non-bank borrowing in total financing came down to 9.4 per cent in FY2007-08 from 30.5 per cent in FY2003-04, and share of

Table 4.12: Trend of Financing the Budget Deficit: FY1991-92 - FY2009-10

(in Per cent)

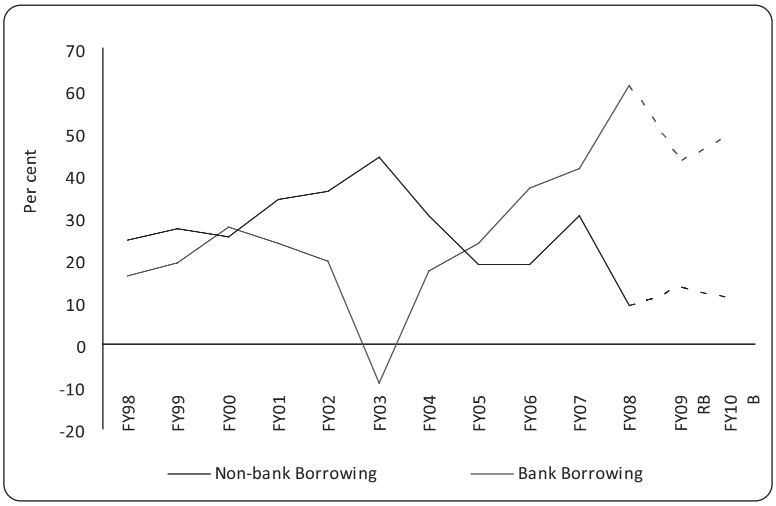
Sources	FY92-FY96	FY97-FY01	FY02-FY06	FY07	FY08	FY09 RB	FY10 B
Net foreign financing	**72.7**	**53.3**	**52.6**	**27.9**	**29.2**	**43.1**	**40.2**
Grant	42.6	30.8	20.1	11.1	7.5	19.7	14.9
Loan	44.7	39.6	53.1	45.2	38.0	40.9	38.5
Ammortisation	14.7	17.2	20.7	28.5	16.4	17.6	13.2
Domestic financing	**27.3**	**46.7**	**47.4**	**72.1**	**70.8**	**56.9**	**59.8**
Bank	10.9	21.9	17.8	41.4	61.3	42.9	48.8
Non-bank	16.4	24.9	29.7	30.2	9.4	14.0	11.1

Source: MoF.[22]

bank borrowing increased significantly from 17.5 per cent to 61.3 per cent between this timeframe (Figure 4.10). In financing the projected deficit of FY2009-10, the budget has allocated 48.8 per cent share to bank borrowing.

Higher borrowing from the banking system could create concerns of a crowding out effect for the private sector. While the current high liquidity in the banking system (around Tk. 30,000 crore) could counter such pressure to some extent, it is to be kept in mind that investment demand may also experience an upturn in FY2009-10 as a response to global recovery, particularly in the second half, which could lead to higher credit demand from the private sector. At the same time, albeit bank borrowing is less costly compared to non-bank borrowing, higher inflationary effect is attached to it which may have a negative impact on price stability.

Figure 4.10: Share of Domestic Sources in Deficit Financing



Source: MoF (2009a).

A major concern for FY2009-10 (from the perspective of financing budget deficit) would be ensuring inflow of the projected high foreign financing target of USD 2.6 billion (in gross terms) which, if realised, would be the highest ever annual aid flow into Bangladesh. In net terms, the projected foreign financing in FY2009-10 would be about USD 2 billion

[22] http://www.mof.gov.bd/en/

(around Tk. 13,803 crore), which would be about 28.3 per cent higher compared to the revised projection for FY2008-09. It is to be noted that higher foreign financing is targeted through incremental inflow of loans - programmed grant amount being only 4 per cent more than the revised projection of FY2008-09, while programmed loan amount would be 29 per cent higher than that of FY2008-09. Mobilising such a large amount of foreign aid will be a major challenge for the government and needs to be based on efforts to negotiate budgetary supports. One has to be mindful that if foreign financing targets are not realised, additional burden will be placed on domestic sources, further aggravating the issue of higher bank borrowing and consequent crowding out effect on the credit availability for private sector.

If foreign financing targets are not realised, additional burden will be placed on domestic sources, further aggravating the issue of higher bank borrowing and consequent crowding out effect on the credit availability for private sector

4.9 CONCLUDING OBSERVATIONS

The paper has discussed issues relating to budget implementation from the macroeconomic perspectives. Having assessed the feasibility of the targets, taking insights from the historical trends and accounting for the emerging externalities, the paper draws up three possible scenarios depicting the budget outcomes for FY2009-10. These three scenarios have been presented in Table 4.13.

Under a High Case scenario, there are possibilities that resource mobilisation in FY2009-10 may achieve the targets. There are revenue components (i.e. non-NBR tax and non-tax) for which conservative targets have been set, revenue collection from these components may be surpassed. Foreign resources may be accessed as programmed, resulting in less borrowing from domestic sources. However, even then, prevailing capacities will not ensure full delivery of the public investment programme. A near target deficit of about 4.7 per cent could be experienced in this case.

A Business as Usual performance of the public finance could lead to a shortfall of resource flow (particularly domestic resources) - adding another dimension to the weaknesses in implementing public investment programmes. In fact, a comparable ADP-GDP ratio to that of FY2008-09 (3.2 per cent) is a possibility in this case. Fiscal deficit, by default, remains much less than programmed.

Table 4.13: Outcome Scenarios for Budget FY2009-10

Indicators	Budget FY10	High Case	Business as Usual	Low Case
Revenue Earnings (% of Growth)	**15.7**	**16.8**	**13.5**	**10.1**
NBR Tax	16.1	16.0	13.2	10.3
Non-NBR Tax	17.0	17.7	15.2	10.9
Non-Tax	13.6	19.7	14.4	9.2
ADP (% of GDP)	**4.4**	**3.5**	**3.2**	**3.0**
Deficit (% of GDP)	**5.0**	**4.7**	**4.3**	**4.1**
Financing of Deficit (% of GDP)				
Foreign	2.0	2.0	1.7	1.2
Domestic	3.0	2.7	2.6	2.9

Source: CPD estimates and MoF.[23]

If the economy underperforms and develops into a Low Case scenario, which is a possibility if adverse impact of external factors become more prominent and prevailing investment stagnation does not improve, both resource mobilisation and public investment may suffer to a great extent. Low delivery of NBR taxes will be the defining reason for resource shortfall. ADP implementation, underpinned by lower success in accessing project aid, could end up at a historical low level, i.e. about 3.0 per cent of GDP. Under such circumstances, fiscal deficit will decrease further with a marginally larger financing from domestic sources.

[23] http://www.mof.gov.bd/en/

While we should strive for the High Case scenario, a Business as Usual performance would be the minimum expected outcome, particularly to ensure a threshold GDP growth of 5.5 per cent. A Low Case situation must be avoided.

A defining pre-requisite for success will be a functioning and able development administration which is not haunted by any collusion of political and economic interest groups. As the Finance and the Planning Ministries provide competent leadership and guidance, the line ministries will have to demonstrate adequate capacity to design, implement, manage and monitor their projects and programmes. At the same time, the line ministries should not be held back by overbearing centralised (often informal) decision making practices. Local government must be incorporated in the budget process so as to function as extensions of design and implementation mechanism.

A defining pre-requisite for success will be a functioning and able development administration which is not haunted by any collusion of political and economic interest groups

A major challenge would be to keep the private sector engaged by way of ensuring a competitive environment, particularly in case of public procurements. Partnership with non-government organisation (NGO) in the outreach and service delivery process, characterised by proper accountability and transparency, will also be critical.

An informed monitoring mechanism endowed with real time data has to be an essential element of a successful implementation process. Introduction of the practice of quarterly reporting on the state of the economy to the national parliament will greatly service this need.

Finally, a full delivery of the budget cannot be expected without faithful implementation of the reform agenda mentioned in the budget speech by the Finance Minister. It is needed to be reminded of the fact that implementation of the budget remains contingent upon the overall state of good developmental governance of the country.

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CHAPTER 5

Recent Monetary Policy Statement of Bangladesh Bank (July 2009)

An Analytical Commentary

Debapriya Bhattacharya

Towfiqul Islam Khan

This chapter was earlier published as CPD Occassional Paper No. 82 (September 2009).

5.1 INTRODUCTION

Monetary policy is the process by which the central bank of a country controls the supply of money, the availability of money, and the cost of money or rate of interest, in order to attain a set of objectives oriented towards the growth and stability of the economy. Fiscal policy induced "demand management" approach as propagated by Keynes, which was popular in the post-Great Depression period, later made way to monetary policy led "stabilisation" approach in the period of high inflation of 1970s. While traditional fiscal policy solutions were useful in confronting unemployment by increasing spending and cutting taxes, counter-acting inflation entailed reducing spending or raising taxes.

In the backdrop of global financial meltdown and subsequent confusion in macroeconomic theories, a new quest has emerged in redefining the role and instruments of macroeconomic policy in fostering economic development

The growing importance of monetary policy and the diminishing role played by fiscal policy in economic stabilisation efforts may reflect both political and economic realities. Monetary and fiscal policies differ in the speed with which each takes effect as the time lags are variable. Monetary policy is flexible (rates can be changed each month) and emergency rate changes can be made, whereas changes in taxation take longer to organise and implement. Also, considerable time may pass between the decision to adopt a government spending programme and its implementation.

During the period of "Golden Growth" covering late 1980s till the recent past, in the mix of macroeconomic policies, monetary policy continued to reserve a place of prominence. However, in the backdrop of global financial meltdown and subsequent confusion in macroeconomic theories, a new quest has emerged in redefining the role and instruments of macroeconomic policy in fostering economic development.[1]

Explicit articulation of monetary policy at the behest of an independent central bank ensures transparency in the economic policy making, and has become popular in managing expectations of the major stakeholders

It may be recalled that the main objectives of a classic monetary policy are to maintain a stable and low rate of inflation, high capacity utilisation to sustain a low rate of unemployment, and a high trend of economic growth and effective exchange rate management to maintain stability between exporters' and consumers' interests. Explicit articulation of monetary policy at the behest of an independent central bank ensures transparency in the economic policy making, and has become popular in managing expectations of the major stakeholders.

In Bangladesh, Monetary Policy Statement (MPS) was first issued by the Bangladesh Bank in January 2006. The intention was to present information on Bangladesh Bank's outlook on real sector and monetary developments over the immediate future and the monetary policy stance it will pursue, based on its assessment of the developments over the preceding period. In continuation to this tradition, on 19 July 2009, the eighth issue of half yearly Monetary Policy Statement was announced for July-December, FY2009-10 period.

The intention was to present information on Bangladesh Bank's outlook on real sector and monetary developments over the immediate future and the monetary policy stance it will pursue, based on its assessment of the developments over the preceding period

The present analytical commentary sets off by providing a brief overview of evolution of monetary policy stances of the Bangladesh Bank as espoused in its recent policy statements. This has been followed by review of the macroeconomic objectives along with a catalogue of the monetary policy instruments deployed in Bangladesh. The paper then subsequently examines behaviour of the monetary aggregates in view of their targets and achievement. Excess liquidity and agriculture credit, the two major issues that should influence the monetary policy this year, has been discussed in the following section. A selected set of critical issues, but missing in the current MPS has been discussed at the penultimate

[1]On "crisis" of macroeconomic theories in the context of the ongoing global economic crisis, see The Economist (2009a and 2009b).

section. The paper rounds up with a few concluding remarks on implementation of the MPS for the first half of the current fiscal year (FY2009-10).

5.2 EVOLUTION OF MONETARY POLICY STANCE: AN OVERVIEW

Macroeconomic management in FY2007-08 had been challenging, particularly due to aggravated inflationary pressure which was largely underpinned by high commodity prices including that of fuel, food and fertiliser

5.2.1 Policy Stance in FY2008-09

Macroeconomic management in FY2007-08 had been challenging, particularly due to aggravated inflationary pressure which was largely underpinned by high commodity prices including that of fuel, food and fertiliser. Taking note of the trends in global commodity markets, the Bangladesh Bank in its MPS for the first half of the FY2008-09 set the inflation target at 9.0 per cent (which was already in double digit at that time), and programmed adequate credit growth in order to support the gross domestic product (GDP) growth target of 6.5 per cent (Bangladesh Bank 2009b). Priority was accorded to credit which would support creation and expansion of output capacities, e.g. promoting agricultural and small and medium enterprise (SME) loans, and discouraging expenditures on ostentatious consumption. In order to reduce money supply, the Bangladesh Bank also announced that Cash Reserve Ratio (CRR) should not be less than 4.5 per cent, up from 4.0 per cent, in any day of the month; although, CRR on bi-weekly average remained unchanged at 5.0 per cent. The central bank also mentioned that any bank that fails to adhere by its CRR guidelines, will be penalised at bank rate plus 5 per cent on the difference of the reserves. Bangladesh Bank also enhanced its Repo and Reverse Repo interest rates by 25 basis points in September and November 2008 respectively to 8.75 and 6.75 per cent to slowdown the pace of private credit growth.

During the last quarter of FY2008-09, Bangladesh Bank introduced a 13 per cent interest cap on lending

As inflationary pressure started to cool down since October 2008, the Bangladesh Bank revised the inflation projection downward to 8.5 per cent in its second MPS of FY2008-09. On the other hand, as the global economic recession weakened domestic economic activities, the Repo and Reverse Repo rates were brought down to their earlier level in March 2009. The central bank also made engagement in agriculture lending mandatory for all commercial banks including private and foreign banks during this time. During the last quarter of FY2008-09, Bangladesh Bank introduced a 13 per cent interest cap on lending (through directive instead of "moral suasion"), except credit card and consumer loans, and allowed rescheduling of loans without any down payment until September 2009 to four export-oriented sectors which were affected by fall in external demand, viz. for frozen food, jute, leather and textiles.

Bangladesh remained one of the very few low-income countries that demonstrated significant resilience of its economy

Thus, one observes that the monetary policy stance of the central bank in Bangladesh underwent a few adjustments in response to domestic and global economic developments. As a result of these adjustments as well as due to other policy and institutional interventions, Bangladesh economy, at an aggregate level, performed quite appreciably in FY2008-09, with a near-six per cent GDP growth and four and a half per cent per capita income growth. Agriculture sector (particularly crop sector) posted significant achievement to improve food security. Most of the macroeconomic indicators, notwithstanding their structural flaws, exhibited overall robustness. At the end of the fiscal year, lower than estimated inflation rate was realised (7 per cent) compared to revised target of 8.5 per cent. Balance of payment (BOP) was in a comfort zone, to a large extent due to buoyant foreign remittance flow, steady export revenue and lower import demand. Consequently the foreign exchange reserve rose to USD 7.5 billion. Bangladesh remained one of the very few low-income countries that were able to record this level of performance in FY2008-09 and demonstrated significant resilience of its economy.

Notwithstanding such a comfortable kick-off benchmark for Bangladesh economy in a period of global economic crisis, apprehension about lack of investment demand moderated the growth outlook for the current fiscal year (FY2009-10). Thus an emphasis on promoting broad based economic growth has become incumbent on the monetary policy along with its other core objectives, particularly maintaining price stability.

The central bank believes it can adequately serve demands of both public and private sectors

5.2.2 Policy Stance for First Half of FY2009-10

The MPS for the first half of the FY2009-10 (Bangladesh Bank 2009b) indicates that the Bangladesh Bank has programmed the monetary aggregates to accommodate 5.5-6.0 per cent GDP growth, with 6.5 per cent inflation and a decline of 3.0 per cent in income velocity of money. Reviewing the MPS, one may highlight the following policy stances.

i. Given the current large liquidity overhang in the system, the central bank believes it can adequately serve demands of both public and private sectors. This is possibly the essence of the declared "accommodative monetary policy." This is in line with the need for a "moderately expansionary monetary policy," as expressed in the national budget for FY2009-10.

ii. To keep domestic borrowing conditions easy in a recessionary global environment, the central bank has refrained from Reverse Repo operations since the last quarter of FY2008-09, and has announced to continue it in the first half of the current fiscal year.

Emphasis has been given on utilisation of the foreign exchange inflows in growth supportive investments than on accretion of ever higher reserves

iii. Emphasis has been given on utilisation of the foreign exchange inflows in growth supportive investments than on accretion of ever higher reserves.

iv. The central bank signaled its intention of fostering cultural attitudes which pre-dominantly rely on equity-based rather than debt-based investments. One wonders how this discretionary foreign exchange financing will take place.

v. The central bank underscored that it is set to strengthen its oversight on liquidity, capital adequacy and risk management in banks and financial institutions to protect the domestic financial sector from instabilities of the kind now afflicting markets in advanced economies. One does not find any specifics of these intended initiatives. This, however, requires review of the interfaces of the debt and equity markets, as well as cautionary development of the equity market.

vi. It was informed that the government along with the central bank has finalised steps for obtaining sovereign credit rating for Bangladesh to lower costs for private sector borrowers and banks. There are, however, no immediate plans for the government borrowing on non-concessional commercial terms from the international market. The central bank possibly wants to create this window to respond appropriately to challenges for future domestic and external developments.

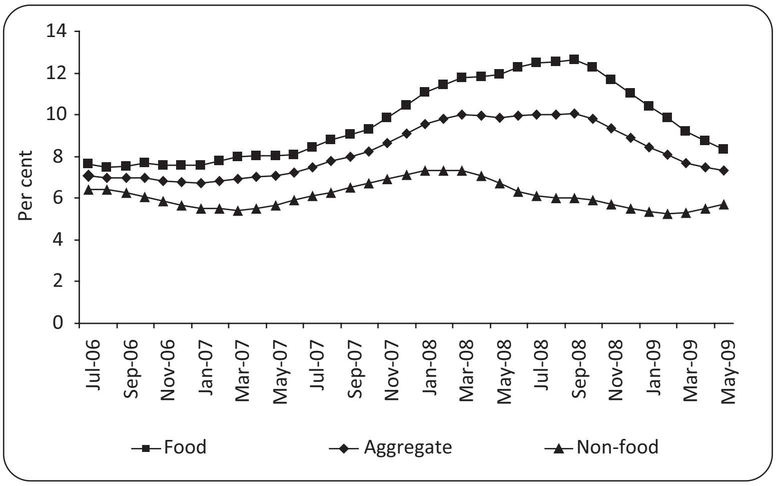
There are, however, no immediate plans for the government borrowing on non-concessional commercial terms from the international market

5.3 A REVIEW OF THE MACROECONOMIC OBJECTIVES

5.3.1 Inflation: Possibility of Kickback?

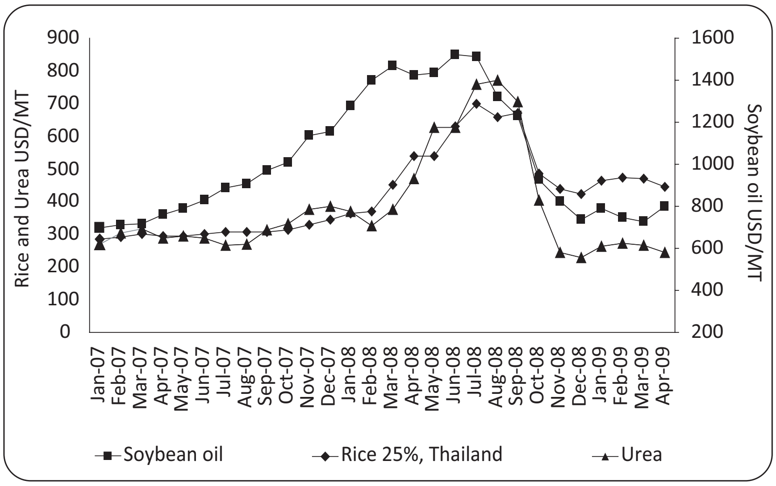
Considerable policy interest of the central bank has been focused on anchoring inflation expectations, if not targeting it. Inflationary pressure in recent times started to ease with good bumper crop harvest and with falling import prices of

Figure 5.1: Trends in Movement of Aggregate, Food and Non-food Inflation: July 2006 - May 2009



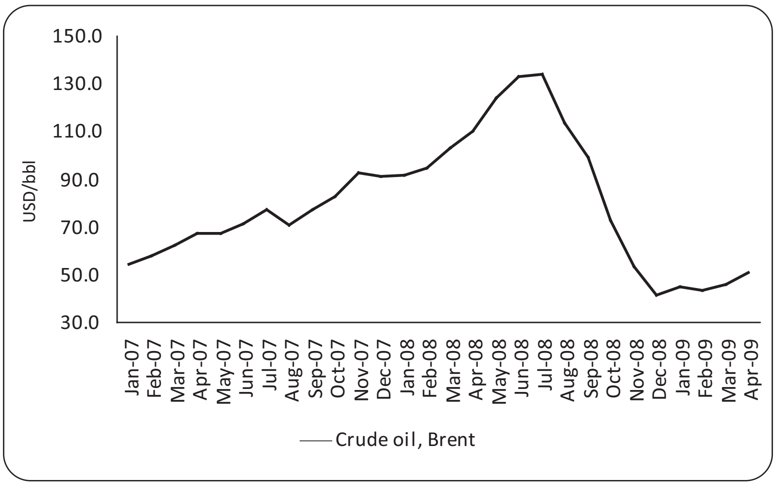
Source: Bangladesh Bureau of Statistics (BBS).

Figure 5.2: Movements of Global Commodity Prices



Source: Various issues of Pink Sheet, World Bank.

Figure 5.3: Movement of International Oil Price



Source: Various issues of Pink Sheet, World Bank.

fuel and other commodities. The average inflation (12-month moving average) came down to 7.3 per cent in May 2009 (Figure 5.1), a comforting circumstance compared to the earlier projected level of 8.5 per cent for the end of the fiscal year.

For FY2009-10, the targeted level of inflation at 6.5 per cent appears to be a realistic one given the fall in the global commodity prices and recent bumper foodgrain production at home. Global commodity prices (viz. rice, oil, urea and soybean oil) has been declining since September 2008 (Figures 5.2 and 5.3). Domestic price level has also responded to developments in global commodity markets.

However, with the developed and emerging economies showing signs of recovery (the "Green Shoots"), some of the commodity prices may take an upturn. International oil price has already been rising since January 2009 (Figure 5.3). At the moment the international oil price is hovering between USD 60 to USD 65 and can continue on this upward trend with world economy recovering in the later part of 2009 and early part of 2010.

In Bangladesh, food inflation generally drives the inflationary trend. As Figure 5.2 further shows that rice price (Thailand, 25 per cent broken) has stabilised at USD 440 metric ton (MT). Thus, on the domestic front it is rather important to attain targeted growth in crop production. However, soybean price has been going up while price of urea also been stabilised.

5.3.2 Kick Back from Monetary Expansion

The recent MPS has expressed its apprehension about the possible downside risks emanating from possible commodity price hike. The MPS has also expressed keen interest to facilitate growth acceleration, particularly in view of its broader objective of poverty reduction and employment generation. A trade-off between price stability and growth acceleration often seizes the centre of attention in macroeconomic policymaking. While many have argued for an insignificant relationship between the two in the long run, it is hard to ignore the inherent trade-off in the short run. Thus, while concentrating on growth, the central bank would need to keep a vigilant eye on the inflationary trend so that imported inflation and/or expansionary monetary policy (largely induced by government borrowing) do not weaken the price stability.

While concentrating on growth, the central bank would need to keep a vigilant eye on the inflationary trend

5.3.3 Financing Budget Deficit: The Compositional Issue

Bangladesh Bank is committed to provide necessary resources to underwrite the programmed fiscal deficit of the government for FY2009-10. While the size of the deficit (5 per cent of GDP) is not an issue, the mode of financing it remains a concern. While borrowing from the banking system has the advantage of being less costly in terms of the interest payment burden, it has the disadvantage of being inflationary. Crowding out effects on private sector credit remain a concern, although, in view of the existing surplus liquidity in the system, this should not be a problem. On the other hand, non-bank borrowing, which is non-inflationary, involves higher debt servicing liabilities (DSL); availability of such resource could also be a problem. The government has opted for higher bank borrowing to meet the incremental budget deficit targeted for FY2009-10. The MPS assured the accommodation and raised no concern about the private sector borrowing being crowded out. Many studies including a recent one by Majumder (2007), have rejected the crowding out hypothesis in Bangladesh, rather provides evidence of crowding in effect given excess liquidity in the financial system.

The MPS assured the accommodation and raised no concern about the private sector borrowing being crowded out

The targeted growth of net credit to government sector seems to be realistic given the deficit financing requirement set at the budget. The ratio of fiscal deficit to monetary space during FY2008-09 was 87.0 per cent, whereas the targeted ratio is estimated to be 95.6 per cent.

However, if the foreign aid programmed for financing 40 per cent of the budget deficit does not get disbursed, and even worse, if domestic resource mobilisation targets are not met, and yet the government wants to go ahead with its development plan, then the government target has to be enhanced. Under those circumstances, the central bank has to do a judiciary balancing act to service the private investment demand.

5.3.4 External Sector: Subdued Outlook

The external sector related targets for FY2009-10, as contained in the Medium Term Macroeconomic Framework (MTMF) prepared by the Planning Commission, are informed by a cautious prospect. While export and import growth for this fiscal year is projected to maintain a double digit growth, the remittance growth is expected to fall to a modest 9.5 per cent from the buoyant figure of 22.3 per cent recorded during FY2008-09. While the impacts of global economic crisis have become slowly manifest only recently in Bangladesh, it is apprehended that these impacts will pass over with a time lag compared to the advanced and emerging economies. Thus, the targets of Bangladesh's external sector for FY2009-10 have been set modestly. The MPS also takes a subdued view regarding the external indicators, viz. foreign exchange reserve is set at a lower level compared to the earlier projections by MTMF.

While the impacts of global economic crisis have become slowly manifest only recently in Bangladesh, it is apprehended that these impacts will pass over with a time lag compared to the advanced and emerging economies

5.3.5 Growth: "Conservatively Positive" Target

The MPS has "projected conservatively" that real GDP growth in FY2009-10 will be "in the range of 5.5 to 6.0 per cent," and may "outperform" given some positive developments at home and abroad. One may recall that the Centre for

Policy Dialogue (CPD), in its reactions to the national budget for FY2009-10, mentioned that the announced GDP target of 5.5 per cent is "rather conservative" compared to the almost 6 per cent recorded growth in the volatile year of FY2008-09 (CPD 2009a). Such a reassessment of the growth outlook for FY2009-10 is well appreciated.

It is the performance of the industrial sector, at the margin, that will define realisation of the target figure for GDP growth

Although the sectoral GDP growth targets for FY2009-10 are not clearly stated in the recent MPS, the central bank aims to pursue monetary policy to attain 4 per cent growth in agriculture sector. In the backdrop of high benchmark of agricultural production (4.7 per cent in FY2008-09) such a target will be pretty challenging. The earlier announced Agricultural Credit Policy of the Bangladesh Bank thus holds important policy leverage in this regard.

It is to be noted that given the structural composition of national income in Bangladesh, role of the service sector, with largest share in the GDP, cannot be understated. However, it is the performance of the industrial sector, at the margin, that will define realisation of the target figure for GDP growth. The industrial sector (more appropriately, the manufacturing sector), and to a large extent the service sector are currently beset with sluggish investment demand. The MPS does not pay any policy attention to this aspect.

Repo and Reverse Repo rates are used as indirect instruments of monetary policy more frequently to inject liquidity or to mop up excess liquidity respectively from the market to smooth money market operations

5.4 DEPLOYMENT OF MONETARY POLICY INSTRUMENTS

The most common instruments that are used to control money supply and credit in a market or mixed economy structure include CRR and/or Statutory Liquidity Ratio (SLR), bank rate, directed credit and administered interest rates, Repurchase (Repo) and Reverse Repo and outright transactions in government securities (open market operations). There are more institutional instruments that a central bank can use to regulate the money market. Table 5.1 informs about the major monetary policy instruments used by the Bangladesh Bank.

Table 5.1: Status of Monetary Policy Instruments

Instruments	Current Rate (%)	Last Rate Changed	Comment
CRR	5.0	Increased from 4.5 per cent in 2006	Given the current excess liquidity one may opt for using one of these tools. However, this liquidity also provided the space for using moderate expansionary policy stance
SLR	18.0	Increased from 16.0 per cent in 2006	
Bank Rate	5.0	Decreased from 6.0 per cent in 2004	
Repo	8.5	Decreased from 8.75 per cent in March 2009	Frequently used
Reverse Repo	6.5	Decreased from 6.75 per cent in March 2009	Reverse repo operations are currently on hold

Source: Compiled by authors.

Bangladesh Bank frequently changed CRR, SLR, and the bank rate along with other instruments before implementing the financial sector reforms during the early 1990's. Since the beginning of the 1990's, the central bank switched over to open market operations mainly through government treasury bills (T-bills) auctions. Considering present excess liquidity in the banking system, the central bank may opt for using one of these instruments (Table 5.1). However, excess liquidity in the banking system also gives flexibility to the government for increasing amount of borrowing from the banking system. In order to streamline liquidity management and effective control of money supply, the Bangladesh Bank introduced Repo and Reverse Repo instruments in 2003. Bangladesh Bank uses short-term interest rates, e.g. Repo and Reverse Repo rates as indirect instruments of monetary policy more frequently to inject liquidity or to mop up excess liquidity respectively from the market to smooth money market operations and ensure liquidity management, and bring stability in relation to reserve money targets. Currently, Bangladesh Bank frequently uses the Repo Rate as lending fund to other commercial banks. In practice, bank rate has become obsolete.

5.5 TRENDS IN MONETARY AGGREGATES: TARGETS AND ACHIEVEMENTS

During the last five years the average growth in M2 supply was 17.6 per cent per annum

The Bangladesh Bank through its MPS for the second half of FY2008-09 (Bangladesh Bank 2009a) introduced monitorable indicators by providing projections of monetary aggregates. Indeed, FY2008-09 has been an exceptional year characterised by high inflationary pressure. Whatsoever, in case of broad money (M2) growth, it is estimated that the target for FY2008-09 has been more or less achieved, i.e. 17.2 per cent as against the target of 17.5 per cent (Table 5.2). A 15.5 per cent growth target of money supply has been targeted for FY2009-10. However, during the last five years the average growth in M2 supply was 17.6 per cent per annum.

Table 5.2: Targets and Achievements of Monetary Indicators

Indicator	FY09 (Target)	FY09 (Estimate)	FY10 (Target)
Broad Money	17.5	17.2	15.5
Net Foreign Asset	14.3	23.9	-4.1
Net Domestic Asset	18.1	16.0	19.3
Domestic Credit	20.4	17.1	18.7
Credit to the Public Sector	27.3	24.5	25.3
Credit to the Private Sector	18.5	15.0	16.7
Inflation (MA)	8.5	7.0	6.5

Source: Compiled from Bangladesh Bank (2009b) and other sources of Bangladesh Bank.
Note: MA stands for 12-month annual moving average.

The M2/GDP ratio is expected to increase to 0.49 in FY2009-10 from 0.47 in FY2008-09, indicating a higher monetisation of the economy in the face of current global crisis (considering low case scenario of 5.5 per cent GDP growth). Considering the high case scenario of 6.0 per cent GDP growth rate, this ratio will come down, which means a lower monetisation in the economy. The central bank has targeted a 3.0 per cent decline in income velocity of money in FY2009-10, which indicates a lower economic activity. It may be noted that the income velocity of money declined by about 4.0 per cent in FY2008-09.

It is rather expected that net foreign asset may record positive growth during FY2009-10

While the aggregate indicator of money supply was close to target in FY2008-09, the compositional elements of the monetary aggregates in practice were perceptibly different from the targets. Net foreign asset, set at a lower level with an expectation of the adverse impact of global recession, attained higher growth rate as a result of buoyant remittance flow. The Bangladesh Bank had to purchase around USD 1.5 billion during the last fiscal year from the local inter-bank to stabilise the exchange rate (i.e. to hold back appreciation of national currency). The projected figure of net foreign asset suggests that the central bank has once again taken a cautious stance on external sector in FY2009-10. This conservative target of money supply has been derived mostly from the squeeze in net foreign asset, which is (-)4.1 per cent for FY2009-10. In the backdrop of subdued outlook for the external sector and the central bank's plan to use forex reserve for import of investment and consumption goods, forex reserve is projected at a lower level. It is rather expected that net foreign asset may record positive growth during FY2009-10.

Domestic credit has been estimated lower than the projected figure largely due to the slowdown of credit for private sector growth in FY2008-09

Domestic credit has been estimated lower than the projected figure largely due to the slowdown of credit for private sector growth in FY2008-09. Net credit to government has also been lower, perhaps a result of lower deficit financing requirement due to non-implementation of the annual development programme (ADP). The Bangladesh Bank has projected 18.7 per cent growth rate in total domestic credit for FY2009-10, which is higher than the estimated growth of last year (17.1 per cent). During the current fiscal year, incremental domestic credit flow is expected to be driven by the government (net) credit with an increase of 29.6 per cent in comparison to an increase of 16.7 per cent to the private sector. However, the average growth of private sector credit in the last five years was 18 per cent. One wonders, if private investment demand really picks up, whether the central bank will have to make more fiscal space to accommodate the same.

If private investment demand really picks up, whether the central bank has to make more fiscal space to accommodate the same

Surprisingly, the central bank has projected a zero growth for credit to the "other" non-financial public sector. However, given the government's intentions to rejuvenate public enterprises, such target seems implausible.

5.6 ANCHOR(S) OF THE MONETARY POLICY

Intermediate objectives (anchors) are important for monetary policy. They provide guidelines to policymakers at times when ultimate objective (inflation or growth or both) responds with a lag. It also reduces the uncertainty and ensures transparency in policymaking (Crockett 2004) and (Lindsey and Wallich 1989). In this context, three most popular approaches in a monetary policy regime are the following:

i. Exchange rate targeting
ii. Monetary aggregate targeting
iii. Inflation targeting

The authorities target the aggregate money supply and that the shares are distributed accordingly, while theory suggests that it would be more efficient to target the components to achieve objectives and let the aggregate adjust automatically

In Bangladesh, all of these approaches have been practiced for quite some time. While exchange rate targeting will be continued to keep the balance between the interests of the exporters and consumers, monetary aggregate targeting will be the intermediate objective to promote growth without dampening the macroeconomic stability in the present context.

From an analytical point of view, M2 perhaps has been the most dependable anchor variable for formulating monetary policy. This remains the most common practice, while the central banks around the world keep targeting inflation. To examine the stability of money supply and its different components over the last eight years, the present paper has calculated an Instability Index following the methodology developed by the United Nations Development Policy and Analysis Division (2004), as well as by Chatterjee and Shukayev (2006).

The log of M2 in the system, credit to the government (net), credit to other public sector and credit to the private sector covering the period from July 2001 to May 2009 (monthly data) were regressed against their respective trends. To this end, the standard error of the regression represents the instability of a particular indicator. The authors' calculation suggests that, trends in M2 are more stable than that of its components (Table 5.3). Among the components of M2, credit to private sector is the least volatile, followed by credit to the government. Credit to other public sector organisations demonstrates the most volatility; however, its share in total domestic credit is rather low compared to the other two components. This provides evidence that the authorities target the aggregate money supply and that the shares are distributed accordingly, while theory suggests that it would be more efficient to target the components to achieve

Table 5.3: Instability of Broad Money and its Components

Indicator	Broad Money (M2)	Credit to Government Sector	Credit to other Public Sector	Credit to Private Sector
Instability Index	0.000083	0.00047	0.00061	0.000070

Source: Authors' calculation.
Note: Observations: 95.

objectives and let the aggregate adjust automatically (Ramey and Ramey 1995). Moreover, given the circumstances it is rather advisable that monetary policy should use domestic credit as the anchor variable in view of the government's and private sector's credit requirement.

It is rather advisable that monetary policy should use domestic credit as the anchor variable in view of the government's and private sector's credit requirement

5.7 TWO IMPORTANT ASPECTS OF THE MONETARY POLICY

5.7.1 Excess Liquidity

Excess liquidity of the scheduled banks stood higher at Tk. 27,716.99 crore as of end April 2009, as against Tk. 12,988.58 crore as of end June 2008, i.e. recorded 113.4 per cent growth. Tk. 7,523 crore (27.1 per cent) of the excess liquidity is composed of the Bangladesh Petroleum Corporation (BPC) bonds, while the rest of the liquidity is possibly due to increase in investment on approved securities by commercial banks, as a result of lack of investment demand. The excess liquidity situation has been compounded by several factors.[2] Firstly, this fall in investment demand has been exacerbated by import and export slowdown, as a large share of the bank credit in Bangladesh goes towards letter of credit (L/C) opening. Further, fall in prices of majority of commodities in the global market implies lower money demand for financing imports. Secondly, because of the financial crisis, the business community has been prone to taking conservative steps with regard to business decisions. The decline of L/C opening for capital machineries also reflects this fact. Thirdly, credit requirement of the government for financing of fiscal deficit has also been moderate. It is now to be seen whether the economy responding to the stimulations designed by the national budget for FY2009-10 draws down the excess liquidity to its usual level in the coming months.

It is now to be seen whether the economy responding to the stimulations designed by the national budget for FY2009-10 draws down the excess liquidity to its usual level in the coming months

5.7.2 Agricultural Credit Policy

For FY2009-10, the central bank has fixed a (gross) disbursement target of Tk. 11,500 crore, which is about 24 per cent higher than the actual (gross) disbursement of FY2008-09. It is to be recalled that the central bank has made disbursement of the agriculture credit mandatory for all commercial banks. The central bank intends to take aggressive institutional steps for implementing the credit disbursement target. In line with this, Bangladesh Bank has announced a multisectoral and inclusive agricultural-cum-rural credit policy and programme. Priorities have been accorded to undeveloped areas, like *chars*, marsh lands and the coastal belt, as well as "higher productive areas" while disbursing credit. Special attention will be given to women entrepreneurs involved in agricultural production. A Tk. 500 crore fund will be disbursed among sharecroppers. National ID card (and Farmers' ID card) will be utilised in selection process. To ease access to credit by the disadvantaged people, the collateral requirements have been waived - banks can now accept recommendations from landowners, local influential persons, and even from neighbours while approving credit to the poor. The policy also kept provision for Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB) to disburse a portion of their fund through their NGO (non-government organisation) partners.

Bangladesh Bank has announced a multisectoral and inclusive agricultural-cum-rural credit policy and programme

What is not immediately evident is that to what extent the incremental allocations will be disbursed from the loanable funds of the commercial banks and the specialised banks (i.e. BKB and RAKUB) and to what extent through the refinancing window of the Bangladesh Bank. These two channels of agricultural credit disbursement will have varying monetary implications.

[2] These explanations are also mentioned in CPD (2009b).

Effective implementation of the above mentioned features will require close monitoring and supervision of the entire lending operation. Bangladesh Bank has already set up "Agricultural Credit Monitoring System" to supervise and monitor disbursement of agriculture credits. Admitting the importance of rural credit flow in Bangladesh economy, one may like to be cautious against use of scarce capacity of the central bank on issues which are better left to scheduled (specialised) banks.

Disbursement of industrial credit will greatly define the growth prospect of the manufacturing sector, which in turn will ensure at the margin, realisation of the GDP growth prospect

5.8 A SELECT SET OF MISSING ISSUES

5.8.1 Energising Industrial Term Loan

Industry sector has experienced a major downturn as disbursement of term loan declined by 9.6 per cent during July-March of FY2008-09 compared to similar period of FY2007-08 (Table 5.4). This trend has been corroborated by the fall in import of capital machineries during this period. However, disbursement of working capital increased by 15.5 per cent over the same period, indicating possibly greater use of existing capacity. In the backdrop of a gloomy prospect, the central bank on 17 March 2009, increased loan disbursement limits for the four state-owned commercial banks (SCBs). This should allow them to lend more aggressively. These banks will now be able to increase the amount of lending by 10 per cent over the preceding year (previously the growth was limited to 5 per cent). Additionally, the ceiling on single borrower exposure has been raised by another 5 per cent of paid-up capital. Together with the reduced Repo and Reverse Repo rates introduced earlier, these measures are expected to enhance credit flow to productive sectors of the economy. The MPS did not present any indication of implication of these measures on off-take of industrial credit. Disbursement of industrial credit will greatly define the growth prospect of the manufacturing sector, which in turn will ensure at the margin, realisation of the GDP growth prospect; it would have been useful if the central bank would have attached adequate attention to this issue.

Table 5.4: Term Loan Situation in Bangladesh

	Jul-Mar FY08	Jul-Mar FY09	Growth (%)
Disbursement	14574.31	13174.22	-9.6
Recovery	9706.67	11232.27	15.7
Net Disbursement	4867.64	1941.95	-60.1

Source: CPD-IRBD database.

5.8.2 Addressing Non-performing Assets

Provisions to write-off bad debts as well as collections prior to the national elections may have contributed towards improving the share of classified loans

Large amount of non-performing assets have been afflicting the financial sector of Bangladesh for a long time. Total classified loan for first three quarters of FY2008-09 stood at Tk. 23,586.22 crore (11.12 per cent of total outstanding loan), registering a decrease of (-)1.06 per cent over the corresponding figure of FY2007-08. Nationalised commercial banks (NCBs) made impressive progress in reducing the total classified loan, recording a decline of Tk. 952.73 crore, i.e. (-)6.7 per cent fall from the figure of FY2007-08. Introduction of BPC bond may have made a positive effect in this accounting. Provisions to write-off bad debts as well as collections prior to the national elections may have contributed towards improving the share of classified loans. Curiously, total classified loan of foreign banks increased significantly by 26.1 per cent during FY2008-09 (could be due to application of more stringent standards).

On 5 July 2009, the Finance Minister informed the Parliament that a total of 2,196 loan defaulters hold loans of Tk. 15,451 crore (covers only those with default of more than or equivalent to Tk. 1 crore). As of March 2009, the largest 2,196 defaulters held 65.5 per cent of total classifies loan. A similar updated list is expected to be made public in the near future. The Prime Minister, on the other hand, on 21 July asked the Finance Ministry to prepare a report on those who have been systematic defaulters and/or have regularised loans using political connections. With these interventions from the highest policy level, a "forgotten issue" once again is being resurrected.

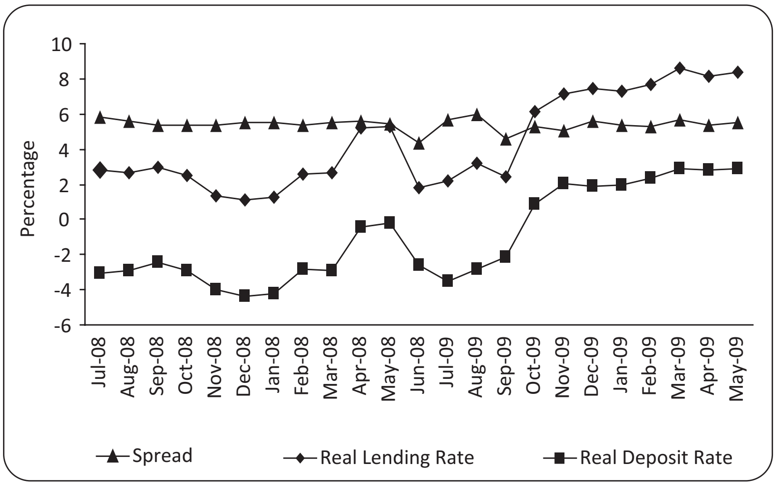
Given the pessimism about private investment demand as well as debate on high cost of borrowing, it was expected that the MPS would provide some policy guidelines about dealing with the existing bad debt overhang. As a significant share of the classified loans are attributable to public sector corporations, and as demands for funds of the non-performing public enterprises are expected to increase further in view of the government's decision to relaunch them, it would have been prudent for the central back to lay down a prudential framework for financing the state-owned enterprises (SoEs).

Given the pessimism about private investment demand as well as debate on high cost of borrowing, it was expected that the MPS would provide some policy guidelines about dealing with the existing bad debt overhang

5.8.3 Reducing Interest Rate Spread

Admittedly, high lending rate remains one of the major impediments of investment in Bangladesh. The MPS for the first half of FY2008-09 also addressed this issue. High interest spread underpins the problem (Bangladesh Bank 2008). Other reasons for high lending rates include high rates of various government-sponsored saving certificates, inefficiencies in the system, market segmentation, and lack of competition. Equity finance to stimulate and encourage capital markets can reduce demand for loanable funds and imply favourable effect on lending rates from the demand side. Loan default risk is another factor responsible for high lending rates, particularly in a country such as Bangladesh where non-economic factors also play a role in loan classification.

Figure 5.4: Interest Rate Spread



Source: Calculated from Bangladesh Bank data.

With the easing of inflationary pressure and introduction of 13 per cent cap for lending rate for major sectors, it was expected that the spread would be reduced to a reasonable level. However, the desired effect of the policy on spread may not be realised as several banks (by some account this group includes 20 banks) moved to reduce interest rates for fixed deposits by 1.5 percentage points. The latest statistics are also not encouraging; during May 2009 the interest rate spread remained as high as 5.5 per cent in comparison to 4.8 per cent at the end of FY2007-08 (Figure 5.4). The interest rate spread in India generally hovers around 4.0 to 4.5 per cent. The issue, regrettably, did not get a mention in the MPS of the first half of FY2009-10.

Equity finance to stimulate and encourage capital markets can reduce demand for loanable funds and imply favourable effect on lending rates from the demand side

5.8.4 Integrating Microfinance

While not being a part of mainstream monetary sector, microfinance has been a major supplier of credit to private sector, particularly in the rural economy. At the end of FY2007-08, total outstanding microcredit was 7.1 per cent of total credit to private sector (private sector plus microfinance) and 2.7 per cent of GDP. Even though the microfinance institutions are regulated by a separate authority, it is time that microfinance variables are integrated in monetary aggregates. Regrettably, the first half MPS of FY2009-10, which demonstrated high level of sensitivity to financing the rural poor, opted not to integrate the issues relating to microfinance within its policy framework.

5.8.5 Institutional Measures (Basel II)

There is a need for the MPS to provide clear indications and guiding principles of mandatory compliance for the banks

With a view to fully implement the Basel II framework of supervision and disclosure principles, and to protect the financial system from risks of overexposure, Bangladesh Bank introduced Basel II capital adequacy assessment for banks from January 2009 to instill precise quantitative awareness in banks about all material risks associated with their operations vis-à-vis their capital bases. However, there is a need for the MPS to provide clear indications and guiding principles of mandatory compliance for the banks. Curiously, no such specific intentions were stated by the central bank in its most recent MPS.

5.9 CONCLUDING OBSERVATIONS

The effectiveness of this MPS will largely depend on the capacity of Bangladesh Bank to carry out its stated objectives and the effectiveness of related policy implementation

In a "fiscal dominant" regime such as Bangladesh, where the fiscal authority sets its budget independently of public sector liabilities, fiscal policy can affect monetary policy in different ways: first through the impact of government inter-temporal budget constraint on monetary policy; secondly through the effect of fiscal policy on a number of monetary variables, such as interest rates, interest spreads and exchange rates. In the backdrop of easing inflationary pressure, the trade-off between growth and inflation may have taken a back seat for the moment. However, as global economic development continues to show signs of recovery, the central bank needs to be vigilant to maintain macroeconomic stability. The effectiveness of this MPS will largely depend on the capacity of Bangladesh Bank to carry out its stated objectives and the effectiveness of related policy implementation (e.g. fiscal policy, supply-side response, governance reform). In the backdrop of continuing global economic recession, promoting inclusive economic growth and complementing the fiscal expansion proposed in the budget for FY2009-10 are the ultimate objectives of this MPS. In this connection, there would be strong need for the Bangladesh Bank to not only a supportive, but also an active monetary policy. Indeed, one would expect to see that the central bank is capable of making dynamic adjustments of its monetary policy in the course of its implementation across the current fiscal year.

On a related issue, the government will be well advised to set up an independent, high-powered and competent committee to reflect on the practical mechanisms to deal effectively with the bad debt overhang, to device mechanism for exit of sick industries with burden of bad loan, to infuse more competition in the financial sector, to reduce the interest rate spread, and to examine the rationale for borrowing of foreign currency denominated loans from external sources by the domestic private sector. In the backdrop of collapse of financial institutions across the world, the committee may also suggest ways and means to improve transparency and accountability of the domestic financial institutions.

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ANNEX 1

Dialogue Report on

State of the Bangladesh Economy and An Analysis of the National Budget for FY2009-10

This dialogue report was prepared by Tapas Kumar Paul, Research Associate, Centre for Policy Dialogue (CPD).

THE DIALOGUE

The dialogue on *State of the Bangladesh Economy and An Analysis of the National Budget for FY2009-10*, organised by the Centre for Policy Dialogue (CPD), took place on 20 June 2009 at the Ballroom of Hotel Sheraton, Dhaka. The initiative was taken with a view to share CPD's observations and analysis of the various proposals in the national budget for FY2009-10 presented by the Finance Minister on 11 June 2009, and to create a space for discussion between the Finance Minister and the policymakers and experts from both within and outside the government.

CPD Chairman *Professor Rehman Sobhan* presided over the dialogue, while *Professor Mustafizur Rahman*, Executive Director, CPD, presented the keynote paper. The Hon'ble Minister for Finance *Mr AMA Muhith*, MP was present at the dialogue as the Chief Guest. *Dr AB Mirza Azizul Islam*, Former Advisor to the Caretaker Government, Ministries of Finance and Planning was the Guest of Honour, and *Mr MK Anwar, MP* and Former Minister for Agriculture was the Special Guest for the occasion.

The dialogue provided a platform for exchange of views among a broad spectrum of participants that included representatives of the civil society, lawmakers, senior government officials, economists, academicians, representatives of the development agencies and grassroots organisations (a complete list of participants is attached at the end of the report).

INTRODUCTORY REMARKS BY THE CHAIR

Professor Rehman Sobhan in his welcome address pointed out that CPD had the unique distinction of being a platform where the first major discussions on the budget involving a broad cross section of both the political and civil society constituencies take place. He thanked the Hon'ble Finance Minister *Mr AMA Muhith MP* for his presence and recalled that the Finance Minister had been a regular participant of the CPD dialogues. *Professor Sobhan* hoped that the dialogue would offer the minister constructive inputs in finalising the budget proposals. He also welcomed the Guest of Honour *Dr AB Mirza Azizul Islam* and *Mr MK Anwar, MP.* He felt that, in presence of such a broad assortment of stakeholders, the dialogue was a unique opportunity once again to engage the Finance Minister and his counterpart both in the political world and in the civil society.

Following the opening remarks, *Professor Sobhan* commended *Professor Mustafizur Rahman* and his team of colleagues at CPD for their hard and professional work in preparing the keynote presentation. He then invited *Professor Mustafizur Rahman*, Executive Director, CPD, to make the presentation.

KEYNOTE PRESENTATION

At the beginning of his presentation *Professor Rahman* registered his deep appreciation for the presence of such a distinguished audience. He also joined with the Chair in welcoming the Hon'ble Minister for Finance, the Chief Guest of the occasion, the Guest of Honour and the Special Guest. He also informed the audience that CPD's budget response was prepared by a team at the Centre, and he registered his deep gratitude to all his colleagues who had contributed to preparing the budget response. He informed the audience that the dialogue is the culmination of a number of initiatives that CPD had taken in the context of the budget, including the submission of the budget proposal to the Hon'ble Finance Minister in May, the interim report on the state of the economy in early June, and the immediate reactions to the national budget on 11 June 2009, the morning after the budget was presented before the Jatyo Sangshad.

Benchmarks of FY2009-10

Professor Rahman initiated his presentation by stating the benchmarks against which the budget of FY2009-10 was prepared and presented. He mentioned that the budget presented by the Hon'ble Finance Minister was the first budget of the newly elected government, and also the first formal policy document of the government which assumed power in the backdrop of promise of change and with a task in hand to confront manifold challenges. *Professor Rahman* highlighted that Bangladesh has performed reasonably well to achieve 5.9 per cent growth in FY2008-09. This commendable economic growth was achieved in view of ongoing recession and the attendant uncertainties. At a time when the budget will start to be implemented, the economy was experiencing a low level of inflation, stable exchange rate and comfortable balance of payments (BOP). He observed that during the recession several countries have taken balance of payments assistance from the International Monetary Fund (IMF) financing facilities but Bangladesh did not feel the need to do so.

Despite the fact that Bangladesh has been able to maintain an impressive growth rate, she has also been facing a number of disquieting developments, *Professor Rahman* noted. Adverse impacts of global recession, with a time lag, on the Bangladesh economy have become increasingly visible in the recent months. Export growth decelerated from 19.3 per cent in July-December of FY2008-09 to 4.0 per cent in January-April; export growth in April 2009 was (-)2.3 per cent, over the corresponding period of previous fiscal year. Remittance growth declined from 30.9 per cent in July-December to 14.5 per cent in January-May of FY2008-09 and number of outgoing workers fell by (-)30.8 per cent during July-May of FY2008-09. Considering the low business confidence, as findings from a survey conducted by the CPD appear to indicate, reinvigorated investment could emerge as a major challenge during the forthcoming FY2009-10.

Import and letter of credit (L/C) openings of capital machineries have declined by 10.68 per cent and 31.53 per cent respectively during July-March period of FY2008-09. Term loan disbursement, a proxy indicator of investment, also faced a contraction by 9.61 per cent during the first nine months of FY2008-09. *Professor Rahman* pointed out that although the macroeconomic fundamentals remained reasonably sound, these could come under pressure if the ongoing global crisis continues to deepen. In view of this, FY2009-10 will be a challenging time from the perspective of macroeconomic management.

Challenges for FY2009-10

In his presentation *Professor Rahman* stated that the economy might experience two defining challenges - one was to meet high public expectations emanating from short-term goals as depicted on the *Vision 2021* in the Awami League Manifesto; the other was addressing the challenges originating from the ongoing global financial crisis. He added that along with these two, CPD has identified five other challenges in the context of macroeconomic management during FY2009-10: i) energising investment; ii) consolidating agriculture; iii) protecting external sector; iv) strengthening public finance; and v) reviving public administration.

He pointed out that the focus of the budget should be on these five challenges so that the performance of the economy in the coming year (FY2009-10) could match the achievement of the previous year.

Growth, Investment and Macroeconomic Outlook

Growth and Investment Outlook

Professor Rahman argued that the gross domestic product (GDP) growth target for FY2009-10 had been set at 5.5 per cent which was rather conservative, particularly in the context of last year's economic performance. He was of the opinion that achieving this growth target will not require an exceptional performance. Despite natural disasters and the ongoing global financial crisis, the economy achieved 5.88 per cent growth in FY2008-09. In the backdrop of robust performance of FY2008-09 (4.7 per cent and 5.2 per cent for agricultural and crop sector respectively in FY2008-09), attaining a significant performance for FY2009-10 in the agricultural sector will, however, be a major challenge. Investment target for FY2009-10 also suggests that the government is expecting a decrease in the investment rate (as a percentage of GDP). In this context, he pointed out that incremental capital output ratio (ICOR) is also projected to increase to 4.3 in FY2009-10, thus the capital productivity is envisaged to further fall in FY2009-10. A significant enhancement in public investment, if actually realised, should be able to attract additional private investment in FY2009-10; however, gross investment is projected to decline further from 24.2 per cent to 23.7 per cent (of GDP) and this was a paradox.

External Sector Outlook

Professor Rahman made a general observation that the world economy is expected to shrink by around 1.3 to 1.7 per cent in FY2008-09, according to the IMF and the World Bank projections, and expected to grow by around 2 per cent in FY2009-10. Such a slowdown was likely to adversely impact the increasingly globalising Bangladesh economy, particularly the external sector of the Bangladesh economy. The manufacturing sector, particularly the export-oriented segment, could suffer if demand in the developed countries does not recover in the next fiscal year. The government has projected exports and imports to grow by 12.5 per cent and 13.0 per cent respectively, while remittance flow is expected to increase to USD 10.6 billion by the end of FY2009-10. Much of this will depend on the nature and speed of recovery, he commented.

Monetary Policy Outlook

With respect to the monetary sector, *Professor Rahman* stated that the inflationary pressure, according to government estimate, is expected to ease gradually over the next three years according to the Medium Term Macroeconomic Framework (MTMF), with inflation rate expected to be 6.5 per cent in FY2009-10. The government has also implied a contraction of broad money (M2) growth by 1. per cent for FY2009-10. *Professor Rahman* argued that this tightening of the monetary policy is contradictory to the expansionary fiscal policy stance proposed by the government. Credit to the private sector was expected to increase by 18.3 per cent in FY2009-10, which was somewhat lower than targets fixed in the recent past. He also highlighted the importance of maintaining exchange rate stability which is targeted to be Tk. 70.7 against the US dollar according to the MTMF.

Public Finance Framework

Revenue Earnings

With respect to revenue mobilisation, *Professor Rahman* observed that revenue target for FY2009-10 was set at Tk. 79,461 crore, which is 14.9 per cent higher than the revised target of FY2008-09. Growth target for National Board of Revenue (NBR) was 15.1 per cent. *Professor Rahman* termed this target as a realistic target despite an expected fall in the import prices. However, he termed Non-NBR Tax target, with an expectation of 17 per cent growth, as optimistic in the backdrop of the performance in the previous year. At the same time, Non-Tax revenue target, with a 13.6 per cent growth, was perceived by *Professor Rahman* to be a conservative target considering the high growth of the previous fiscal year.

Public Expenditure

Focusing his attention on the issue of public expenditure, *Professor Rahman* stated that total public expenditure in the budget of FY2009-10 amounted to Tk 113,819 crore, which was 13.9 per cent higher than the original and 20.9 per cent higher than the revised budget of FY2008-09. He remarked that compared to original targets of FY2008-09, the budget does not seem overly expansionary, particularly if one accounts for the inflation rate. With respect to revenue expenditure, *Professor Rahman* mentioned that in FY2009-10 it is expected to increase by 10.3 per cent over the revised budget of FY2008-09. The three major heads of revenue expenditure – "interest payment," "pay and allowances" and "subsidies and current transfers" – will constitute 80.2 per cent of the total, down from 83.5 per cent in FY2008-09. *Professor Rahman* expressed his concern regarding interest payment; growth in interest payments was projected to be 18.7 per cent in the proposed budget

Annual Development Programme (ADP)

Regarding the development budget, Professor Rahman mentioned that Tk. 30,500 worth ADP of FY2009-10 was about 19.1 per cent higher than actual ADP and 32.6 per cent higher than revised ADP (RADP) of FY2008-09. He remarked that the actual implementation would perhaps be about Tk. 19,500 crore in FY2008-09, implying a 55 per cent larger ADP in FY2009-10. He recalled that five priority sectors in the ADP of FY2009-10 (in terms of share in allocation) were Transport, Education & Religion, Local Government, Infrastructure Planning and Power (Electricity). Much would depend on the performance record of these sectors. The large size of the new ADP is, to an extent, due to carryover of projects that were actually scheduled to have finished by June 2009 (12 per cent of the new ADP), he commented. Without these carryovers the new ADP would have been of Tk. 26,985 crore, he remarked. Only 35 projects are new in the ADP for FY2009-10 which received an allocation of Tk. 376 crore, only 1.2 per cent of the total allocation.

Deficit and Financing

Budget deficit was estimated to be at Tk. 34,358 crore for FY2009-10 which was equivalent to 5 per cent of the projected GDP. This was also 37.7 per cent higher than the revised estimation for FY2008-09 that considered implementation of ADP to be to the tune of Tk. 23,000 crore. According to CPD projections, actual deficit of FY2008-09 would be around 3.5 per cent of GDP, implying that deficit has been targeted to be about 60 per cent higher in FY2009-10. Share of domestic financing will be 59.8 per cent of total financing, of which 81.5 per cent was expected to be financed from the banking system (compared to 75.3 per cent in revised budget for FY2008-09).

Assessment of Fiscal Measures

Income Tax

Professor Rahman observed that Bangladesh has traditionally been more dependent on indirect tax than direct tax for revenue generation. The income tax slabs remained unchanged with the general tax exemption limit remaining at Tk. 165,000. The lowering of the minimum age for senior citizens from 70 years to 65 years was a welcome initiative, he remarked. This was done keeping in mind the current retirement age of government employees, which is 57 years. The exemption limit for female and senior earners also had remained unchanged at Tk. 180,000.

Cottage Industries

Government's support towards the development of cottage industry was to be appreciated, *Professor Rahman* remarked. Apart from raising the threshold value of the property of the cottage industry from Tk. 15 lakh to Tk. 25 lakh, the government has also proposed to increase the turnover limit from cottage industries to Tk. 40 lakh from the existing Tk. 24 lakh. Besides, the government has encouraged small time savers to save more by raising the threshold level on bank deposits to Tk. 20,000 instead of Tk. 10,000 for the purpose of imposing excise duty.

Agriculture

In order to attain food autarky and increase crop production, the government has declared this sector as a top priority sector and proposed to continue with the zero tariff on imports of fertiliser, seeds and major foodgrains. However, CPD's suggestion to impose 15 per cent duty on rice imports to safeguard the interest of the rice farmers (by discouraging rice import) was not considered in the budget, *Professor Rahman* noted. Disbursement target for agricultural credit has been set at Tk. 10,000 crore (6.62 per cent higher than FY2008-09). The target appears to be realistic, observed *Professor Rahman*.

The government has also proposed to impose 12 per cent customs duty (CD) on imports of milk powder to protect the local industry in conjunction with value added tax (VAT) relief on local production. Alternatively, to protect the interest of the domestic dairy industries, the FY2009-10 budget has proposed to withdraw the 2.5 per cent supplementary duty (SD) applicable on the processing of liquid milk to be converted into powdered milk. Moreover, it proposed to fix tariff value for powder milk at Tk. 100/kg. This would result in only Tk. 15/kg as VAT instead of current Tk. 50/kg, *Professor Rahman* remarked.

Industry

Professor Rahman noted that to reduce the cost of production and to help the exporters, the government has revised the tariff structure for import of raw materials. In addition to the changes made on CD and SD, the government for the first time, has introduced regulatory duty in the various tariff slabs. The budget proposes to impose 5 per cent regulatory duty only on luxury and health hazardous items falling under the 25 per cent slab of CD. Some of these items may include - fully-automatic washing machine, microwave ovens, motor vehicles, TV, cigarettes, etc. The government also proposed to raise the SD on luxury vehicles - but the amount is yet to be mentioned, noted *Professor Rahman*. The government's proposal to impose 20 per cent SD on particle board, hard board, medium density fibre board, plywood, leather goods, etc., and to raise the SD to 45 per cent from existing 20 per cent on footwear, ceramic items, table ware and sanitary ware to offer protection to these local industries, was a welcome move according to *Professor Rahman*. Not only this initiative will provide some protection to the local industries from foreign competition, but also will facilitate increased revenue earnings. Similar initiatives were also taken as regards protection of local liquid glucose and dextrose producing plants (20 per cent SD imposition) and biscuit factories (SD increase to 100 per cent from 60 per cent). Additionally, in order to overcome the slump in the registration of ocean going vessels, the current budget proposes to withdraw the 7 per cent CD on 3,000 MT or larger ocean going vessels, he noted.

To help flourish the local manufacturers of refrigerators and motor cycles, the government has proposed to exempt these industries from VAT for a period of one year. The government's proposals to support local industries need to be appreciated, commented *Professor Rahman*.

Change in Tariff Structure

Professor Rahman observed that import duties have been raised to protect domestic industries and augment revenue earnings. Government's decision to reduce CD on basic raw materials from 7 per cent to 5 per cent will reduce cost of production for the relevant industries. This will have an impact on import duty earnings depending on the elasticity of demand for these items - it is expected that the government will incur a loss of about Tk. 383 crore in revenue earnings. Proposed changes in CD, SD, VAT, advance trade VAT (ATV) and imposition of regulatory duties will have a significant impact on revenue earnings from import. NBR estimate shows that with the proposed changes in CD, the government will have additional revenue earnings of about 9 per cent (only from CD). A CPD analysis estimates that if FY2007-08 import value is taken as base year and FY2009-10 tariff structure is applied on that (import value), government revenue earnings will amount to Tk. 19,818 crore - an increase of Tk. 1,060 crore (5.65 per cent) over FY2007-08.

However, if the MTMF import growth of FY2008-09 and FY2009-10 is taken into consideration (import growth is estimated to be 13 per cent for both FY2008-09 and FY2009-10), then total revenue earnings from imports would amount to Tk. 25,305 crore - a significant increase on the import revenue earnings compared to FY2007-08 (27.5 per cent) and FY2008-09 (12.3 per cent). CPD estimates project FY2008-09 import-related revenue earnings to be about Tk. 21,196 crore. The estimated FY2009-10 import-related revenue collection would be 19.4 per cent higher than that of the estimated FY2008-09 duty collected from import. However, it is of interest to note that if FY2009-10 tariff structure is applied on FY2008-09 import value, then total import duty would come to about Tk. 22,394 crore - an increase of Tk. 1,198 crore or 5.65 per cent of FY2008-09.

Information and Communication Technology (ICT)

Professor Rahman noted that budget proposals regarding the ICT sector ought to reflect the vision of *Digital Bangladesh*. Some important steps have been proposed, he observed. With respect to duty on mobile phone, he mentioned that the government proposed to introduce 25 per cent CD on mobile sets instead of

Tk. 300/set specific duty and elimination of all kinds of SD, VAT and advance income tax (AIT). This will entail higher duty on high priced sets and lower duty on low priced sets. However, this decision might encourage smuggling of handsets, which in turn may reduce government earnings from the sector, he continued. The proposal to withdraw VAT from the internet service in educational services was a commendable initiative, remarked *Professor Rahman*.

Power

The allocation for the power and energy sector for FY2009-10 was 48 per cent higher than the allocation in the revised budget for FY2008-09, however, the quality and timely implementation will be the most crucial factor here, remarked *Professor Rahman*. He noted that withdrawal of renewal fees on captive power plants (CPPs) was a longstanding demand and was a positive move. He welcomed the withdrawal of VAT on domestic generation of power along with domestically produced/assembled generators, and also the withdrawal of existing CD of 3 per cent and VAT at stages of import, domestic production and supply in case of solar panels.

Small and Medium Enterprise (SME)

Professor Rahman thought that the proposed increase in threshold level of VAT for SMEs to Tk. 40 lakh from Tk. 24 lakh would encourage investment in this area by providing some relief to the SMEs. However, SMEs in Bangladesh faced formidable difficulties which will need to be addressed through other supportive measures.

Legislation of Undisclosed Income

Regarding legislation of undisclosed income, *Professor Rahman* recalled that in FY2008-09, 14,216 people had used this facility to lagalise Tk. 782 crore; Tk. 105 crore was collected as tax on this income. He also mentioned that in the CPD's pre-budget proposal it was argued that the provision of legalising income from disclosed sources (where taxes were not paid before) should be allowed by paying a penalty of 7 per cent on the payable tax, along with regular taxes. At the same time it was also recommended not to consider any provision for legalising income from undisclosed/illegal sources. This runs counter to the principle of rewarding conscientious taxpayers, discouraging tax evaders and punishing people with undisclosed income, he felt. Also no distinction has been made between income earned legally and undisclosed, and income earned illegally and undisclosed, he noted.

Budgetary Allocations: Priorities

Public-Private Partnership (PPP)

Total allocation for PPP was Tk. 2,500 crore which accounted for 2.2 per cent of the total budget. *Professor Rahman* noted that PPP is planned to be tested out on a number of sectors such as energy, infrastructure and social services (health and education). Whether the short-term projects will be able to attract private investors and whether PPP projects will be used to ease the pressure on ADP remains to be seen, added *Professor Rahman*. He further suggested that, necessary laws have to be formulated and enacted as soon as possible to facilitate speedy movement in this regard. On implementation of PPP, he also mentioned a number of challenges. Improvement in administrative efficiency and capacity for negotiation, speedy operationalisation (timely disbursement and good quality of implementation) of the funds, and early establishment of PPP Cell with the required terms of reference were necessary factors for success of the PPP initiative, he noted.

Agriculture

Professor Rahman commented that the proposed allocation for the Ministry of Agriculture (MoA) in FY2009-10 (Tk. 5,965 crore) was 22.0 per cent lower than the allocation in the revised budget of FY2008-09 (Tk. 7,643 crore) and 9.2 per cent lower than proposed budget of FY2008-09 (Tk. 6,566 crore). On the other hand, allocation for Ministry of Fisheries and Livestock, Ministry of Environment and Forest, and Ministry of Land in FY2009-10, compared to revised budget of FY2008-09 have increased by Tk. 114 crore (18.9 per cent), Tk. 28 crore (11.2 per cent), Tk. 75 crore (17.3 per cent) respectively. Allocation for the Ministry of Water Resources in FY2009-10 was Tk. 1,483 crore. It would appear that public investment for agricultural development has been reduced even though it is highlighted as one of the priority sectors in the election pledges of the new government, he observed.

Stimulus Package

In view of global financial crisis, the budget has proposed that special support given to the afflicted industries under the first phase of the "stimulus package" will be continued in FY2009-10. The budget has proposed an allocation of Tk. 5,000 crore for this purpose. However, no detailed breakdown has been provided in the budget with regard to allocations from the proposed fund. It seems that disbursement of this fund for FY2009-10 will be based on the guideline mentioned in the first stimulus package. *Professor Rahman* recalled that in April 2009, the government had announced a special package of Tk. 3,402 crore for FY2008-09. As part of this support, seriously affected industries such as jute goods, leather and leather products, frozen foods and shrimp were selected for additional cash support (to the tune of 2.5 per cent in addition to existing support). Sectors (such as backward linkage textile, bicycle, light engineering products, agro-processing) which were already receiving cash incentive, were to continue receiving financial support. Besides, the government also announced several policy support for export-oriented industries in the form of timely disbursement of cash incentive, increase in allocation under Export Development Fund, expansion of export credit to all sectors at a reduced rate (7 per cent), and rationing support for garment workers.

Health

Professor Rahman stressed that ensuring primary health services for all is critical for the progress of the country. It was proposed in the FY2009-10 budget that a total of 13,500 community clinics (CC) will be established across the country. However, it was not specified whether all of these are going to be new establishments or includes the already operational 8,464 CCs. Nevertheless, it is hoped that these CCs, which perhaps would be a part of PPP, will play an important role in providing basic health services to rural people, particularly in the areas of mother and child care, family planning services, sanitation, cleanliness, prevention of diarrhoea, nutrition and venereal disease related services.

Some other major proposals in the budget include allocation of Tk. 173 crore for extension of the National Nutrition Programme to (NNP) 134 upazilas, expansion of Maternal Healthcare Voucher Scheme to 45 upazilas (with an allocation of Tk. 70 crore) and modernisation of upazila-level hospitals. Although most of these proposed initiatives target development in the health sector, the key factor in ensuring success would be strengthening of management and implementation capacity of the government, remarked *Professor Rahman*.

Education

Line ministries involved in the education sector received a total of Tk. 3,914.55 crore as ADP allocation in FY2009-10, which was 40.7 per cent higher than that of the previous fiscal, *Professor Rahman* observed. The budget proposed that considering their qualification registered and community primary school teachers will be provided with grants in the form of pay equivalent to the initial pay of government primary school teachers. This was a welcome initiative towards enhancing the quality of education. Besides, proposals for recruitment of science teachers at the secondary level and setting up laboratories in each secondary school are well-thought initiatives. *Professor Rahman* noted in this connection that in its pre-budget proposals CPD had proposed to the government to consider these measures.

The budget for FY2009-10 proposed initiation of three new programmes in the education sector. These were: (i) free education, by phases, upto graduation, (ii) stipend to male students, and (iii) modernisation of *Madrassa* education. However, the budget did not propose any specific allocation or guidelines for successful implementation of these new programmes, *Professor Rahman* pointed out.

Social Safety Net

With the underlying objective of bringing down poverty rate to 15 per cent by 2021, enhancement of social safety net was identified as a priority area by the government in the budget for FY2009-10, *Professor Rahman* noted. To this end, the government has proposed to increase per person allowance and beneficiary coverage for the majority of the allowance programmes. This is a continuing initiative and reflects the government's commitment in support of the marginalised to people of the society, *Professor Rahman* remarked. With regard to helping the poor and distressed through microcredit, the government has announced that the Palli Karma-Sahayak Foundation (PKSF) will distribute Tk. 200 crore received from foreign sources. However, concerns remain as there was no specific guideline on the proposed flexible repayment schedule, or strengthening of microcredit programmes that are believed to be vital for social protection and social empowerment of the resource-poor people, observed Professor Rahman.

With regard to ensuring food security of the poor and vulnerable, the government has proposed to allocate Tk. 5,877 crore under the non-development budget for the Food for Works (FFW) programme, vulnerable group feeding (VGF), vulnerable group development (VGD), test relief (TR) (food), gratuitous relief (GR) (food) and also for food assistance to the people of the Chittagong Hill Tracts (CHT). The budget, however, did not specify any allocation for public food distribution through monetised channels, *Professor Rhaman* observed.

Employment Generation

Professor Rahman was of the opinion that the issue of employment generation was dealt with due importance in the budget for FY2009-10. The government was targeting to create employment opportunities for 7 lakh people, which accounted for around 40 per cent of the 18 lakh new entrants in the labour market annually. In view of addressing the long standing criticism with regard to selection of beneficiaries, the government has proposed to prepare a new list using the database created for the National ID card. This was appreciated by *Professor Rahman*. It may be noted here that CPD had earlier suggested adoption of such a measure in its pre-budget proposals, *Professor Rhaman* recalled.

The government had proposed to modify the *100-Day Employment Generation Programme* which was launched by the caretaker government (CTG) and has decided to postpone the second phase of the programme. The new programme titled *Employment Generation for the Hardcore Poor* is planned to create employment for 4.9 million man-months with the proposed allocation of Tk. 1,176 crore. However, no details have been provided with regard to regional targeting of the programme.

Introduction of the *National Service Programme* for Higher Secondary Certificate (HSC) or equivalent graduates with an allocation of Tk. 20 crore was a welcome initiative, as well. As per initial planning, the programme will begin in Barguna and Kurigram districts on a pilot basis. The beneficiaries will get three month's training and will be provided with employment for two years in various fields in line with the training.

In addition to the above, the budget for FY2009-10 has proposed some new employment creation measures to be implemented in the rural areas where poor women workers will receive priority in selection. It is hoped that such initiatives will play a significant role in uplifting these women from poverty and distress, *Professor Rahman* stated.

Challenges for Implementation

Professor Rahman presented a list of challenges confronting the implementation of the various proposals in the budget. These included: ensuring proper utilisation of the surplus national savings, excess liquidity in the banking system and foreign aid in the pipeline; appropriate sequencing of public expenditure for maximising developmental outcomes; maintaining complementarity of macroeconomic framework, fiscal policy and monetary policy; maintaining integrity of the public finance framework and adhering to fiscal discipline; strengthening the capacity of the line ministries so that allocated funds are appropriately utilised under the leadership of ministers in charge; strengthening local governments and vesting them with responsibilities and power; deepening relationship of trust with private sector by way of strengthening competitive market behaviour; carrying forward reforms (e.g. Bangladesh Better Business Forum (BBF) and Regulatory Reforms Commission (RRC)) and catalysing partnership with private development agencies including non-government organisations (NGOs) and community-based organisations CBOs for social mobilisation and social service delivery. He remarked that successful implementation will depend on a functioning and able development administration, while the Planning and Finance Ministries must provide adequate guidance. The line ministries will have to demonstrate adequate capacity to design and implement their projects. An informed and result-based monitoring (RBM) mechanism should be developed and the reform agenda mentioned in the budget speech should be realised to ensure successful implementation of the budgetary process.

FLOOR DISCUSSIONS

The Most Important Task for Budget Implementation would be to Ensure Revitalisation of Investment

Mr Syeduzzaman, Member, CPD Board of Trustees and Former Finance Minister, expressed his discomfort about the GDP growth target of 5.5 per cent for FY2009-10. He argued that with an investment of 24 per cent and savings of 32 per cent, the economy should have a growth target of about 7 per cent. The size of the budget was only 16.7 per cent of GDP (projected) for FY2009-10, which should be increased significantly to achieve the *Vision 2021* goals and in order for Bangladesh to be a middle-income country in the foreseeable future.

Dr Mustafa K Mujeri, Director General, Bangladesh Institute of Development Studies (BIDS), stated that the budget fits well with the intentions of the present government's view in terms of its medium term objectives. He observed that the GDP growth projections for the FY2009-10 has been discounted in view of the downside risks that the economy could be facing in the next fiscal year. He mentioned that the most important task in the context of implementation of the budget would be to ensure revitalisation of investment, particularly because investments in terms of its share in GDP has remained stagnant over the last two or three years, and is projected to decline further in the next fiscal year. Investment would be a key factor which could bring about the desired changes in the economy from the macroeconomic perspective, he emphasised.

Adequate Resource Mobilisation and Transparency in Project Selection are Key to Successful ADP Implementation

Mr Syeduzzaman, shared his concerns with regard to the ADP implementation. He remarked that of the various barriers to ADP implementation, resource mobilisation through project aid was likely to emerge as a major impediment for the government in FY2009-10. In the forthcoming fiscal year the government should give appropriate attention to the issue of mobilizing adequate resources for timely implementation of the ADP, he noted.

Major General Sheikh Md Monirul Islam, Director General of Bangladesh Institute of International and Strategic Studies (BIISS), also expressed concern over the intended benefits of public investment while reaching the target groups. He advised the government to be more transparent with project selection, and recommended that punitive measures be taken if officials or contractors failed to carry out their respective duties in support of smooth implementation.

Public Procurement Policy

Mr Abdul Hafiz Choudhury, President, Metropolitan Chamber of Commerce and Industry (MCCI), Dhaka, expressed doubt as regards the proposed changes in the public procurement policies. He noted that multilateral donor agencies such as the ADB and the World Bank have also expressed their concern in this respect. If the government actually goes with the proposed changes in the procurement policy, foreign aid component of the projects may be withdrawn, and consequently this may have serious impact on development activities pursued by the country.

Deficit Financing: A Major Concern for the Government

Professor Abu Ahmed, Department of Economics, University of Dhaka, remarked that although budget deficit was only about 5.0 per cent of GDP, the mode of financing should be chosen with due caution. He further added that interest payments could be a burden for the government in the years to come. In order to restrain the interest payments from spiralling out of control, *Professor Ahmed*, recommended that the government offload the shares of public enterprises in the capital market.

Terming deficit financing as a major concern for the government, *Mr Choudhury* observed that bank borrowing could have a crowding out effect on the private sector, which is supposed to be the main engine of growth. In view of the increasing budget deficit, he argued that there should be an endeavour to keep it low under the present circumstances especially in the context of the rising interest payment.

Policy Coordination will be the Engine of Growth

Referring to the policy coordination as the engine of growth, *Dr Mujeri* commented that the budget for FY2009-10 has gone for an expansionary fiscal policy. He felt that the challenge would be to dovetail the monetary policy to achieve the objectives of the fiscal policy, and create an environment that is conducive to promotion and growth of investment enhancement.

Implications of the Global Financial Crisis

Regarding global economic turmoil, *Mr M Fazlul Azim, MP* and Chairman, Azim Group, commented that although the government has constituted a high powered task force to monitor and suggest the required policies to address the adverse impacts on the economy, real progress is yet to be in this regard. He urged that the government to take note of the declining performance of export of goods and services. Export of readymade garments (RMG) have come down as that of other export-oriented sectors. The stimulus package that has been declared in the current budget should address specific problems, backed by a transparent modality. He also added that over the past two years, a record number of Bangladeshi workers (1.7 million) left the country in search of jobs abroad - the total number of migrant workers is estimated at about 6.1 million at present, over 10 per cent of the total labour force. They are estimated to have sent about USD 7.9 billion in FY2007-08, which was equivalent to 10 per cent of GDP. However, in all likelihood, the number of workers going abroad would be significantly lower in 2009. One important impact of the crisis has been the significant slowdown in the number of people migrating in recent months. Already some of the traditional destinations, including the United Arab Emirates (UAE), Saudi Arabia, Malaysia and Singapore, have indicated caution with respect to new recruitment in the face of sluggish growth prospects and lower demand for construction and other services. In view of the difficulties faced in the overseas job market, and also in response to the need for diversifying the overseas job market, Bangladesh will require a comprehensive plan in the areas of training and skills development, *Mr Azim* recommended.

Appropriate Policies Needed to Protect Export-oriented Industries

Mr Abdus Salam Murshedy, President, Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Managing Director, Envoy Group, demanded that the government should consider the current negative growth of RMG export and announce appropriate policies to protect this industry. Export-oriented sectors of Bangladesh are facing increasing competition with the neighbouring countries and reduction in product prices has adversely affected the RMG exporters in particular, he added. In this regard, as a measure to raise export of apparels, he called for concessionary interest rate at 5 per cent, withdrawal of

VAT on utility bills, withdrawal of advance source tax of 0.25 per cent at least for six months, extension of tax holiday at least till 2015, diesel subsidy by Tk. 10 per litre, fixing unified holidays for garments sector, and an improvement of law and order situation in the country.

New Tax and Tariff Proposals are not Conducive to Investments

Mr Oddvar Hesjedal, Chief Executive Officer (CEO), Grameen Phone Ltd., observed that the existing mobile penetration rate of 30 per cent was rather low compared to the neighbouring countries. He informed the audience that telecom companies operating in Bangladesh, particularly Grameen Phone, have made substantial investment in the rural areas in the last couple of years, and they will continue to do so in the coming days. He felt that telecom operators will be able to assist in creating new development opportunities in the rural areas, especially in terms of remittance payments, providing health services, making social safety net payments by building the necessary infrastructure for such services. However, the high rate of corporate tax is making the task of undertaking the required ventures rather expensive, he opined. Regarding the initial primary offering (IPO) of Grameen Phone, he informed that the company is waiting for the Securities and Exchange Commission's (SEC) approval and is expecting to be listed in the stock exchange by the end of 2009.

Mr Annisul Huq, President, Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), underlined the need for the rationalisation of tariff structure to be applied on cars in the proposed budget for FY2009-10. Regarding tariff rationalisation, he felt that cars over 1800 cc or 2000 cc are no longer luxurious goods in the Bangladesh context. The Finance Minister ought to reconsider this new tariff structure on car, he felt.

Dr Zaidi Sattar, Chairman, Policy Research Institute of Bangladesh commented that the new tax and tariff proposals made in the budget were not very conducive to investment. He also expressed concerns regarding the fact that there is no involvement of consumer group in the budgetary process. The budget is also obligated to consumers alongside the need for development of the industrial and agricultural sectors. *Dr Sattar* further added that consumers should not be subjected to extra taxation which results in significant transfer of resources from the consumers to the producers (through CD, SD, regulatory duty, etc.).

Legalisation of Undisclosed Income will Punish the Honest Taxpayers

Mr Huq appreciated the recognition by the government of the economic value of bringing undisclosed income within legal ambit. In this connection, he mentioned that the FBCCI agrees with the proposal to revise the proposal to allow investment of undisclosed income only in specified sectors.

Mr Choudhury, expressed concern regarding the issue of investment of black money and wanted the proposal to be withdrawn. He stated that since 1976 only Tk. 18,000 crore has been legalised - by and large it has failed to make the expected contribution to the economy. This provision will punish the regular and honest taxpayers, he added.

Mr Hafiz Mazumder, MP, emphasised that there is a misperception regarding the provision of legalising undisclosed income - many have argued that illegally earned income can now be legalised. He clarified that the government will not allow any investment out of illegal income.

PPP Initiatives should be Transparent

Mr Syeduzzaman appreciated the initiative to encourage PPP. He observed that a number of developing countries have successfully made use of this type of initiative to deliver projects in infrastructure and social services sectors. He further noted that traditionally governments of developing countries have built and maintained physical infrastructures, e.g. railways, roads and highways, airports, ports, irrigation installation, telecommunication, power generation, etc. without which most other economic activities would be stagnant. He recommended that the PPP initiative should be transparent and emphasis should be put on rational pricing of services generated through such projects.

Mentioning the initiative of PPP as an appropriate step towards enhanced development process, *Mr Azim* observed that transparency and pricing modality should be ensured for proper implementation. Many developing countries have achieved success using the PPP model and Bangladesh should follow the strategies they have pursued in this connection, he noted.

Mr Huq also welcomed the PPP initiative and mentioned that the FBCCI had earlier recommended to the government for initiation of projects with public-private partnership. He noted that Dhaka-Chittagong highway and elevated express highway projects should be considered for PPP on a priority basis. He further added that Bangladesh's private sector will be keen to participate in PPP projects but legal framework and modality of project operation and implementation should be defined in advance.

Industrialisation cannot Progress unless Power and Energy are Ensured

Mr Choudhury observed that a large part of the labour force in the country is unemployed; consequently, law and order situation in the country has been worsening. Agriculture has been absorbing 48 per cent of the labour force and there is hardly any more scope for engagement in this sector, he added. *Mr Choudhury* stated that industrialisation of the country is extremely important; however, industrialisation cannot progress unless energy and power is ensured. It was rather a disquieting feature of the budget that allocation for energy sector was only 3.8 per cent of the total. The PPP projects which are supposed to help in developing the energy sector of the country would require time. However, appropriate modalities for implementation of PPP will need to be developed and the requisite rules and regulations must be framed. Thus, increased allocation, along with better implementation of power projects should be ensured if rapid industrialisation of the country is to be a reality.

Addressing the issue of gas shortage, *Mr Abdul Hai Sarker*, President, Bangladesh Textile Mills Association (BTMA) pointed out that industries were the main victims of the supply shortage. A large number of entrepreneurs have set up their units with bank loans but are now not being able to run their enterprises because of lack of gas supply, he complained.

Mr Abul Hasan Chowdhury, Former State Minister, Ministry of Foreign Affairs, endorsed the idea of designing the *National Coal Policy* and felt that it needs to be finalised on an urgent basis to ensure energy availability and sufficiency.

Give Credit to Agriculture at a Lower Interest Rate

Mentioning that agro-processing industries can rejuvenate the agriculture, *Mr Choudhury* stressed the need for investment in this sector. He recommended the government to give credit at an interest of less than 10 per cent for agriculture, and agro-processing industries. He also emphasised the need for flexible credit facilities for the growth of these industries.

Mr Ad Spijkers, Food and Agriculture Organization (FAO) Representative in Bangladesh appreciated CPD's presentation and agreed with the emphasis that was put on consolidation of agriculture sector's success in the coming fiscal year. He remarked that over the last few years, Bangladesh has done a marvellous job in terms of grain production. After China, India and Indonesia, Bangladesh was the next largest foodgrain producer in Asia, he informed the audience. However, maintaining this record would be a challenge, he observed.

Skilled Manpower is Required for Digital Bangladesh

Mr Tanvir Shakil Joy, MP emphasised on the requirement of skilled manpower for the implementation of *Vision 2021*, in which *Digital Bangladesh* has been set out as a major goal. To achieve the goal, he thought that the government should take initiative to set up one computer laboratory in every school. *Mr Shakil* also demanded reduction of VAT on mobile SIM (Subscriber Identity Module) cards as many people use internet through mobile phones, especially in the rural areas.

Mr Mustafa Jabbar, President, Bangladesh Computer Samity (BCS), appreciated the proposal for budgetary allocation for the ICT sector. He requested the Finance Minister to withdraw the VAT on SIM cards immediately. He also appreciated the initiative to make computer course compulsory for all students at the secondary levels starting from the next fiscal year. Bangladesh Bank could set up a revolving fund for credit facility, with a concessional interest rate, for students as well as educational institutions for purchasing computers, he recommended.

Lower Allocation for Education is a Major Concern

Dr Manzoor Ahmed, Senior Advisor, BRAC University - Institute of Education and Development, thought that the budget for FY2009-10 should reflect the elected government's *Vision 2021*. 13 per cent of the total budgetary allocation has been proposed for the education and technology sector, but this was lower than the previous year's 13.6 per cent. The allocated resources should be properly utilised to meet the targets in this sector, he observed.

Transparency in Both Private and Public Sectors is Required for Good Governance

Mr Azim expressed his concern regarding the current state of governance in Bangladesh. He mentioned that corruption in public sector was a major obstacle in the country's developmental process. Investors are highly discouraged in a corrupted environment. Bringing transparency both in private and public sector will reduce corruption and foster economic growth. He requested the lawmakers from both position and opposition to provide political stability to aid the country's development process.

Lobbying for Climate Change Mitigation Fund in Copenhagen Conference Suggested

Mr Spijkers urged the government to address the issue of climate change adequately and asked for full utilisation of the allocation. He also recommended the government to lobby for the climate change mitigation funds which may emerge from the forthcoming Copenhagen Conference.

Reduction of Registration Fee for Old Properties Recommended

Regarding the secondary market for apartments, *Engineer Tanveerul Haque Probal*, President of Real Estate & Housing Association of Bangladesh (REHAB), noted that there was no secondary market to deal with this sector in Bangladesh. It was quite a hassle to buy and sell old apartments and properties. In order to buy an old apartment, buyers have to register with a 16.5 per cent fee again, which is the same as the first-time registration fee. He asked the government to reduce the fee for old properties.

Capital Market

With respect to measures for developing the capital market, *Professor Ahmed* noted that the government has been offering a 10 per cent reduction of corporate tax rate for the mobile phone operators if they were listed to the stock market. To encourage greater participation by non-listed companies in the capital market, the SEC should identify systemic concerns that inhibit greater participation in the capital market and should undertake appropriate corrective actions, he remarked. These incentives will motivate companies to participate in the stock market. The trade-off (in view of the resultant revenue loss) will lead to a net gain for the economy, he observed.

Gender Discrimination

Ms Shirin Akhter, President, Karmojibi Nari, appreciated the increase in allocation earmarked for women's development. However, utilisation of these resources must be monitored to attain the intended benefits for the targeted group, she added. In this connection she pointed out the need to strengthen the capacity of the Ministry of Women and Children Affairs.

Introduction of Inflation-adjusted Minimum Wage Suggested

Dr Wajedul Islam Khan, General Secretary, Bangladesh Trade Union Kendra, noted that minimum wages have remained at the same level for the majority of workers engaged in productive sectors. The prevailing wage that the workers were getting was low and workers could barely make ends meet on this. Real wages have gone down by more than 50 per cent. The government should take appropriate measures to help the working class by introducing an inflation-adjusted wage system, he argued. Most of the workers in the garments sector are living in tiny slum dwellings, where even minimum necessities of life are absent. He recommended that dormitories be set up for the workers on the basis of monthly payments.

COMMENTS FROM THE SPECIAL GUEST

Mr MK Anwar, MP and Former Minister for Agriculture thanked the CPD for arranging the dialogue and the audience for their valuable insights. He observed that the proposed budget, compared to the preceding one, is larger in terms of targets for public expenditure, revenue generation and budget deficit. Resource mobilisation, in view of these features, would be a challenging task for the government in the next fiscal, he commented.

Drawing attention to the various targets of the government's *Vision 2021*, *Mr Anwar* observed that all those targets were for the long-term; however, there should be clearly defined targets and goals for the next fiscal year.

Regarding the issue of personal tax exemption limit, *Mr Anwar* noted that a number of our neighbouring countries have raised the threshold in view of the global financial crisis. He commented that raising the limit on income tax could have stimulated domestic demand through higher consumption.

Mr Anwar stated that imposition of VAT on travel agents or manpower exporters could be counter productive. Also this has been proposed at a time when the economy was experiencing a decline in manpower export in view of the ongoing financial crisis. He urged the government to revisit the imposition of VAT on manpower exporters.

Regarding the high interest rates on microcredit, *Mr Anwar* mentioned that the rate often varies between 30 to 35 per cent, which was too high for the people who use this facility. This high interest rate does not help in poverty reduction and poor people are no longer the beneficiary of these credit programmes, he observed.

Mr Anwar remarked that the safety net programmes that have been stated in the budget should be free of political interference. Although, allocations for many programmes have been increased, this is only a short-term solution, because poverty reduction was not possible with these programmes only, and will require long-term strategies. He appreciated the new programme titled *National Service Programme* for HSC qualified youths, but he urged the government to identify and design the implementation modality of the programme first.

With respect to black money, *Mr Anwar* mentioned that the opportunity to legalise undisclosed income would discourage regular taxpayers as they would end up paying a higher tax. This opportunity has also been allowed at a time when the country must move away from its corrupted past. He pointed out that this opportunity violates the election manifesto of the Awami League government and recommended that it should be discontinued immediately.

COMMENTS FROM THE GUEST OF HONOUR

Dr AB Mirza Azizul Islam, Former Advisor to the Caretaker Government observed that the proposed budget for FY2009-10 overlaps the budget for the preceding year to some extent. Regarding the exemption of personal income tax, he mentioned that the limit has increased in two successive years (FY2007-08 and FY2008-09). Therefore, the threshold for personal income tax exemption should not be raised at this stage as inflation rate is no longer very high and has indeed come down in recent times.

On the issue of increase in domestic interest payment, *Dr Islam* argued that it was not a loss to the national economy. It is a transfer from the government to the private sectors, and should not be considered as a leakage from the macroeconomic perspective unlike foreign interest payments. However, he also noted that foreign interest payment creates only a small burden on the government exchequer.

Dr Islam expressed his concern regarding the size of ADP and remarked that it should not be considered on the ground of need only. Implementation capacity of ADP is a perennial concern and it remained valid for the present fiscal year. Referring to the implementation problems that have been identified in the CPD's report, he stated that these problems should be properly addressed; otherwise, the implementation status will be well short of expectation.

The Former Advisor highlighted that the allocation to agriculture and energy and power in the budget has been reduced compared to the budget for FY2008-09. In case of agriculture the reduction is due to the decline in subsidy requirements to Tk. 3,600 crore from the Tk. 4,500 crore in the previous budget. However, the reduction of allocation in the energy and power sector cannot be justified unless PPP is successfully operationalised to deliver the growing demand, he observed.

Regarding the objectives of the proposed stimulus package, *Dr Islam* asked whether the purpose of the package is to protect employment or to support the export-oriented industries. This needs to be clearly spelt out, he added.

On the PPP project initiative, *Dr Islam* highlighted the importance of project management. Pricing mechanism of the PPP projects could also be a concern, along with the question of subsidy requirement from the government for these projects. If the government wants to give a reasonable return to the private producers and at the same time keep the prices of the concerned utility service affordable, then there may be a need for subsidy allocation by the government, he noted.

Drawing attention to the proposal regarding the introduction of district budget, *Dr Islam* remarked that it will require careful scrutiny before being implemented. It could be difficult to identify the sources of revenue for a particular district and also the beneficiaries of public expenditures, he added.

In the context of fiscal implications of the restructured tariff measures, *Dr Islam* observed that fiscal incentive is probably the least important consideration for an investor. The overall law and order situation and the availability of the infrastructure, particularly uninterrupted supply of power and energy is much more crucial. Therefore, the reduction of tax rates will probably cause a loss of revenue to the government without any corresponding benefit in terms of higher investment.

RESPONSE FROM THE CHIEF GUEST

The Hon'ble Finance Minister *Mr AMA Muhith, MP* gave his reactions to the questions and queries raised by the dialogue participants. He appreciated the contribution made by the keynote speaker and his team, the Special Guest, the Guest of Honour and the discussants from the floor on various proposals presented in the budget for FY2009-10.

The Finance Minister agreed that the GDP growth target of 5.5 per cent is on the conservative side. However, he clarified that the growth target was actually between a range of 5.5 to 6.0 per cent.

The Minister defended the size of the ADP, to the tune of Tk. 30,500 crore, which had been termed as unrealistic by some quarters. He admitted that the size of ADP was relatively large and its implementation was going to be a serious challenge. He, however, assured the audience that the government will step up its monitoring mechanism and undertake systematic reforms to accelerate the pace of ADP implementation.

Addressing the concerns regarding allocation of subsidy on agriculture, the Minister pledged that although the government has proposed the amount based on the lower price of fertiliser and diesel, if and when the prices tend to rise, the amount will be subsequently increased.

Regarding the 25 per cent SD on mobile handsets, the Minister stated that the proposal is under consideration and the duty may be withdrawn.

The Minister agreed with concerns raised by some discussants regarding the PPP; especially on the issues of pricing and revenue sharing. He assured that the government will formulate an appropriate PPP Act and specify the modalities at the earliest. "Dhaka-Chittagong Four Lane Highway" and the "Elevated Expressway" in Dhaka will be projects which will kick-off the PPP in Bangladesh, he informed.

The Finance Minister, however, did not agree with the apprehension regarding allocation for ICT. He remarked that every ministry has its own allocation for ICT development and if all these separate allocations are aggregated, the ICT fund would in fact be very significant.

Stimulus package consisted not only of cash support but also policy support, the Finance Minister remarked. He also informed that the government was closely monitoring the developments in the context of the ongoing global financial crisis and will take necessary steps to mitigate its adverse impacts.

The Chief Guest, however, disagreed with the view that district budget would be impossible to implement. He conceded that it will not be possible to produce district-wise budget within one year and that it would be implemented gradually. By incorporating the local government bodies and decentralised budgeting system, district budgets will improve the delivery mechanism of infrastructure and social services to the grassroots level, he hoped.

The Minister also clarified that the opportunity to legalise undisclosed income will be provided for only one year, and it will be specified in the final version of the Finance Bill for FY2009-10.

In his concluding remarks, the Finance Minister expressed his hope that through proper implementation of the budget, the government will be able to expand the scope of the economy, which in turn will catalyse both domestic investment and foreign direct investment (FDI) inflow.

CLOSING REMARKS BY THE CHAIR

Professor Sobhan thanked the Finance Minister for his comprehensive, logical and frank response. He stressed that the objectives of poverty alleviation and ensuring equity with justice must be seen as two of the most crucial agendas of any government in a country such as Bangladesh, and all policies should be formulated with these two goals in focus. He felt that budgets generally tend to provide rather limited incentives for millions of people belonging to the middle class private sector, and the time to refocus attention to these untapped resources has come.

Addressing the PPP initiative, *Professor Sobhan* suggested that the legal framework should be finalised soon with emphasis on pricing, subsidies and price-sharing. Transparency in management of the PPP projects ought to receive top priority, he noted.

Bringing the dialogue to its close, *Professor Sobhan* registered his deep appreciation to all the dialogue participants, the Chief Guest, the Special Guest and the Guest of Honour for being present at the CPD dialogue. He remarked that the session has been very productive and constructive, and hoped that the range of issues that have been covered will be of value to the policymakers as they get on with the important task of revisiting the budget proposals and preparing the revised budget which will subsequently be passed by the Jatyo Sangshad.

ANNEX 1

List of Participants

Ms Tahmina Abedin
Programme Associate, D.net

Mr Sheikh Ahaduzzaman
Programme Officer, FAO

Professor Abu Ahmed
Department of Economics, University of Dhaka and
Former Chairman, Bangladesh Shilpa Bank

Mr Ali Ahmed
Advisor, Cotecna and Former Member, NBR

Mr Farooq Ahmed
Secretary General, MCCI

Mr Mahbub Ahmed
Additional Secretary, Government of Bangladesh

Dr Manzoor Ahmed
Senior Advisor
BRAC University - Institute of Education and
Development (BU-IED)

Dr Nazneen Ahmed
Research Fellow, BIDS

Professor Dr Salahuddin Ahmed
Darul Ihsan University

Mr Fakhrul Ahsan
Division Chief, GED, Planning Commission, Ministry of Planning

Ms Shirin Akhter
President, Karmojibi Nari

Mr Kazi Syedul Alam Babul
Chairman, Bangladesh Jute Goods Association

Mr MK Anwar, MP
Vice President, Bangladesh Nationalist Party and
Former Minister for Agriculture

Mr M Fazlul Azim, MP
Chairman, Azim Group

Mr Dipal Chandra Barua
Managing Director, Grameen Shakti

Mr MA Baset
Second Vice President, BKMEA and
Director, Southern Knitwear Limited

Dr Anwara Begum
Research Fellow, BIDS

Ms Mahmuda Begum
Director, Economic Relations Division (ERD)
Ministry of Finance

Mr Arup K Biswas
Senior Advisor, Development Affairs
Royal Norwegian Embassy

Dr Shirin Sharmin Chaudhury, MP
Member of the Parliament

Mr Abdul Hafiz Choudhury
President, MCCI

Mr Suhel Ahmed Choudhury
Former Secretary and Chairman, Janata Bank

Dr Toufic Ahmad Choudhury
Professor and Director, CPGS, BIBM

Mr Ahsan Khan Chowdhury
Deputy Managing Director, Pran Group

Mr A Matin Chowdhury
Former Chairman, BTMA and
Managing Director, Malek Spinning Mills Ltd.

Mr Abdul Muyeed Chowdhury
Chairman, BRAC BD mail Network Limited;
Former Chairman, NBR and Former Executive Director, BRAC

Mr Abul Hasan Chowdhury
Former State Minister, Ministry of Foreign Affairs and
Managing Director, KMS Consultants

Ms Uma Chowdhury
Director, SUPRO (Shusasan-er Jonno Prochar Ovijan)

Mr Nabendra Dahal
Chief, Education Division, UNICEF

Dr Md Idris Ali Dewan
Member (Socio Economic Infrastructure), Planning Commission

Ms Aroma Dutta
Executive Director, PRIP Trust

Mr Nurul Haq
Member, CPD Board of Trustees and
Former Member, Bangladesh Planning Commission

Mr KR Hasan
Vice President, BJMA and
Deputy Managing Director, Jem Jute Ltd.

Mr M Hasanullah
TMS, BADP, ADB

Mr Abu Mamun Hashmee
Head of Government Affairs, Corporate Affairs
Grameenphone Ltd.

Mr Arne Haug
Deputy Head of the Mission, Royal Norwegian Embassy

Mr Oddvar Hesjedal
CEO, Grameenphone Ltd.

Mr Md Fazlul Hoque
President, BKMEA

Mr Syed Aminul Hoque
Head, Research and Development, COAST Trust

Mr Zobdul Hoque
Former Deputy Director General, BBS

Mr Delwar Hossain
Assistant Chief (ADB), ERD, Ministry of Finance

Mr Md Delwar Hossain
Programme Director
South Asia Partnership-Bangladesh (SAP-BD)

Mr Md Mofazzal Hossain
Director General, IMED, Education and Social Sector

Mr Annisul Huq
President, FBCCI;
Former President, BGMEA and Chairman, Mohammadi Group

Dr Saadat Husain
Chairman, Public Service Commission and
Former Secretary, Cabinet Division

Ms Tomoko Inagaki
Economic Researcher, Embassy of Japan

Dr AB Mirza Azizul Islam
Former Advisor to the Caretaker Government
Ministries of Finance and Planning

Mr Ifti Islam
Managing Partner, Asian Tiger Capital Partners

Mr Mohd Rafiqul Islam
Deputy Economic Advisor, Finance Division, Ministry of Finance

Major General Sheikh Monirul Islam ndc, psc
Director General, BIISS

Mr Mustafa Jabbar
President, Bangladesh Computer Samity

Mr Tanvir Shakil Joy, MP
Member of the Parliament

Ms Laila Rahman Kabir
Member, CPD Board of Trustees and
Managing Director, Kedarpur Tea Company Ltd.

Mr Habibullah N Karim
President, Technohaven Group of Companies and
President, BASIS

Dr Mostafa Abid Khan
Joint Chief (International Cooperation Wing)
Bangladesh Tariff Commission

Dr Wajedul Islam Khan
General Secretary, Bangladesh Trade Union Kendra

Mr Md Ziaul Haque Khondker
Chairman, SEC

Dr Barkat E Khuda
Professor, Department of Economics, Dhaka University

Mr Jean-Jacques
Lauture
Counsellor and Head of Section
Governance, Economic Cooperation and Education
Delegation of the European Commission

Dr Badiul Alam Majumder
Member Secretary, SUJAN and
Country Director, The Hunger Project

Mr Habibullah Majumder
Secretary, Planning Division, Ministry of Planning and
Member, General Economics and Programming Division
Planning Commission, GoB

Mr Hafiz Mazumder, MP
Member of the Parliament

Mr Mohammad Mejbahuddin
Additional Secretary-2
ERD, Ministry of Finance

Mr Md Abdul Hamid Miah
Managing Director, Rupali Bank Limited

Ms Nasreen Awal Mintoo
Former President
Women Entrepreneurs' Association of Bangladesh

Ms Zabeta Moutafis
First Secretary, AUSAID, Australian High Commission

Mr AMA Muhith, MP
Hon'ble Minister for Finance, Government of Bangladesh

Dr Mustafa K Mujeri
Director General, BIDS

Mr Abdus Salam Murshedy
President, BGMEA and Managing Director, Envoy Group

Mr Shah Muhammad Nasim
Director, NGO Affairs Bureau

Mr Miraz Ahmed Nasir
Manager, International Marketing, ACI Limited

Dr Narayan Chandra Nath
Research Fellow, BIDS

Dr Durga P Paudyal
Director General, CIRDAP

Engineer Tanveerul Haque Probal
President, REHAB

Professor Mustafizur Rahman
Executive Director, CPD

Mr Md Rakibur Rahman
President, Dhaka Stock Exchange Ltd.

Mr Md Shahedur Rahman
Senior Information Officer to the Hon'ble Minister for Finance

Dr Selim Raihan
Associate Professor, Dept of Economics, Dhaka University and
Chairman, SANEM

Mr ASM Rashed
APS to the Hon'ble Minister for Finance, Government of
Bangladesh

Dr Mohammad Haroonur Rashid
Principal, Civil Service College

Dr Bimal Kumar Saha
Senior Research Fellow, BIDS

Mr Md Abdus Salam
General Manager, Sonali Bank Ltd.

Mr Abdul Hai Sarker
President, BTMA and
Managing Director, Shohagpur Textile Mills Ltd.

Dr Zaidi Sattar
Chairman, Policy Research Institute of Bangladesh and
Vice Chancellor, Millennium University

Mr Raihan Shamsi
Director, Grameenphone Ltd.

Mr Faruq Ahmed Siddiqi
Former Chairman, SEC

Mr Sushil Singhal
First Secretary (Head of Chancery & Economic and Commercial)
Indian High Commission

Professor Rehman Sobhan
Chairman, CPD

Mr Ad Spijkers
FAO Representative in Bangladesh, FAO

Mr M Syeduzzaman
Member, CPD Board of Trustees and Former Finance Minister

HE Mrs Bea Ten Tusscher
Ambassador, Royal Netherlands Embassy

Mr Mahfuz Ullah
Secretary General, CFSD

Ms Heather C Variava
Chief Economic and Commercial Officer
Embassy of United States of America

Ms Kilmeny Beckering Vinckers
Deputy High Commissioner, Australian High Commission

List of Journalists

Mr Nasir Ahmed
Staff Photographer, BD News 24

Mr Rajib Ahmed
Reporter, Daily Manab Jamin

Mr Morshed Alam
Reporter, Diganta Television

Mr Zulfikar Ali
Special Correspondent, NTV

Mr Salahuddin Bablu
Senior Reporter, Daily Inquilab

Mr Rejaul Karim Byron
Senior Reporter, Daily Star

Mr Hamidul Haque
Senior Reporter,Ekushey Television (ETV)

Mr Rezaul Karim
Staff Reporter, Jai Jai Din

Mr Abul Kashem
Staff Reporter, Daily Manab Jamin

Mr Abu Kawser
Senior Reporter, Daily Samakal

Mr Nurul Hasan Khan
Reporter, Daily Dinkal

Mr Salahuddin Mahmud
Senior Reporter, Channel 1

Mr Sultan Mahmud
Special Correspondent, Islamic Television

Ms Naznin Munni
Senior Reporter, RTV

Mr Manik Muntasir
Economic Reporter, Daily Bhorer Dak

Mr Rezvi Newaz
Staff Correspondent, Channel i

Mr Sadequr Rahman
Staff Reporter, Daily Sangram

Mr Sharif-ur-Rahman
Presenter, Bangladesh Betar

Ms Sharmeen Rinvy
Senior Reporter, Bangla Vision

Mr Golam Kadir Robu
Staff Reporter, RTV

Mr Govinda Shil
News Editor, ABC Radio FM 89.2

Mr Khawaza Main Uddin
Senior Staff Correspondent, New Age

Mr Shahariar Zaman
Reporter, Financial Express

ANNEX 2

Dialogue Report on

An Analysis of the

National Budget FY2009-10

This dialogue report was prepared by Shouro Dasgupta, Research Intern, Centre for Policy Dialogue (CPD).

THE DIALOGUE

The Centre for Policy Dialogue (CPD) and the Bangladesh Economic Association (BEA), Chittagong Chapter, jointly organised a regional dialogue titled *State of the Bangladesh Economy and An Analysis of the National Budget for the FY2009-10*. The dialogue was held on 16 June 2009, at the Hotel Peninsula, Chittagong, with the purpose of allowing civil society stakeholders of Chittagong to provide feedbacks on the budget FY2009-10 proposals.

The Hon'ble Minister for Industries, *Mr Dilip Barua*, was present at the dialogue as the Chief Guest. *Barrister Anisul Islam Mahmud, MP* attended the dialogue as Special Guest. Former Commerce Minister *Amir Khosru Mahmud Chowdhury* was present as Guest of Honour. *Dr Fahmida Khatun*, Additional Director, CPD, presented the keynote paper; *Professor M Sekandar Khan*, President, BEA, Chittagong Chapter, moderated the session.

A cross section of stakeholders, including senior government officials, policymakers, economists, academics, civil society members, politicians, bureaucrats, business leaders, students and representatives from development organisations took part in the dialogue (a complete list of participants is included at the end of this report).

Professor Khan thanked the CPD for jointly organising the dialogue with the BEA, Chittagong Chapter, at an appropriate point of time. He expressed deep appreciation to the distinguished guests on the podium for their presence at the dialogue and thanked the audience and participants for attending the programme. He was hopeful that the dialogue would contribute to participatory policy making in Bangladesh. Following these remarks, *Professor Khan* invited *Professor Mustafizur Rahman*, Executive Director, CPD, to make the introductory speech.

INTRODUCTORY REMARKS

Professor Rahman noted with deep appreciation that the participation of such a distinguished audience was testimony to the interest stakeholders were taking in what have been proposed in the budget. He welcomed the Chief Guest, Special Guests, Guest of Honour, discussants and representatives from various stakeholder groups to the dialogue. Professor Rahman also thanked the BEA for its support in organising the programme. He underpinned the importance of such regional consultations and hoped that the dialogue would produce valuable feedbacks which would help the budget discussion being held in the national parliament. He was also hopeful that comments and observations voiced at the dialogue will be taken note of by policymakers and will be reflected in the final version of the budget.

KEYNOTE PRESENTATION

Dr Fahmida Khatun began her presentation by thanking the BEA for their assistance in organising the dialogue. She acknowledged the contribution of the CPD team in preparing the budget response. The keynote speaker reiterated that the dialogue provided an opportunity for civil society stakeholders of Chittagong to share their views and observations on the proposed budget.

A Platform for Change

In her remarks, *Dr Khatun* observed that the Finance Minister had termed the proposed budget for FY2009-10 as "a platform for change," and had identified two defining goals: first, meeting high public expectations and delivering on *Vision 2021*; and second, attending to the challenges of global recession.

She noted that in its response to budget FY2009-10, the CPD had highlighted a number of major challenges in attaining the aforesaid goals, including: i) Energising investment to stimulate economic growth; ii) Consolidating agriculture to ensure food security; iii) Protecting the external sector from the adverse impact of the global financial crisis; iv) Strengthening public finance to meet the requirements of the proposed budget; and v) Reviving public administration to implement the charter for change.

Dr Khatun observed that the country had achieved a credible economic growth of 5.9 per cent in FY2008-09 despite successive natural disasters and the ongoing global financial crisis. Against the backdrop of falling global commodity prices, the inflationary pressure in Bangladesh has been low and the exchange rate was stable. However, she cautioned that the investment climate in the country was not affable, and the impact of the global crisis may worsen the situation in the future. *Dr Khatun* emphasised CPD's perspective that the proposed budget was not over-expansionary in view of what was required to stimulate the economy.

Growth, Investment and Macroeconomic Outlook

Dr Khatun argued that the growth target of 5.5 per cent for FY2009-10 was rather conservative and felt that achieving this growth target will not require an exceptional macroeconomic performance. Against the backdrop of robust growth in FY2008-09 (4.7 per cent in the agricultural sector and 5.2 per cent in the crop sector), achieving a significant rate of growth in the agricultural sector in FY2009-10 will, however, be a major challenge. She stated that the investment target for FY2009-10 also suggests that the government is expecting a decrease in the rate of investment as a percentage of gross domestic product (GDP). Incremental capital-output ratio (ICOR) is projected to increase to 4.3 in FY2009-10, implying that capital productivity would fall further in FY2009-10. A significant boost in public investment in the form of annual development programme (ADP) also does not tally with a rather depressing investment projection, as this will mean that private investment will decline as a percentage of GDP.

Global Outlook

Referring to the world economic prospects and the potential implications for Bangladesh, *Dr Khatun* informed the audience that the world economy is expected to shrink by around 1.3 to 1.7 per cent in FY2008-09, according to the International Monetary Fund (IMF) and the World Bank projections; it is expected to recover and grow by around 2 per cent in FY2009-10. This could adversely impact Bangladesh's external sector performance, she apprehended. The keynote speaker also mentioned that the manufacturing sector would particularly suffer if demand in the developed countries does not register a rise in the next fiscal year. The government has projected exports and imports to increase by 12.5 per cent and 13.0 per cent respectively, while remittance flow may also increase by 10.6 per cent. She observed that in the final analysis, the outcome would depend on whether Bangladesh's macroeconomic performance would be adversely impacted by the global financial crisis.

Revenue Earnings

Dr Khatun noted that the government has set a target of Tk. 79,461 crore as revenue mobilisation in FY2009-10, i.e. Tk. 10,281 crore (14.9 per cent) more than the corresponding figure for FY2008-09 (revised). According to CPD's projection, the targeted revenue would be about 17 per cent higher over the projected revenue collection in FY2008-09 as the revised target for FY2008-09 may not be fully realised. In addition, Revenue-GDP ratio and Tax-GDP ratio targets for FY2009-10 are to the tune of 11.6 per cent and 9.3 per cent respectively. She pointed out that these targets are similar to those of 11.2 per cent and 9.0 per cent in the revised budget of FY2008-09.

Drawing attention to the targets set for FY2009-10, *Dr Khatun* noted that the National Board of Revenue (NBR) growth target of 15.1 per cent is realistic in view of the falling import prices. She, however, remarked that the non-tax growth target of 13.6 per cent is conservative considering the high achievement during the previous fiscal year. These targets will require the NBR to contribute around 76.8 per cent of total revenue in the next fiscal year, which was 76.6 per cent in FY2008-09, according to the revised estimate.

Government Expenditure

Dr Khatun commented that total public expenditure for FY2009-10 is 13.9 per cent higher than the original budget of FY2008-09, and 20.9 per cent higher than that of the revised budget. Total expenditure in the budget amounts to Tk. 113,819 crore with ADP and non-ADP accounting for 26.8 per cent and 73.2 per cent, respectively. An analysis of the structure of revenue expenditure shows that the share of the three major heads, "interest payments," "pay and allowances," and "subsidies and current transfers" will decrease to 80.2 per cent in FY2009-10 from 83.5 per cent in FY2008-09. Among these, "interest payments" and "pay and allowances" are expected to grow by 18.7 per cent and 5.8 per cent respectively, while "subsidies and current transfers" is expected to decrease by 0.5 per cent. *Dr Khatun* felt that the increase in interest payments could turn out to be a major concern in the next fiscal year.

Dr Khatun remarked that the new ADP may end up being 1.5 times larger than the actual ADP in FY2008-09. ADP of FY2009-10 has been targeted at Tk. 30,500 crore; project aid component of the new ADP is to be 42.1 per cent (43.9 per cent in the original ADP of FY2009-10), while the local currency share will be 57.9 per cent (56.1 per cent in ADP of FY2008-09). *Dr Khatun* commented that the projected ADP size remains inadequate considering the country's need, but too large given the implementation capacity.

Budget Deficit and Financing

Dr Khatun noted that the overall deficit would be around 5.0 per cent of GDP in FY2009-10. For FY2008-09, the deficit is targeted at Tk. 24,960 crore in the revised budget (4.1 per cent of GDP). Share of domestic financing will be 59.8 per cent, of which Tk. 16,755 crore (81.5 per cent) is scheduled to be borrowed from the banking system, while the rest of the Tk. 3,800 crore will be from non-bank instruments. *Dr Khatun* added that net foreign aid requirement will be around Tk. 13,803 crore (about USD 2.0 billion), which is 28.3 per cent more than that of FY2008-09. She also remarked that the gross foreign aid requirement of USD 2.6 billion was highly improbable unless the estimated figure is based on a large inflow of budgetary support.

Fiscal Measures

Regarding fiscal measures, *Dr Khatun* observed that no changes were proposed with regard to the tax slabs for personal income. However, the age requirement for senior citizens who will be eligible for tax exemption up to Tk. 180,000 has been lowered to 65 years from 70 years in the last fiscal year. *Dr Khatun* appreciated the continuation of the ceiling for taxable income from agriculture, which was set at Tk. 200,000 for men and Tk. 215,000 for women. She also observed that the proposal to make Pensioners' Saving Certificates tax-free is a move favouring social justice.

Dr Khatun noted that the government has increased the threshold level for value added tax (VAT) exemption of small and medium enterprise (SME) from Tk. 24 lakh to Tk. 40 lakh. The move, she felt, would encourage these enterprises. She also observed that the Finance Minister specifically mentioned that the incentive of tax holidays will not be extended beyond FY2011-12.

Regarding the legalisation of undisclosed income, *Dr Khatun* noted that the government has proposed to accept undisclosed money without any question from 1 July 2009 to 30 June 2012 with the condition that 10 per cent tax be paid on the disclosed amount and this be invested in selected government approved sectors. This decision may have been made in light of the global recession and the need for funds for investment purposes in Bangladesh. However, this runs counter to the principle of rewarding conscientious taxpayers and punishing tax evaders and people with undisclosed income. *Dr Khatun* expressed dismay over the fact that no distinction has been made between income earned legally and undisclosed, and income earned illegally and undisclosed.

Dr Khatun commended the new initiatives to broaden the tax net and welcomed the opening of 28 new NBR offices at the upazila level. However, the function of the proposed new *National Tax Tribunal* was not made clear in the budget, she noted.

Public-Private Partnership (PPP)

Dr Khatun observed that the proposition for public-private partnership (PPP) was one of the distinctive features of the proposed budget. In this regard, Tk. 2,500 crore was allocated under three major heads, namely, technical assistance (Tk. 100 crore), Viability Gap Funding (Tk. 300 crore) and Infrastructure Investment Fund. While PPP can play an important catalysing role in infrastructure projects, a broader partnership between the government and private sector in policy formulation and implementation can also help overcome the sluggish trend of policy implementation in Bangladesh.

Sectoral Measures

Agriculture

Dr Khatun noted that ensuring food security was one of the top priority pledges of the Awami League government as manifested in its manifesto. It was thus no surprise that the agricultural sector received one of the highest allocations in the proposed budget. Although agricultural allocation was less than that of last fiscal year, it was to a large extent due to decrease in subsidy requirement for fertiliser and fuel.

Target for disbursement of agricultural credit increased from Tk. 9,379 crore in the revised budget of FY2008-09 to Tk. 10,000 crore in FY2009-10 (6.62 per cent higher). Actual disbursement (Tk. 7,729.09 crore) of agriculture credit up to April 2009 was 82.4 per cent of the target in FY2008-09. *Dr Khatun* remarked the target for FY2009-10 is a realistic one.

Dr Khatun also observed that to enhance daily per capita availability of fish, meat, milk and eggs, the government proposed a total allocation of Tk. 716 crore (combining development and non-development budget) which is 19 per cent higher than the revised budget of FY2008-09.

Climate Change and Environment

With respect to the growing concerns for Bangladesh's environmental health, an allocation of Tk. 700 crore has been made in the budget to the Fund for Climate Change. *Dr Khatun* remarked that this would provide an internal financial safety net against natural disasters. The Japan International Cooperation Agency (JICA) has provided Tk. 490 crore as budgetary support to cope with environment-related disasters. She stated that as global climate change is hardly a fault of the least development countries (LDCs), such support will help these vulnerable countries to bear the burden of its cost and consequences.

Industry

Dr Khatun observed that the industrial sector registered a low level of growth of 5.92 per cent in FY2008-09. The budget for FY2009-10 reflects the special support offered by the first stimulus package, although no specific details have been provided. Seriously affected industries such as jute goods, leather and leather products, frozen foods and shrimp have been selected for additional support (to the tune of 2.5 per cent in addition to existing support). The government has further announced a special financing scheme under Investment Promotion and Financing Facilities (IPFF) worth Tk. 400 crore. *Dr Khatun* remarked that these support measures are expected to contribute towards boosting domestic industries in the backdrop of the falling prices of export products.

Regarding policy support for export-oriented industries, *Dr Khatun* noted that several measures such as the timely disbursement of cash incentives, increase in allocation under export development fund (from USD 1 million to USD 1.5 million), expansion of export credit to all sectors at a reduced rate (7 per cent), and rationing support for garment workers have been incorporated in the budget for FY2009-10.

Development of SME Sector

According to the budget for FY2009-10, the government has created three funds with the seed money of Tk. 1,000 crore to provide refinancing facilities to SMEs against loans disbursed by the commercial banks and financial institutions. *Dr Khatun* also felt that the SME sector will benefit from the additional allocation of Tk. 100 crore to the "SME Fund" which is to be disbursed as part of the stimulus package for FY2008-09.

Dr Khatun affirmed that the proposal to increase VAT exemption for cottage industries from Tk. 15 lakh to Tk. 25 lakh will contribute to the development of SMEs in Bangladesh. It was also announced in the budget that to encourage women entrepreneurship, at least 15 per cent of the funds allocated from SME financing will be earmarked for women entrepreneurs at an interest rate of 10 per cent.

Capital Market

Dr Khatun noted that the budget had made no specific proposal for the development of the capital market. It was also noted that only one corporation has indicated an intention to take advantage of the existing 10 per cent tax reduction incentive by being listed in the stock exchange. She recalled the government's decision to offload shares of 21 state-owned enterprises (SoEs). However, this proposal was not in line with the Finance Minister's comment not to disinvest any SoEs in FY2009-10, *Dr Khatun* commented. The proposed offer of opportunity for investment of undisclosed money in share market (with a payment of 10 per cent tax) should also increase the flow of fund in the capital market.

Power and Energy

Dr Khatun drew attention to the fact that the budget has proposed an allocation of Tk. 4,310 crore for the power and energy sector in the FY2009-10 (48 per cent higher than the allocation in the revised budget of FY2008-09). A larger number of projects are to be implemented as per the proposed budget. However, timelines and quality of implementation of those projects will be the critical factors to look at. In this connection, the keynote speaker observed that adequate generation, transmission and distribution of power will be the major challenge for the government.

The government has proposed measures to encourage environment friendly energy technology and greater use of renewable energy such as solar power, tapping of coal in an environment friendly way, and setting up a gas development fund for Bangladesh Petroleum Exploration & Production Company (BAPEX). *Dr Khatun* observed that the proposal to abolish the existing customs duty (CD) of 3 per cent, and the 7 per cent import duty and VAT on parts/raw materials of fluorescent energy saving bulbs, will be helpful in this context.

The budget also included plans to drill five development wells, four work-over wells and four production wells during 2009-11. This will provide an additional supply of 208 million cubic feet (mmcf). However, measures in support of these targets have not been proposed in the ADP.

In order to facilitate the transmission and distribution of power, the government has proposed construction of an additional 837 km power grid line, 17 sub-stations and 15,000 km distribution line throughout the country. *Dr Khatun* commented that realisation of these plans must be free of political interference and the status of implementation should be strictly and continuously monitored.

Transport and Communication

In a growing economy, it is inevitable that the government should continue to expand resource allocation for communication and transport sector. This sector has received the highest allocation in the ADP (15.3 per cent). *Dr Khatun* observed that unless corruption in the transport sector can be tackled, the proposed projects will once again fail to generate expected outcomes.

Information and Communication Technology (ICT)

ICT has been one of the thrust sectors identified by the government. An amount of Tk. 544. 47 crore for 64 projects has been allocated in the ADP in FY2009-10 to be implemented under different ministries. *Dr Khatun* felt that budget proposals were mostly in line with the government's vision of *Digital Bangladesh*. She appreciated the budget proposals to allocate an additional Tk. 100 crore to meet emergency expenditure in this sector and the proposal to withdraw VAT from internet services in educational services sector.

Real Estate and Housing

Total ADP allocation under the Ministry of Housing and Public Works will be increased by 70 per cent in FY2009-10 compared to FY2008-09, or from Tk. 319.12 crore to Tk. 544.61 crore. *Dr Khatun* remarked that the proposal to allow the investment of undisclosed income in real estate sector without incurring any penalty will undoubtedly help to attract large amount of funds towards this sector. This may result in inflated prices of houses and apartments. *Dr Khatun* appreciated the proposal to provide accommodation for the insolvent freedom fighters and build shelter-homes for the floating population of urban areas.

Local Government and Regional Development

An amount of Tk. 8,321 crore has been allocated for the rural development and local government in the next fiscal year, which was 24 per cent higher than previous year's allocation. Majority of this allocation has been made for rural development. *Dr Khatun* also observed that block allocation for the local government in FY2009-10 has been increased by 34 per cent compared to the revised ADP (RADP) of FY2008-09.

Dr Khatun also commented that the "One House-One Farm" project initiated by the government at an estimated cost of Tk. 1,246 crore is expected to reduce poverty through employment of about 29 lakh people over the next five years. Proposals to construct and repair 13,700 km roads and 54.26 km bridges and culverts in rural areas will improve the communication network and also provide employment in those areas, remarked *Dr Khatun*. However, she expressed concern with regard to corruption and the historically low implementation rates of such projects.

Social Sectors and Safety Net Programmes

Education

Dr Khatun noted that line ministries under the education sector received a total of Tk. 3,914.55 crore as ADP allocation which was 40.72 per cent higher than that of the previous fiscal. The budget also proposed that registered and community primary school teachers will receive grants in the form of pay equivalent to the initial pay of government primary school teachers, and laboratories will be set up in each secondary school. These are welcoming initiatives, observed *Dr Khatun*.

The budget for FY2009-10 proposed to create three new programmes in the education sector. These are: (i) free education, by phases, upto graduation level, (ii) stipend for male students, and (iii) modernisation of *Madrasha* education. However, the budget did not spell out any specific allocation or guidelines for successful implementation of these new programmes.

Health

The government envisages establishment of 13,500 community clinics (CC). However, it is not clear whether these are all going to be new or include the 8,464 CCs that are already in operation. *Dr Khatun* felt that these clinics will play an important role in providing basic health services to rural people, particularly in the form of providing mother and child care, family planning services, sanitation, cleanliness, prevention of diarrhoea, nutrition and venereal disease related services.

Some other major proposals in the budget included allocation of Tk. 173 crore for extension of the National Nutrition Programme (NNP) to 134 upazilas, expansion of Maternal Healthcare Voucher Scheme to 45 upazilas (with an allocation of Tk. 70 crore) and modernisation of upazila level hospitals. Although these proposals aim to develop the health sector, no specific implementation measures have been provided, commented *Dr Khatun*.

Women Development

This year's budget witnessed a move towards raising the level of gender sensitivity with regard to allocation of funds, remarked *Dr Khatun*. For the first time, a separate statement was presented before the Parliament regarding allocation that has been earmarked for women's advancement for the Ministries of Education, Social Welfare, Health & Family Welfare, and Food & Disaster Management.

Employment Generation

The budget proposes to generate employment opportunities for around seven lakh people, which is about 40 per cent of the 18 lakh new entrants to the country's labour force. The government has replaced the *100-Days' Employment Generation Programme* by the *Employment Generation for the Hard Core Poor* with an allocation of Tk. 1,176 crore. *Dr Khatun* welcomed the introduction of the National Service Programme for Higher Secondary Certificate (HSC) or equivalent graduates with the special allocation of Tk. 20 crore, implementation measures which will prioritise employment for women in the rural areas and the use of National ID Database.

Social Safety Net

In order to reduce the poverty level by 15 per cent by 2021, the government has identified enhancement of safety nets as top priority. To this end, the government has proposed increasing per capita allowance and beneficiary coverage for most of the allowance programmes. The keynote speaker mentioned that this reflected the government's commitment to protect the marginal people from economic and natural shocks. She asserted that leakages in such programmes must be plugged.

With regard to strengthening food security for the poor and vulnerable, Tk. 5,877 crore has been allocated under the non-development budget for the Food for Works programme (FFW), vulnerable group feeding (VGF), vulnerable group development (VGD), test relief (TR) (food), gratuitous relief (GR) (food), and also for food assistance in the form of food security programmes for the Chittagong Hill Tracts (CHT). *Dr Khatun*, however, expressed concern over the lack of directives in public food distribution through monetised channels.

Stimulus Package

A provision of Tk. 5,000 crore has been made in the budget for FY2009-10 as a second stimulus package. While details with regard to the new package were not available then, it has been announced that it will continue the policies set forth by the first package. *Dr Khatun* remarked that although this is a necessary measure, the government must act in a timely manner to ensure disbursement of funds and the realisation of policy support.

Reforms

Dr Khatun commended the government for recognising the need and importance of structural and policy reforms in the national budget for FY2009-10. The government has decided to make the budget a unified one - this will help avoidance of the artificial dichotomy between non-development and development expenditure, *Dr Khatun* remarked. The decision to initiate district-level budget from FY2010-11 will bring greater transparency and accountability in the government expenditure.

Dr Khatun noted that the government has also decided to go back to the Five Year Planning format, and has initiated the preparation of the sixth Five Year Plan (FYP) (2010-2015), which is going to reflect a comprehensive development goal and set specific targets for the economy in various areas. However, implementation of the FYP will be a big challenge, she felt. *Dr Khatun* also noted that proposed reforms such as Rights to Information Act, Money Laundering Prevention Act, Consumer Rights Protection Act and the continuation of Better Business Forum (BBF) are timely and creditworthy initiatives.

Concluding Remarks

Dr Khatun concluded the presentation by emphasising the challenges of implementing the budget. She remarked that the key challenge no longer related to availability of the required resources, but proper utilisation of those resources. In drawing the presentation to a close she highlighted the following points:

- Appropriate sequencing of public expenditure to maximise development outcomes to build fiscal and financial partnership towards a participatory development process.
- Maintaining a fair balance between fiscal and monetary policies, keeping in mind that substantial domestic borrowing requirement in the coming fiscal year may put the monetary authority under strain.
- Fiscal discipline must be maintained by upholding the integrity of the public finance framework. Otherwise, the proposed expansionary fiscal policy will be more of a burden.
- Pursuing institutional reforms for improving overall efficiency of the development administration.

In the end, *Dr Khatun* stressed the importance of strengthening public administration to implement the national budget both in terms of quantum of expenditure and quality of delivery.

OPEN FLOOR DISCUSSION

An Ambitious Budget

A significant increase in ADP allocation and raising of the revenue expenditure had resulted in a budget of Tk. 113,819 crore. Some of the discussants felt that the budget was rather ambitious. However, *Dr Muinul Islam*, Professor of Economics, University of Chittagong, agreed with CPD's analysis that budget is not too expansionary. He appreciated the proposed budget by the new government and hoped that the budget would facilitate redistribution of income and will lead to reduction of inequality. He drew attention to the fact that ADP stands at only 4.4 per cent of GDP, and as such, the budget could not be termed as ambitious.

Mr Amir Khosru Mahmud Chowdhury, Former Minister for Commerce and the Guest of Honour, considered the budget to be moderately expansionary. He felt that for realisation of the GDP growth target, there was an acute need for adequate investment. However, implementation would be a major challenge since it does not complement the proposed expenditure target of the budget.

Efficient Implementation of the Budget will be the Challenge

A large number of participants emphasised that delivery of the budget will depend on coordination and competent participation of the entire government machinery and other development actors and stakeholder. Experience shows that implementation has always been the weakest link in the budgetary process.

Professor Jyoti Prakash Dutta of Chittagong University expressed concerns over ADP implementation and utilisation of resources in the budget. He emphasised on the need for careful and continuous monitoring of the implementation of budgetary allocations from the very beginning.

Engineer Sultan Mahmud, Former Chief Engineer, Chittagong Port Authority, remarked that efficient implementation of ADP was essential if the developmental goals were to be attained. He hoped that the democratically elected government will provide policy continuation which has so often turned out to be a major deterrent to successful implementation.

Expressing his concern as regards ADP implementation during the coming fiscal year, *Engineer Ali Ahmed*, Former President, Chittagong Chamber of Commerce and Industry (CCCI), commented that this process often suffers from lack of accountability and transparency. He suggested that a part of the allocation for each project should be set aside for the planning purpose.

Mr SM Abul Kalam, Former President, CCCI, suggested that the government should clearly state how it proposes to improve the implementation process, without delay. He recommended the government to constitute dedicated parliamentary committees to monitor the process.

Ms Shahrin Ferdousi, a student of Chittagong University commented that allocation for ADP and the implementation process should be made more transparent, and that there should be flexibility in the implementation plan to ensure mid-term revisions.

GDP Growth Target: Mixed Views

The GDP growth target was originally stated to be 5.5 per cent. However, the Finance Minister later clarified that the target would actually be between 5.5 and 6.0 per cent. Some of the discussants felt that the GDP growth target was a conservative one.

Dr Muinul Islam felt that the GDP growth target was on the low side considering the current economic situation. He was of the opinion that the global economy will turn around soon, and the economy of Bangladesh should be stimulated by this which should be reflected in higher GDP growth in FY2009-10.

Mr Ahmed remarked that the GDP growth target of 5.5 per cent appears to be a realistic one and achieving it would require effective cooperation of all concerned entities.

Sharing his apprehensions, *Professor Dutta* commented that the GDP growth target of 5.5 per cent may not be attained in view of the ongoing global recession. He felt that the situation may rather worsen in the near term which could entail adverse implications for Bangladesh's growth prospects.

Jamal Nazrul Islam, Professor Emeritus, University of Chittagong cautioned that situation of financial crisis and its consequences remains uncertain, and Bangladesh could still be adversely impacted in the near future.

Legalisation of Undisclosed Income in the Budget Contested

The proposal to allow legalisation of undisclosed income was contested by many participants whilst some voiced their support for this proposal. In the event this led to a lively discussion on the issue. Many felt that such a proposal ran counter to the principle of rewarding conscientious taxpayers, and punishing the tax evaders and people with undisclosed income. A majority of the discussants expressed their dismay that the government had failed to make a distinction among the various sources of the undisclosed income.

Dr Muinul Islam observed that this scheme has been maintained by all governments. He expressed disappointment that the present government had decided to take the same line. He opined that undisclosed income should not be allowed to be invested in real estate sector.

Mr Ahmed observed that almost everyone has some form of undisclosed income and felt that the government's reasoning behind the decision perhaps originated from political compromise. He noted that there should have been a distinction made between the sources of undisclosed income. He also felt that the penalty of 10 per cent on undisclosed income was unfair to regular taxpayers, and apprehended that this will discourage people from disclosing their income in the first two years, and legalisation of the entire amount in the final year.

Mr Jahangir Alam Chowdhury, an Income Tax Lawyer by profession, voiced his opposition to the decision to allow investment of undisclosed income in the real estate sector, especially for purchasing apartments in posh areas such as Gulshan and Banani.

The scheme to legalise undisclosed income with a penalty of 10 per cent will encourage people to evade income tax and violate laws, remarked *Professor Alamgir Mohammad Sirajuddin*, Former Vice Chancellor of Chittagong University.

Mr Mahmud noted that the scheme to legalise undisclosed income violates the election manifesto of the Awami League government; he also felt that the government had surrendered to demands from certain vested quarters. The decision is rather disappointing, no matter how many arguments are made to justify the initiative, he added.

Mr Kalam, recommended that the scheme should be allowed for one year and that investment of undisclosed income should be permitted in the power and energy sector only.

Schemes to legalise undisclosed income have been allowed since FY1976-77, *Professor Hasanuzzaman Chowdhury* of Chittagong University observed. Since then only Tk. 24,000 crore has been legalised. He felt that this opportunity should not be continued any further.

The decision to allow legalisation of undisclosed income will widen the gap between the rich and poor, commented Former Member of Perliament (MP) *Begum Rosy Kabir*. She expressed concern as regards any compromises that may have led to such a decision.

Former Member of Lower Assembly (MLA), *Mr Abu Saleh*, however, felt that the decision to legalise undisclosed income will generate revenue for the government and would help to stimulate investment in the economy.

Energise Power Sector to Stimulate the Industrial Process

The power sector is currently considered as the most crucial factor that could hinder country's development if the government fails to address the concerned issues adequately. Discussants urged the government to act swiftly in this regard with the primary objective to stimulate the process of industrialisation of the country.

Addressing the issue of power generation, *Dr Muinul Islam* remarked that the government should have declared this sector as a "thrust sector." It is the government's solemn duty to provide power for the industrialisation of the economy. He supported the proposal to encourage PPP in the sector and felt that stock market should be used to generate resources for development of the power sector.

Professor of Economics, *Dr M Mamun* of Islamic University urged the government to look for all options at its disposal to improve the power situation in the country as it is the crux of the industrial process of any developing nation.

The government must provide more policy support to improve the power situation in the country, observed *Engineer ABMA Baset*. He argued that almost all the industries are being affected by lack of electricity and gas. He expressed concerns over the fact that no specific proposals have been provided in the budget to reduce system loss which currently stands as high as 22 per cent.

Mr Baset also commented that the quality of equipments being used to generate power has deteriorated and should be monitored carefully to improve efficiency in the power sector.

Renewable Energy would Help Redress Power Crisis

Promoting renewable energy sources could help redress the power crisis. Government measures to encourage renewable energy generation received appreciation from the dialogue participants.

Mr Jahirul Alam, Executive Director, Integrated Development Fund (IDF), observed that the budget proposals will enable people from low-income groups to have greater access to renewable energy. This will be crucial in regions which are currently outside of the national grid.

CD should be reduced or abolished for items such as liquefied petroleum gas (LPG) cylinders and compressed natural gas (CNG) kits, as has been done for solar panels. Such incentives will promote the use of renewable energy, observed *Dr Muinul Islam*.

Quality Implementation of Health and Education Sector Projects Need to be Focused

The present government has identified health, education and technology as the priority areas for human resource development and has attached highest priority in terms of allocation of resources. It became evident from the discussion that while higher allocation was needed, quality of implementation of the projects undertaken in these sectors was also equally important.

Professor Sirajuddin stated that although *Digital Bangladesh* was a timely initiative, the government should focus on improving the quality of primary and secondary education in the country.

Ms Rosy Kabir reiterated *Professor Sirajuddin's* views and called upon the government to increase allocation in the education sector. She further stated that to provide better health services to general public, hospital facilities and outreach programmes are needed to be substantially enhanced.

Recognising the need for increasing the quality of education and health facilities in Bangladesh *Professor Jamal Nazrul Islam* recommended the government to allocate more resources in these two critically important sectors.

Employment Generation Programmes Key to Reduce Poverty Rates

Many participants considered employment generation programmes as the key to reduce poverty rates. Although some of the proposals in the budget in this connection were termed as over ambitious by a section of the audience, most were supportive of such programmes and hoped that the government would be able to successfully implement the programme.

Mr Saleh emphasised the significance of employment generation and asked the authorities to start implementing related schemes proposed in the budget without delay. The schemes will be critical if the government has to realise the goals outlined in *Vision 2021*, he argued.

Professor Dutta felt that the target to create seven lakh new job opportunities during FY2009-10 is a farfetched one and it was unlikely to be achieved.

Professor Hasanuzzaman Chowdhury appreciated government's policies regarding employment generation and urged upon the administration to keep the implementation of the projects free of political interference and corruption.

Decision of Not to Disinvest SoEs may Present Undue Burden on the Public Expenditure

The government had mentioned that there would be no divestment of SoEs without securing alternative jobs for the displaced workers. Discussants asked the government to be careful about additional fiscal burden emanating from this decision.

Regarding the fate of SoEs, *Mr Ahmed* urged for careful examination of this issue. Even though reopening some of these industries will create employment opportunities, they may present undue burden on public expenditure. In this regard, he noted that logical solutions not emotional decisions were called for to deal with this particular issue.

Readymade Garments (RMG) Sector did not Receive Support in the Budget

Mr Nasir Uddin Chowdhury, First Vice President, Bangladesh Garment Manufacturers and Exporters Association (BGMEA) stated that although RMG sector has been adversely affected by the global financial crisis, no directions have been provided to assist this sector. He argued that most of the competitor countries, including India and Vietnam have provided stimulus packages, and unless the government was able to provide such policy support, the RMG sector will suffer further losses.

Initiative to Widen Tax Base Appreciated

It is encouraging to note that 29.4 per cent of the total revenue is projected to come from income tax in the next fiscal, stated *Mr Jahangir Chowdhury*. He opined that direct tax has less of an impact on the general public compared to indirect tax. In this context, *Mr Chowdhury* appreciated NBR's efforts and initiatives to widen the tax base and tax net in the country; however, he felt that the focus here should be more on the urban rather than rural areas. He drew attention to the fact that only around 25 per cent of total number of registered taxpayer's submitted tax returns during the last fiscal year, and the government must find ways and means to increase this dismally low figure.

COMMENTS FROM GUEST OF HONOUR

In making his remarks as Guest of Honour *Mr Amir Khosru Mahmud Chowdhury*, Former Commerce Minister stated that the proposed budget is not an overly expansionary one; rather, the set growth target follows historical trends seen over the past decade. However, the GDP growth target of 5.5 per cent does not support the fiscal stance of the government, noted *Mr Chowdhury.* He argued that although the government has decided to expand the employment generation programmes, achieving the desired outcome from these projects will be difficult in view of the projected GDP growth rate of 5.5 per cent.

Mr Chowdhury highlighted the issue of implementation of the budget, and underscored that this will be the major challenge facing the government. He recommended formation of a parliamentary watchdog committee to monitor the implementation of the budget.

Regarding the issue of tax holiday, *Mr Chowdhury* argued that this particular scheme should have continued, rather than providing an opportunity to legalise black money. He also felt that legalising black money will not receive support from the general public.

Mr Chowdhury voiced his disappointment over lack of specific strategies on price control measures. He also felt that there was a need for a comprehensive *Industrial Policy* that could service the growing needs of the developing economy of Bangladesh.

COMMENTS FROM THE SPECIAL GUEST

The GDP growth target for FY2009-10 was actually between 5.5 and 6.0 per cent, remarked *Barrister Anisul Islam Mahmud, MP*. The government had to consider the potential impact of the global financial crisis and the low investment confidence in the economy while setting the target. Consequently, a range has been set for the GDP target.

Mr Mahmud congratulated the Hon'ble Finance Minister for a well planned budget and argued that the revenue target has not been set at too high levels. The projected revenue, if realised in full measure, will still be less than the projected revenue expenditure, resulting in a deficit in the revenue budget. The ADP will need to be financed from domestic resources, borrowing, foreign aid and technical support. Addressing the need for raising the efficacy of budget implementation, *Mr Mahmud* was of the opinion that parliamentary committees should play a more proactive role in the process. He called for close monitoring and increased transparency with regard to the progress being made in this connection.

Regarding the issue of undisclosed income, the Special Guest did not agree with the view that the decision was based on political compromise. However, he agreed with the view that the scheme will encourage people not to disclose their income during the first two years of the opportunity. The window should really be offered for one year and investment in the real estate sector should not be allowed, felt *Mr Mahmud*.

Mr Mahmud recommended that additional legal channels should be developed to facilitate the inflow of remittances. This will not only reduce the risks of using unreliable channels, but also escalate the foreign currency reserves of the country. Expatriates deserve more support from the government for their role in the development process of the country, added *Mr Mahmud*.

Underscoring the need for gas to meet the growing demands for electricity, *Mr Mahmud* recommended that the government should design appropriate policies to explore gas reserves, especially offshore ones. It is unfortunate that no such steps have been taken in the past, noted *Mr Mahmud*.

Raising the issue of current debate on the role of MPs in local government the Special Guest held the view that the appointment of MPs as Advisors to local government bodies would not hamper implementation of projects. He argued that the parliament is the highest political forum and its members could often get things done more speedily compared to local government representatives.

RESPONSE FROM THE CHIEF GUEST

The Hon'ble Minister for Industries *Mr Dilip Barua* appreciated the initiative of the CPD to take the discussion on budget outside of Dhaka in partnership with Chittagong Chapter of the BEA. He commended the keynote paper for providing substantial insights with regard to a number of key aspects of the budget for FY2009-10. He thanked the Special Guest, the Guest of Honour and the discussants from the floor for sharing their valuable thoughts on various proposals made in the budget.

The Minister stated that the economy was the base of the society and foundation which defined people's welfare. The current government has pledged to improve the economic condition of the country and the budget for FY2009-10 is the first step in this connection.

The political philosophy of the proposed budget is to facilitate industrialisation of the economy. The budget reflected this aspiration and provided clear guidance for expansion and development of the industrial sector. Private entrepreneurs must also play their part of the bargain to transform the country into an industrialised one. The workforce will also benefit from an increased pace of industrialisation. The Chief Guest felt that the proposed budget reflects the policies required for achieving these goals through appropriate initiatives and incentives.

Responding to comments from participants who had their doubts as regards the ability of the public administrations to implement the budget, *Mr Barua* remarked that the government has already initiated reforms to improve the efficiency of the public administrations to implement the budget, *Mr Barua* remarked that the government has already initiated reforms to improve the efficiency of the public administration and the delivery mechanism of the budget.

Mr Barua drew attention to a number of issues which he believed were critically important but had not received the attention they deserved in the course of the discussions. He observed that the government has allocated a substantial amount of resources for the development of the ICT sector and has also provided a number of policy support measures in this connection. The SME sector has also been given high priority in the proposed budget - a number of policies including raising the threshold level of VAT exemption have been put forward, giving the required boost it needed and deserved, commented the Minister.

The Minister opined that the budget reflected the policies required to guarantee food security for the nation. One of the first policy decisions taken by the government was to provide appropriate subsidy on fertilisers. Accordingly, the budget has proposed substantial allocation to the agricultural sector. These policies will help the country to achieve self-sufficiency in food production in the near future, *Mr Barua noted*.

The global financial crisis will continue beyond this year, the Minister felt. He apprehended that although it has mostly affected the western nations so far, Bangladesh may face its delayed impact. However, he was confident that the stimulus packages proposed by the government will help the economy to recover and provide the needed thrust to help overcome the difficulties faced by the country's exporters.

The Chief Guest hoped for increased political stability and cooperation from all stakeholders for better implementation of the budget. He concluded by thanking everyone involved in the dialogue and thanked the audience for their valuable inputs.

CLOSING REMARKS BY THE CHAIR

In his closing remarks, *Professor M Sekandar Khan* said that if inflation was considered, the size of the proposed budget was not overly ambitious; however, he felt, like some in the audience, that the GDP growth target was on the conservative side and did not appear to reflect the fiscal policy stance of the government.

He agreed with the participants that implementation of the budget remained the major challenge facing the government. Appropriate steps need to be taken early in the fiscal year for implementation to realise the required success. He hoped that the opposition would cooperate with the government to ensure that the general public benefited from the budgetary policies.

Appointing MPs as advisors to local government authorities will not be to the benefit of the people, observed *Professor Khan*. Local representatives can reach people at the grassroots level which is not often possible for the MPs. He opined that the distribution system at this level should be left to the local government.

Professor Khan felt that the government's decision to discontinue tax holiday incentive was a good one as it has already been in place for a prolonged period. He underscored the need to widen the tax net to meet the revenue mobilisation target.

Addressing the issue of PPP *Professor Khan* observed that although this was a well-intended and timely initiative, the government must ensure the necessary legal infrastructure for such partnerships to be successful.

Bringing the dialogue to a close, Professor Khan registered deep appreciation to all the participants including the Chief Guest, Special Guest, the Guest of Honor and discussants for being present at the dialogue and for sharing their valuable thoughts and insights. He observed that both the CPD and BEA were non-political entities and hence the dialogue must be seen as a sincere endeavour to discuss the budget in an objective and dispassionate manner. He hoped that policymakers will heed to what has been voiced at the dialogue and will be benefited by the various suggestions put forward by such a distinguished audience.

ANNEX 2

List of Participants

Engr Ali Ahmed
Former President, CCCI

Mr Fariduddin Ahmed
Deputy Commissioner, Office of the Deputy Commissioner

Mr Modabber Ahmed
Professor, Department of Economics, University of Chittagong

Mr Taher Ahmed (Vice)
Principal, Satkania Government College

Mr Jahirul Alam
Executive Director, Integrated Development Fund (IDF)

Mr Morshed Alam
Executive Engineer, BADC, Chittagong

Mr Md Refayet Alam
Assistant Professor, Department of Economics
University of Chittagong

Dr AFM Aurongojeb
Professor, Department of Management Studies
University of Chittagong

Mr Bidhan Barua
Vice President, Forum for Planned Chittagong

Mr Dilip Barua
Hon'ble Minister for Industries, Government of Bangladesh

Mr Dilip Barua
Principal, IGMIS

Mr Pulak Kanti Barua
APS to the Hon'ble Minister for Industries
Government of Bangladesh

Engr Subhash Chandra Barua
Member, Forum for Planned Chittagong

Engr ABMA Baset
Forum for Planned Chittagong

Mr Ataul Karim Chowdhury
Port Operation Specialist, Chittagong Port

Mr Amir Khosru Mahmud Chowdhury
Former Minister for Commerce and Chairman, Sarina Group

Professor Hasanuzzaman Chowdhury
Department of Sociology, University of Chittagong

Mr Jahangir Alam Chowdhury
Income Tax Lawyer

Dr M Abdul Mannan Chowdhury
Professor, Department of Economics, Chittagong University

Mr Mazharul Hoque Shah Chowdhury
Former Member of the Parliament

Mr Monjur Alam Chowdhury
Vice-President, Bangladesh Reconditioned Vehicles Importers
& Dealers Association

Mr Monsur MY Chowdhury
Treasurer, BEA, Chittagong Chapter

Mr Nasir Uddin Chowdhury
First Vice-President, BGMEA and
Managing Director, Eastern Apparels Ltd.

Ms Sushmita Chowdhury
Programme Officer, IPSA

Mr Shukumar Datta
Associate Professor, Department Of Economics
Hazi Muhammad Mohshin Govt. College

Mr Sujit Kumar Datta
Member, BEA, Chittagong Chapter

Mr Mridul Dey
Executive Member, BTTLMEA

Dr Jyoti Prakash Dutta
Professor, Department of Economics, Chittagong University

Ms Shahrin Ferodusi
Member, Young Economist Society (YES), Chittagong University

Mr Ahmed Yousuf Harun
Coordinator, IDF

Mr Mostakim Hossain
General Secretary, YES, Chittagong University

Engr Mosharraf Hossain, MP
Member of the Parliament

Mr Zaker Hossain
Lecturer, Department of Economics, Karnaphuli College

Professor Amirul Islam
Associate Professor, Department of Economics
University of Chittagong

Dr Muinul Islam
Professor, Department of Economics, Chittagong University

Mr M Anwarul Islam
Life Member, BEA

Professor Jamal Nazrul Islam
Professor Emeritus, Research Centre for Mathematics and Physical Sciences, University of Chittagong

Mr. Md Nurul Islam
Honorary Consul General of Japan

Ms Surayia Islam
Visiting Scholar, IUB

Mr AKM Ismail
Joint Secretary, BEA, Chittagong Chapter and
Assistant Professor, Fateabad College

Mr Aftabur Rahman Jafree
Executive Director, Ghasful

Dr Mohammad Saleh Jahur
Professor, Department of Finance and Banking
Chittagong University

Begum Rosy Kabir
Former Member of the Parliament

Mr SM Abul Kalam
Former President, CCCI

Mr ATM Kamruddin
AVPS Manager, Shahjalal Islami Bank Ltd.

Professor Dr Ershad Kamal Khan
Department of Economics, University of Chittagong

Ms Noorjahan Khan
Human Rights Worker and Social Worker

Professor Sekandar Khan
President, BEA, Chittagong

Dr Dilruba Khanam
Associate Professor, Department of Marketing
University of Chittagong

Dr Fahmida Khatun
Additional Director, CPD

Barrister Anisul Islam Mahmud, MP
Former Foreign Minister and
Managing Director, Shasha Denims Ltd.

Mr Shakil Mahmud
President, YES, Chittagong University

Engr Sultan Mahmud
Former Chief Engineer, Chittagong Port Authority

Professor Dr M Mamun
Department of Economics, Islamic University

Advocate Md Elias Miah
Member, BEA

Mr Mohammad Mohsin
Lecturer, Department of Economics, Chittagong University

Alhaj Golam Mowla
President, Chittagong Taxes Bar Association

Mr Shah Kamal Mustafa
Member, BEA, Chittagong Chapter

Mr Amal B Nag
Professor, Department of Accounting, University of Chittagong

Syed Nasir
Proprietor, Peerless Plastic

Mr Benazir Chowdhury Neshan
Director, CCCI and COO, M/s. Golden Containers Ltd.

Mr Md Nur Nobi
Lecturer, Department of Economics, Chittagong University

Mr Showkat Osman
Chairman, Chittagong Affairs, BKMEA

Ms Jesmin Sultana Paru
Chief Executive, Ellma

Mr Khourshedul Alam Quadery
General Secretary, BEA, Chittagong Chapter

Mr Abu Md Atiqur Rahman
Associate Professor, Department of Management Studies
Chittagong University

Mr Lutfur Rahman
Assistant Commissioner and Executive Magistrate
Office of the Deputy Commissioner

Mr Mahbub Rana
President, Chittagong Fruits, Vegetables & Allied Products Exporters Association

Mr Abu Saleh
Former MLA and Ganaparishad Member

Mr Rajib Sen
Project Officer, WAVE

Professor Asma Sirajuddin
University of Chittagong

Professor Alamgir Mohammad Sirajuddin
Former Vice Chancellor, University of Chittagong

Architect QS Tauheed
Secretary General and Vice President
Forum for Planned Chittagong

Ms Kazi Shakila Yasmin
Treasurer, YES, Chittagong University

Mr SM Abu Zaker
Vice President, Exim Bank

List of Journalists

Mr Sumon Babu
Photographer, Daily Sangbad

Mr Rajesh Chakraborty
Photographer, Daily Jugantor

Mr Anisuzzaman Dulal
Photojournalist, Daily Bangladesh Suprobhat

Mr Ali Haider
Deputy Chief Reporter, The Daily Suprobhat Bangladesh

Mr Shamim Hamid
Staff Reporter, Jai Jai Din

Mr Abul Hasnat
Staff Reporter, ATN Bangla

Mr Jamal Howladar
Staff Reporter, Daily Sangram

Mr Hafiz Imam Inam
Bureau Chief, Bangladesh Observer

Mr Mohammad Shahidul Islam
Bureau Chief, Daily Star Chittagong

Mr Rubel Khan
Staff Reporter, Daily Samakal

Mr Mahmud Moni
Staff Reporter, Daily Azadi

Mr Meah Mostafiz
Reporter, Channel i

Mr Golam Mowla Murad
Senior Reporter, Diganta Television

Mr Md Mizanur Rahman
Reporter, Bangladesh Betar

Mr Ruhul Amin Rana
Staff Reporter, BD News 24

Mr SA Sajib
Cameraman, Channel i

Mr Aris Ahmed Shah
Staff Reporter, NTV

Mr Kiran Sharma
Bureau Chief, Daily Bhorer Dak (Chittagong)

Ms Hazera Sheuly
Staff Reporter, Radio Today

Mr Asif Siraj
Senior Staff Reporter, Daily Purbokone

Mr Nashir Uddin
Senior Reporter, Bangla Vision

Syed Abdul Wazed
Staff Reporter, Daily Ittefaq

ANNEX 3

Dialogue Report on
Implementation Challenges for
Budget FY2009-10

This dialogue report was prepared by Md Tariqur Rahman, Research Associate, Centre for Policy Dialogue (CPD).

THE DIALOGUE

The Centre for Policy Dialogue (CPD) organised a dialogue on *Delivering on Budget FY2009-10: A Set of Implementation Issues,* as a follow up to the analysis of the national budget carried out in June 2009. The dialogue was held on 12 August 2009, at the CIRDAP Auditorium. The objective of the dialogue was to help the government to benefit from policy suggestions and comments from the civil society stakeholders in achieving the targets set by the government in the national budget for FY2009-10. The paper presented at the dialogue was co-authored by *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD, and *Mr Md Ashiq Iqbal* and *Mr Towfiqul Islam Khan*, both Senior Research Associates, CPD.

The dialogue was chaired and moderated by *Professor Rehman Sobhan*, Chairman, CPD. *Mr AMA Muhith*, *MP,* Hon'ble Minister for Finance, Government of Bangladesh, was present at the dialogue as the Chief Guest. *Dr AB Mirza Azizul Islam*, Former Caretaker Government Advisor, was present as the Special Guest, while *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD, presented the keynote paper at the dialogue.

Professor Sobhan welcomed all dialogue participants and observed that the topic of the dialogue related to one of the most important challenges facing the budget - its implementation. Terming the national budget of FY2009-10 as an ambitious one, he opined that the issues of attaining the budget targets, and particularly the implementation of annual development programme (ADP) will not be easy to achieve. Expressing his optimism with regard to the ability of the democratically elected government to address the attendant challenges, he informed the distinguished audience that CPD has attempted to focus on some of the major implementation-related issues which will need to be addressed by the authorities to achieve the targets set out in the budget. He hoped that that government would be benefited from the discussions during the dialogue and the valuable insights of the participants. Following this, he invited *Dr Bhattacharya* to deliver the keynote presentation on behalf of his team.

After the keynote presentation, the floor was opened for discussion by participants who included senior government officials and policymakers, economists, academics, civil society members, politicians, bureaucrats, business leaders and representatives of development agencies. This report offers a succinct resume of the presentation, alongside the exchange of views among the participants (a complete list of participants is included at the end of this report).

KEYNOTE PRESENTATION

Dr Bhattacharya registered his deep appreciation towards the Chair, and thanked the Hon'ble Minister and other distinguished participants for attending this dialogue. Referring to the earlier introduction made by the Chairman of CPD, *Dr Bhattacharya* informed the audience that the present dialogue was a continuum of CPD's activities in monitoring the state of the economy, which as a matter of fact, was kick-started through the budget analysis of the CPD.

Introduction

The keynote presenter affirmed that the purpose of the dialogue was to facilitate the government's ongoing efforts to raise efficacy of various measures of the government in the context of budget implementation, and more fundamentally, to draw information and provide analyses in order to make the overall implementation process more effective. Recalling the point made by the Finance Minster during his budget presentation, that implementation of the budget as the most important challenge of the budgetary process, *Dr Bhattacharya* stated that the CPD has decided to play its role to complement the government's efforts of initiating and monitoring the budget implementation process. He reiterated the fact that the dialogue presented an opportunity for stakeholders from the civil society to share their views on the budget implementation process in the presence of the Hon'ble Minister.

In his presentation, *Dr Bhattacharya* categorised key aspects of the budget implementation process such as the breakdown of targets for domestic resource mobilisation, deficit financing, efficacy of public expenditure, and public-private partnership (PPP).

Growth Prospect and Budget Implementation

Dr Bhattacharya underlined the fact that although the initial gross domestic product (GDP) growth target was set at 5.5 per cent for FY2009-10, it was later revised to range between 5.5 to 6.0 per cent. Monetary policy statement (MPS) of the Bangladesh Bank came up with an upward revision of GDP growth. In this regard, *Dr Bhattacharya* expected a growth rate around 6.0 per cent for the ongoing fiscal year. However, he raised doubts on the targeted growth of the agricultural sector due to the sector's high achievement in the last two fiscals. Pointing to the historical trend of growth of the services and industrial sector, he argued that the achievement of growth targets in the FY2009-10 will depend mostly on the performance of the modern sector. *Dr Bhattacharya* strongly felt that greater attention should be given to ensure good performance of the manufacturing sector. The second issue concerned the low level of investment target set in the Medium Term Macroeconomic Framework (MTMF) to achieve the targeted growth. He added that to achieve a 6.0 per cent growth, with the same level of investment, incremental capital-output ratio (ICOR) requires a significant improvement, in the absence of capital productivity growth, investment rate had to improve. Also, he called for a renewed effort to be taken in FY2009-10 to improve both the quantitative and the qualitative aspects of the ADP, which will help stimulate and crowd in private sector investment.

Resource Mobilisation

Dr Bhattacharya informed that the authors of the keynote paper have carried out an econometric analysis to better understand the effects of the major determinants of total revenue in Bangladesh, considering the importance of domestic resource mobilisation. From the regression analysis it was found that per capita GDP growth, a proxy for overall GDP growth, has a positive and significant impact on tax revenue collection. Based on the findings, he concluded that for revenue growth, the most influential factor remained GDP growth, whilst for the latter the level of investment counted as the most important determinant. Hence, to augment the revenue growth, investment flows had to be accelerated. The second finding was the influence of public sector investment on the generation of tax revenue. This is crucial to ensure successful implementation of ADP. Although no significant relationship was found among the share of modern sector in the GDP and collection of tax revenue, institutional reforms, e.g. introduction of value added tax (VAT) and large taxpayer's unit (LTU), which were captured by using dummy variables, revealed to entail significant impact on revenue generation.

Domestic Resource Mobilisation

Regarding the set revenue growth target of 15.7 per cent for FY2009-10, *Dr Bhattacharya* expressed doubt about the possibility of such achievement, unless the administrative reforms are successfully carried out. Referring to the commendable success achieved by the National Board of Revenue (NBR) in mobilising income tax in recent years, he stressed that to attain the revenue targets set by the government, the NBR components would have to contribute almost 79 per cent of the incremental revenue generation. Hence, the attainment of revenue targets to a large extent depends on the resource mobilisation success of the NBR. He added that even if the target is achieved, tax-GDP ratio of Bangladesh will reach 9.3 per cent, remaining well below the level maintained by most of her neighbouring countries, e.g. Sri Lanka or Pakistan. However, to energise the effort of income tax collection, he recommended the following:

1) Expansion of the existing tax net since currently only 7.5 lakh taxpayers out of 22 lakh tax identification number (TIN)-holders actually submit tax refunds.
2) The new tax survey announced by the government to bring in at least 4 lakh new taxpayers within the current year (FY2009-10) needs to be supplemented with strict monitoring to prevent tax evasion.
3) Discontinuation of the tax refund provision for government employees from the current year will also have some positive impact since at present, 1.5 lakh out of the 7.5 taxpayers are government employees.
4) Expansion of the LTU should be given due priority.

Recognising the positive relationship between reduction of corporate tax rate and its subsequent impact on revenue generation, particularly for the financial institutes, and respective sectoral growth in the long and medium-term, *Dr Bhattacharya* cautioned that the immediate opportunity cost would be the loss in government revenue. Based on the proposed tax rate cut for the corporations, in an analysis done by the CPD, it was estimated that the loss in total revenue will be around Tk. 550 crore. The keynote speaker opined that effectiveness of the government's effort to stimulate investments in the country will have positive implications for revenue prospects, particularly for FY2009-10.

In his presentation, *Dr Bhattacharya* also addressed the issue of VAT collection. He urged he concerned authorities to focus on the collection of VAT from domestic sources, since as a result of the global meltdown, VAT collection at import stage has witnessed a sharp decline. He welcomed the government's decision regarding the proposed duty structures which should favour the domestic industries. He estimated that if the new duty structure is applied on the import structure of FY2007-08, the additional revenue generation would increase by 5.65 per cent in FY2007-08, without any growth in imports. However, he cautioned that although the favourable duty structure should help to increase import-related duties, this will also depend on the growth of imports and movement of prices in the international market.

On the issue of legalising undisclosed income, *Dr Bhattacharya* expressed concerns on the following three aspects of the scheme:

1) No differentiation has been made between legally earned and illegally earned income.

2) The penalty of 10 per cent is lower than the minimum rate of 15 per cent for regular taxpayers, not to speak of the highest rate of 25 per cent.
3) Effective tax rate would be lower than 1 per cent when invested in apartments/houses.

Dr Bhattacharya suspected that the provision of legalising the undisclosed income may not contribute much either by way of attracting investments in the *Thrust Sectors* or through higher revenue mobilisation. He then proceeded to underline some administrative issues that required immediate attention from the government, including:

1) *Manpower:* Due to legal disputes, NBR has not been able to expand its manpower capacity since the mid-1980s.
2) *Expansion of NBR:* To tap the unrealised revenue potentials in the peri-urban and rural areas, particularly to the upazila level, extending the NBR network is essential.
3) *Simplification and updating of income tax laws:* Last major amendments were made in 1984 (Income Tax Ordinance 1984). It needs to reflect the current greater reliance on domestic resources.
4) *Shedding off intermediaries:* Promote use of "self-assessment," and bring the taxpayers in personal contact with revenue administration without the help of intermediaries.
5) *Audit and monitoring:* Particularly to tackle "under invoicing," special attention to monitor the real estate sector in light of the "black money-whitening" provision.
6) *Modernisation:* Developing a modern information technology (IT)-based tax administration, modernising customs facilities at the major ports and entry points, using National ID database in expanding the tax net, feasibility of allowing tax return submissions online.

Foreign Resource Mobilisation

On the issue of foreign financing, *Dr Bhattacharya* mentioned that for FY2009-10, gross foreign assistance was targeted at about 40 per cent of the total deficit, and if achieved, it would be the highest inflow in Bangladesh's history. An overwhelming share (72 per cent) of the incremental foreign financing for FY2009-10 is supposed to come as loans, while only 28 per cent as grants.

Dr Bhattacharya informed the participants that requests had been sent to multilateral and bilateral donors to fund various large-scale projects and to support budgetary deficits. In response, the World Bank and the Asian Development Bank (ADB) have decided to increase assistance to Bangladesh by 20 per cent and 33 per cent respectively. He raised concerns regarding the high interest on borrowing (USD 500 million of ADB loan at "LIBOR Plus" rate, USD 4.7 billion from China with suppliers' credit component). *Dr Bhattacharya* suggested that the government's efforts to receive more foreign aid in the form of grants needs to be augmented, particularly to sustain debt servicing liability (DSL). In this regard, he suggested the government to tap the new modes and sources of financing which have come up due to the impact of global financial crisis.

Selected Expenditure Issues

Implementation of the New Pay-scale

The keynote speaker expected the fiscal cost of implementing the proposed new pay-scale to amount to Tk. 3,500 crore in FY2009-10. Apart from resource availability issue, the other important concerns related to the possible inflationary impact of the decision and its management. In this connection, he expressed concern for the middle income salaried people working outside the government sector if the new pay scale is not endorsed by the private sector. He also urged the government to implement the recommendations of the Public Administration Reform Committee (1996) in order to revamp the administration.

Interest Payments and Debt Situation

Dr Bhattacharya mentioned that total public debt (domestic and foreign) as per cent of GDP has been on a declining trend since FY1993-94, and amounted to 43.2 per cent in FY2008-09, mainly due to falling foreign debt (27.2 per cent of GDP in FY2007-08, and 24.4 per cent in FY2008-09). DSL as per cent of foreign exchange earnings declined from 10.7 per cent in FY1999-00 to 5.5 per cent in FY2007-08 whereas outstanding domestic debt as per cent of GDP increased from 7.8 per cent in FY1993-94 to 18.8 per cent in FY2008-09. He added that although total interest payment has been increasing, foreign interest payment was set to fall in FY2009-10. According to the keynote speaker, budget deficit as a percentage of GDP has been on the rise in recent times and consequently, the debt situation is poised to become onerous in the immediate term. Further, he anticipated share of commercial loans as a proportion of foreign financing to increase in the near future.

Subsidy Payments

According to *Dr Bhattacharya*, budgetary targets and actual expenditure of subsidy demands have varied significantly across years. In FY2007-08 actual subsidy requirement was 94.5 per cent higher than the original allocation. He mentioned that in FY2008-09, although Tk. 13,641 crore was allocated for subsidy payments, information was not available on actual expenditure. *Dr Bhattacharya* hypothesised that actual subsidy payments in FY2009-10 may be considerably lower due to falling prices of food, fuel and fertiliser. He stressed on building mechanisms to make the budgetary process transparent and to monitor fiscal outcomes. He asserted that information on subsidy allocations and their disbursements should be made public on a regular basis.

Contingent Liabilities

Dr Bhattacharya underlined the difficulty in availing up-to-date data on government's expenditure relating to contingent costs. This has made it complex and cumbersome to assess the balance sheet of the government. He pointed to the issue of oil subsidy, and expressed concern about the possibility of increase in oil price which might become burdensome for the government once again. He affirmed that the government's total contingent liabilities, whatever the amount, needed to be publicly disseminated for the purpose of fiscal transparency. This would also facilitate the process of carrying out objective assessments with regard to the state of public finance.

Annual Development Programme

Drawing attention of the participants on the falling trend of targeted and actual ADP expenditure, *Dr Bhattacharya* felt that public investment has remained inadequate in fulfilling the country's needs. He observed that poor implementation of ADP was a consequence of three factors reinforcing each other:

1) Resource constraints.

2) Unrealistic targeting.

3) Lack of implementation capacity.

Dr Bhattacharya referred to the findings by the Implementation Monitoring and Evaluation Division (IMED) regarding the obstacles preventing successful implementation of the ADP. He mentioned that upstream barriers have now become more important in explaining the low implementation of the ADP. The keynote speaker provided a number of recommendations to overcome this situation. Some of these are as follows:

1) Project-wise action plans should be prepared, with special emphasis on procurement, early release of funds and monitoring of progress.
2) Full-time and competent project directors should be appointed and successful ones should be fast-tracked.
3) Over centralisation and bottlenecks in fund release will need to be addressed promptly and approved funds should be disbursed as early as possible.
4) Inclusion of projects should be demand-driven, and investment in the energy sector should be accorded the highest priority.
5) Procurement policies should be further simplified and problems related to land acquisition should be addressed adequately.
6) Role of local government organisations should be enhanced to improve the synergy in project formulation, implementation and monitoring stages.
7) Result-based monitoring (RBM) should be developed to facilitate both quantitative and qualitative evaluation.

Introduction of Public-Private Partnership (PPP) in the Budgetary Framework

Dr Bhattacharya felt that although the PPP component is a new initiative in the budget for Bangladesh, PPP led projects operating in building infrastructure, particularly in power generation through independent power producers (IPP) has already been there for sometime now. In this regard, amongst a number of concerns, he considered establishing a partnership framework both in terms of institutional set up and legal entities as a key challenge in FY2009-10. He also opined that the financial aspects of a PPP project (investment and output) should be the focus of negotiation.

Financing of Budget Deficit

In case of debt financing issue, the keynote presenter refuted the possibility of a crowding out effect on the private sector investment since a major part of the debt is expected to be financed through foreign sources. Citing a few findings of modern literatures pertaining to an acceptable size of budget deficit, he mentioned that the targeted budget deficit for Bangladesh was satisfactorily low. However, he was doubtful about the external composition of financing the fiscal deficit, which would require an inflow of about USD 2.6 billion.

Concluding Remarks

Before proceeding with the conclusion, *Dr Bhattacharya* put forward three different possible scenarios of the budgetary outcomes for FY2009-10, i.e. high case, business as usual and low case scenario. Following this, he outlined a number of recommendations which he felt needed to be immediately considered for implementation:

1) A functioning and able development administration not haunted by any collusion of political and economic interest groups.
2) Motivated leadership and guidance by the Finance and the Planning Ministries.
3) Ensuring adequate capacity of the line ministries to design, implement, manage and monitor their respective projects and programmes. At the same time, the line ministries should not be held back by overbearing centralised (often informal) decision making practices.
4) Ensuring participation of the local governments in the budget process in order to enable them to function as an extension of design and implementation mechanisms.
5) Ensuring competitive environment for the private sector, particularly in case of public procurements.
6) Facilitating non-government organisation (NGO) partnership with proper accountability and transparency in the outreach and service delivery process.
7) An informed monitoring mechanism backed by real-time data. In this connection, introduction of quarterly reporting on the state of the economy to the national parliament will greatly bridge the prevailing information gap.
8) Implementation of the reform agenda mentioned in the budget.

Expressing his optimism about getting more information on ADP from the ministries, *Dr Bhattacharya* concluded by underlining that an effective and successful implementation of the budget remained contingent on the overall state of developmental governance of the country.

OPEN FLOOR DISCUSSION

Resource Mobilisation

Mr Abdul Mazid, the immediate past Chairman of NBR, mentioned the causality between investment and revenue generation. He opined that for the sake of revenue generation, the ADP should be fully implemented. He expressed reservation about the realisation of revenue target with decline of import volume. He urged the government to strengthen revenue collection efforts, and more importantly, resolving the problems in the recruitment process of NBR.

Mr Siddiqur Rahman Choudhury, Chairman, Agrani Bank agreed with the paper's position on the issue of external resource mobilisation, particularly the apprehensions pertaining to high borrowing costs.

Deficit Financing and Crowding Out Effect

Referring to the relaltionship between implementation challenges and investment climate, *Ms Ferdaus Ara Begum*, Additional Secretary, Dhaka Chamber of Commerce and Industry (DCCI), called for improving the investment environment for the private sector. In this regard she expressed concern about the possibility of a crowding-out effect due to heavy government borrowing from the banking sector.

Challenges of Implementation

According to *Mr Choudhury*, the most significant challenge of the current budget was not revenue generation but implementation of the ADP. He highlighted a few major constraints of effective implementation such as lack of ownership, procurement policies, centralised decision making and absence of an effective monitoring mechanism.

Immediate attention should be focused on issues such as early procurement decisions and full-time availability of the project directors for existing projects. However, for future implementation, factors such as identification and planning of appropriate projects, participation of local government in designing projects, analysis of costs and budget of projects, appropriate recruitment procedure, decentralisation of decision making, effective management of foreign-aided projects, accountability and transparency, would require proper attention from the government, he noted.

Mr Amir Ali Khan Majlish, Former Division Chief, Planning Commission, commented that low ADP implementation is inherently inevitable, as the approval process of the Executive Committee of the National Economic Council (ECNEC) does not take procedural uncertainities into account. Without a thorough quality check mechanism the implementation process would remain weak, he added.

Dr A Atiq Rahman, Executive Director, Bangladesh Centre for Advanced Studies (BCAS) opined that, the foremost problem for an effective execution of the budget is the lack of implementation capacity of the delivery administration. He urged the government for early release of funds and utilisation of resources to its full.

Ms Sharmin Neelormi, Associate Professor, Department of Economics, Jahangirnagar University appreciated the government's decision for including new fund schemes in the national budget for climate change and disabled welfare. She stressed that to expand the social safety net more effectively, government implementing agencies should play greater role.

Dr Barsha Khattry, Economic Advisor, United Nations Development Programme (UNDP), commented that localisation of fund disbursement power is essential for reaching the benefits to the remote areas of the country.

Dr M Amanullah, MP and Former State Minister for Health and Family Welfare, agreed with *Mr Rahman* in terms of ADP implementation monitoring mechanism, saying that such a condition is not supportive for attaining any long-term tangible outcome.

Dr Amanullah was of the opinion that each Ministry should have a risk management strategy in place to monitor their state of budget implementation. This view was also raised by *Dr Syed Akhtar Mahmood*, Senior Programme Manager, International Finance Corporation-Bangladesh Investment Climate Fund (IFC-BICF).

Public-Private Partnership

Mr Manzur Ahmed, Advisor, Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), argued that PPP should have sectoral level allocation with boarder areas of funding. He also demanded that the subsidy for the advancement of different sectors given by the government should come in the form of interest, rather than in cash.

On this issue *Dr Mahmood* stated that on a PPP venture, expectations of all the involved parties should have prior clarification. The private sector should have provision to put their own clauses. He stressed upon developing an effective monitoring mechanism to ensure that all pre-agreed conditions are met. He also mentioned that at the earlier stages, the success of PPP schemes would majorly lie upon the public sector.

Climate Change

Dr Rahman appreciated the government's efforts for making an attempt to mitigate the threat of climate change, although he questioned the efficiency of fund utilisation, especially to reach the benefits at the periphery. He recommended the government to set up a fund under climate change to tackle the attendant problems.

Ms Neelormi commented that the allocation of Tk. 300 crore in the previous year's national budget to deal with the threat of climate change has not been made use of. She requested the government to provide details with regard to the country's preperation to combat climate change.

Energy and Power

Addressing the issue of energy shortage, *Mr Ahmed* mentioned that the real challenge for the government would be to meet the energy demand as performance in the manufacturing sector will be determined by the availability of energy. He urged for a concerted effort with the primary objective to increase energy supply. *Ms Begum* also expressed concerns regarding the challenges of generating surplus energy to meet the additional demand of about 5,000 MW by 2013.

Employment Generation

Ms Begum criticised that there are no solid plan of actions by the government to implement the budgetary proposals for generating new employment opportunities.

RESPONSE FROM THE SECRETARY, FINANCE DIVISION, MINISTRY OF FINANCE

Thanking the Chair and the keynote presenter, *Dr Mohammad Tareque*, the Finance Secretary underlined the importance of extensive research activities on fiscal issues. He then proceeded on to briefly discuss some issues relevant to addressing the problems associated with budget implementation.

Budget and Revenue Issues

The Finance Secretary termed "budget" as not only a political document with economic implications, but more fundamentally, a proxy to estimate the social commitment of a government. He remarked that the country should make bold strives to achieve a growth rate of 7 per cent per annum. In this connection, according to the Secretary, the main risks in the way of resource generation in near future for the country relate not to the internal issues, rather the external ones, particularly the adverse impacts of global recession. He observed that the growth of the economy will depend mainly on the country's performance in terms of exports and remittance earnings, in coming days.

Investment

As the government has already received commitment of a large sum in the form of budgetary support, *Dr Tareque* refuted the concerns of private sector about the possibility of crowding out effect arising for the government's borrowing from the domestic banking sector. Acknowledging the importance of power sector for the economy, he mentioned that currently the public sector alone cannot solve the problem. He hoped that the government would focus on formulating policies so that the private sector can also take part in the generation and distribution of power.

Subsidy and Transfer Issues

Regarding the ambiguity about figures of subsidy and transfer payments mentioned in the budget document, *Dr Tareque* urged the government to examine the capital expenditure part of the revenue budget. This would help to clarify these expenditures. The government does not pay subsidy to the entities which are commercially viable, he stated, rather it provides financial assistance in terms of either equity or loans.

Public-Private Partnership

Regarding PPP, the Finance Secretary informed that a Working Group formed by the Ministry of Finance (MoF) has studied the different models in practice in different countries. Also, the MoF is planning to hold a national level workshop on the PPP issue to discuss it in more detail. He opined that the financing requirements and implementation methodology for PPP projects would vary with the nature of respective sector, posing a key challenge for project execution.

Annual Development Programme

Responding to the issue of ADP implementation, the Secretary affirmed that the government is planning to integrate the budget with a more comprehensive goal. He exemplified that without paying the salaries of the teachers, building more schools would be a meaningless investment. He termed the dichotomy between revenue budget and development budget as rather unnecessary.

Medium Term Budgetary Framework (MTBF)

The Finance Secretary noted that the purpose of MTBF was to monitor the function of allocated resources in achieving their targeted aims. He informed the participants that at present, MTBF includes 20 ministries, and the government was planning to bring in 13 more in the next fiscal. In response to a query by the Chair, he noted that the MTBF experience so far has been rather mixed. The implementation of MTBF depends on whether the process is owned by the line ministries, the conceptual underpinnings are understood by them, and whether motivated leadership was there to guide the process. *Dr Tareque* added that to start a new process for carrying out such activities, MTBF's success will crucially hinge on the time factor.

In conclusion, the Finance Secretary noted that the MoF is planning to organise monthly meetings to review the entire budget rather than only the ADP. This was particularly necessary, as not all ministries contain equal or significant share of ADP in their total respective budgets.

REMARKS BY THE SPECIAL GUEST

Dr ABM Mirza Azizul Islam, Former Advisor to the Caretaker Government thanked the Chair and commended the authors for a comprehensive presentation. *Dr Islam* felt that there were three aspects, from the perspective of which the challenges of implementation should be looked at. These were:

1) Quantitative dimension - amounts actually spent.
2) Qualitative dimension - quality of achievements of the projects for which the budgeted amounts are spent.
3) Whether the targeted beneficiaries actually receives the intended benefits.

Revenue Issues

In his remarks, *Dr Islam* mentioned that in case of overall revenue generation between FY2001-02 to FY2006-07, Bangladesh's revenue to GDP ratio was around 10 per cent. In FY2007-08, the country crossed this mark and achieved a ratio of 11.3 per cent of GDP. He added that to achieve a ratio of 11.6 per cent in FY2009-10, it will require significant improvement over the last fiscal year's achievement.

Dr Islam viewed the revenue measures in the budget as heavily weighted in favour of either reduction of rates, e.g. import duty on raw materials, corporate tax rate on financial institutions, or erosion of tax bases like VAT on small and medium enterprises (SMEs), which were not likely to be compensated by the tax on import of luxury goods or other finished goods. Hence, he expressed reservation regarding the possibility of attainment of the targets set out in FY2009-10; he, however, understood the need for some of the related measures. Understanding the importance of incentives for the success of any initiatives, *Dr Islam* welcomed calls to broaden the coverage of VAT and to raise the efficiency of the tax administration.

Budget Implementation

Referring to the ADP implementation of Tk. 19,646 crore in FY2008-09, *Dr Islam* opined that it would be rather difficult to achieve the full implementation of Tk. 30,500 crore envisaged for the ADP in FY2009-10.

Citing from his personal experience, the former Finance Advisor affirmed that the blame of poor implementation invariably falls on the Finance and Planning Ministry, which is not always justifiable. He insisted that personnel down the line in the implementation process should assume more responsibility to get the tasks completed.

Dr Islam also mentioned the excessive delay in procurement process, and requested the government to carefully scrutinise the responsibility of respective parties. He also suggested that in the future, bidders should be reprimanded if they fail to fulfill their contractual obligations.

The former Finance Advisor spelt out three factors responsible for low pace of implementation of the ADP. Firstly, faulty preparation of project paper, which follows by the second factor, the revision process of the paper through the hierarchy of the Planning Commission. Thirdly, the delay in land acquisition for the lack of advance preparation by the concern ministries.

Dr Islam also argued that the level of revenue generation and ADP implementation are unrelated. He agreed with the CPD view that in Bangladesh it is more difficult to spend resources than to earn those.

Regarding the concern of crowding out effect due to government borrowing from the domestic banking sector, he was of the opinion that Bangladesh's experience contradicted the theoretical argument. The credit growth for both the public and private sectors move in the same direction here, over time. *Dr Islam* drew attention to the potential problem emanating from the demand side, since the banking system was flushed with huge surplus liquidity which remained to be tapped.

The low level of investment in Bangladesh might be related to the current economic crisis and also due to volatility in the law and order situation inside the country, *Dr Islam* observed. However, the issue of power supply has become a major concern which needs to be addressed on an urgent basis if investment climate was to be improved.

Dr Islam added that carry over of incomplete projects continued to remain a major problem from the perspective of successful implementation of ADP. This has also made the actual size of the ADP much larger. This is because the concerned authorities or ministries are more inclined to come up with new projects rather than to complete the old ones. In this regard, he particularly expressed concerns about FY2009-10 proposal, where the size of ADP in the new budget is 50 per cent higher than the previous year, which is not acceptable given the government's limited capacity for revenue generation. Also, due to resource constraints the screening process has become opaque, as more and more projects are included in the ADP, which in effect, complicates the execution process, and burden it with backlog.

Continuation of Government's Policy

The immediate past Finance Advisor expressed his disapproval on the decision of discontinuing the employment guarantee scheme. He said it was not explained by the present government on what ground the scheme was accused of containing policy weaknesses. He noted that the guidelines for this programme were finalised through consultation with major stakeholders; he further pointed out to positive evaluation of this programme by different ministries including the Ministry of Food and Disaster Management (MoFDM). *Dr Islam* hoped that the newly launched programme, *Employment Generation for the Hardcore Poor*, would be able to address the policy failures in the earlier programme to ensure its successful implementation.

Dr Islam expressed concerns regarding the issue of targeted beneficiaries. Referring to the *One Home-One Farm* programme, he cautioned against serious flaws in the identification process of targeted beneficiaries; similar issue might rise during the *National Service Programme*, he noted.

Dr Islam recommended that focus should be put at the grassroots levels during the implementation phase. He remarked that administrator of a project is often the most influential person in the locality, and steps should be taken to improve their efficiency. He stressed the need for the recruitment process to be more transparent in order to improve the quality of service of the public administration.

ADDRESS BY THE CHIEF GUEST

Mr AMA Muhith, MP, the Hon'ble Finance Minister thanked the CPD for organising the dialogue which he felt was a timely one. He registered appreciation of the insights shared by the distinguished participants. He thanked the authors in particular for their efforts in analysing a number of critical issues related to budget implementation. *Mr Muhith* felt that a number of issues raised by the keynote speaker were critically important from the perspective of implementing the ADP. He particularly noted the importance of foreign resource mobilisation and the PPP initiative. Sharing his plans in terms of budget implementation, the Minister informed that the MoF had carried out extensive discussions on implementation procedures of budget and PPP with some of the relevant ministries. They have already started formulating strategies with 20 ministries. Of these, 10 ministries receive about 80 per cent of the budgetary allocation. Performance of these ministries will be monitored closely. According to the Finance Minister, the most important issue regarding PPP would be funding of the projects. He particularly mentioned about the issue of land acquisition which is critically important for implementation of projects. He, however, expressed concern regarding finalisation of the Second Poverty Reduction Strategy Paper (PRSP-II), and its coherence in the context of the sixth five-year plan (FYP) which was being prepared.

Regarding the issue of incentive package as part of which the government has planned to provide support to 13 export-oriented industries affected by the global financial crisis, he affirmed that the MoF is planning to have some immediate discussion with the central bank and the taskforce (formed by the government) to formulate some deliverable targets. The Minister also informed the audience that the government was planning for some hard term borrowing to tackle the unfavourable balance of payments (BOP) situation and assured that this will not lead to difficulties in the future.

The Minister noted that the most significant concerns for the economy at present were dearth of investment flow, uncertainty regarding the global economic crisis, and the shortage of energy and power supply.

The Minister pointed out that the backlog of project implementation was almost over, and he was planning to overhaul some of the project approval and implementation procedures to correct the existing snags.

Mr Muhith also added that the government was planning "Six Monthly Reviews" of the economy, along with evaluation of budget implementation rate. He remarked that this would be different from the usual reviews as provisions have been made for reallocating resources to better suit the needs of projects, if and when necessary.

The Hon'ble Minister concluded by stating that the impact of the global economic crisis would be reviewed periodically, so that the transmission channels are monitored effectively and corrective steps could be taken in a speedy manner.

CONCLUDING REMARKS BY THE CHAIR

In his concluding remarks *Professor Rehman Sobhan* underlined that for monitoring the implementation process of important projects, media could play an important bridging role. He called for putting in a system where the best performing ministries and members of parliament (MPs) are rewarded. Such assessments would be based on the project executions status under their respective ministries or constituencies.

Professor Sobhan thanked all the participants for taking active part in the discussions. He gave special thanks to the keynote speaker for his contribution to this interactive discussion which introduced much creative thinking into policy debates and provoked serious discussion. *Professor Sobhan* registered his deep appreciation to the Hon'ble Minister for taking time off from his busy schedule in order to be present at the dialogue. Finally, he concluded the session by expressing hope that the issues discussed and recommendations put forward in the course of the dialogue will improve budget implementation process in Bangladesh both in terms of volume of work done and the quality of work put in.

ANNEX 3

List of Participants

Dr Kazi Saleh Ahmed
Former Vice Chancellor, Jahangirnagar University and President, Foundation for Research on Educational Planning and Development (FREPD)

Mr Manzur Ahmed
Advisor, FBCCI
Former Director, DCCI and Proprietor, M/s. Fare Trade Centre

Mr Ahmad Ahsan
Lead Economist, The World Bank

Dr Mohammad Alauddin
Visiting Professor, Department of Economics and Social Sciences (ESS), BRAC University

Dr Shaikh Maqsood Ali
Former Secretary and Former Member, Planning Commission

Mr Syed Md Haider Ali
Director General, IMED, Evaluation Unit, Planning Commission

Professor Altafunnesa
Coordinator, Gono Shasthya Kendra

Professor Ali Ashraf, MP
Former Deputy Speaker

Mr Md Ashrafuzzaman
Pogramme Officer, Embassy of Denmark

Mr Robert Beadle
Country Programme Director and Head of Development Cooperation (CIDA) Canadian High Commission

Ms Ferdaus Ara Begum
Additional Secretary, DCCI

Ms Rokeya Begum
Joint Chief, Roads and Railway Division
Ministry of Communications

Dr Debapriya Bhattacharya
Distinguished Fellow, CPD

Mr Siddiqur Rahman Choudhury
Chairman, Agrani Bank and Former Secretary, Finance Division

Mr KAS Dayananda
Director, Information and Communication, CIRDAP

Mr Md Altaf Hossain
Joint Chief, GED, Planning Commission

Dr Zahid Hussain
Senior Economist, The World Bank

Dr Anwar Islam
Dean & Director
James P Grant School of Public Health, BRAC University

Dr AB Mirza Azizul Islam
Former Advisor to the Caretaker Government
Ministries of Finance and Planning

Mr Ifti Islam
Managing Partner, Asian Tiger Capital Partners

Ms Subrina Islam
Economic Section Officer, Embassy of Japan

Mr Adam Jackson
Economist, DFID

Mr Jabbar Khan
Former Deputy Chief, Programming Division
Planning Commission

Dr MA Khan
International Team Leader/Advisor
Promoting Financial Services for Poverty Reduction Programme
DFID

Dr Omar Farooq Khan
Senior Development Advisor, CIDA, Canadian High Commission

Dr Barsha Khattry
Economic Advisor, UNDP

Dr Syed Akhtar Mahmood
Senior Programme Manager, IFC-BICF

Mr Amir Ali Khan Majlish
Former Division Chief, Planning Commission

Mr Muhammad Abdul Mazid
Secretary to the GoB and
Former Chairman, NBR

Ms Zabeta Moutafis
First Secretary, Australian High Commission

Mr AMA Muhith, MP
Hon'ble Minister for Finance, Government of Bangladesh

Mr Khandaker Ashraful Munim
Associate Professor, Department of Economics
Jahangirnagar University

Mr Ghulam Murtaza
Consultant, DCCI

Ms Sharmin Neelormi
Associate Professor, Department of Economics
Jahangirnagar University

Ms Karin Ohman
Counsellor, Embassy of Sweden

Dr A Atiq Rahman
Executive Director, BCAS

Mr Kamran T Rahman
Chairman and Managing Director, Pubali Jute Mills Ltd.
Former President, Bangladesh Employers' Federation (BEF) and
Former Chairman, BJMA

Mr ASM Rashed
APS to Hon'ble Minister for Finance

Mr Bikhu Ranjan Sarkar
Consultant, Steps Towards Development

Professor Rehman Sobhan
Chairman, CPD

Dr Mohammad Tareque
Secretary, Finance Division, Ministry of Finance

Ms Sayeeda Tauhid
Economic Adviser, DFID

Ms Dorish Wong
Assistant Director (Operation), CIDA
Canadian High Commission

List of Journalists

Mr Sanjib Boshak
Staff Reporter, Daily Samakal

Mr Ashik Chowdhury
Senior Reporter, BSS

Mr Mizan Chowdhury
Staff Reporter, Daily Janakantha

Mr Bishawjit Dutta
Chief Reporter, Daily Amader Shomoy

Mr Sanaul Haq
Senior Reporter, ATN Bangla

Mr Kazi Saimul Haque
Staff Reporter, Desh TV

Mr Nazmul Haque
Economic Reporter, Daily Jugantor

Mr Shawon Hasnat
Reporter, Bangladesh Television (BTV)

Mr Jimi Hosain
Reporter, Channel 1

Mr Amran Hossain
Staff Photographer, Daily Star

Mr Ilias Hossain
Staff Reporter, Diganto Television

Mr Shariful Islam
Staff Reporter, Daily Naya Diganta

Mr Mohammad Jubayer
Staff Reporter, Daily Manab Jamin

Mr Abu Kawser
Senior Reporter, Daily Samakal

Mr Golam Kibria
Staff Reporter, Bangladesh Television (BTV)

Mr Hanif Mahmud
Senior Reporter, Daily Prothom Alo

Mr Sultan Mahmud
Special Correspondent, Islamic Television

Mr Khawaja Mainuddin
Special Correspondent, New Age

Mr H Mamun
Staff Reporter, Daily Diner Sheshey

Mr Faruk Mehedi
Senior Reporter, RTV

Mr Masud Parvez Milon
Reporter, Financial Express

Mr Manik Muntasir
Staff Reporter, Daily Bhorer Dak

Mr Shyamal Kanti Nag
Staff Reporter, Daily Destiny

Mr Rezvi Newaz
Staff Correspondent, Channel i

Mr Morshed Noman
Staff Reporter, ABC Radio FM 89.2

Mr Sohel Parvez
Staff Reporter, Daily Star

Mr Golam Kadir Rabu
Staff Reporter, Boishakhi Media Limited

Mr Rezaur Rahim
Staff Reporter, Bangladesh Shomoy

Mr Mahbubur Rahman
Staff Reporter, Monthly Bishobidalay Parikroma

Mr Yunus Raju
Staff Reporter, Radio Today

Mr Masud Rana
Staff Reporter, Daily Nawroj

Mr Ruhul Amin Rasel
Staff Reporter, Telepress

Ms Sharmeen Rinvy
Senior Reporter, Bangla Vision

Mr A Salam
Staff Reporter, Daily Purbanchol

Mr Md Shahin
Staff Reporter, RTV

Mr Sushanta Sinha
Reporter, ETV (Ekushey Television)

ANNEX 4

Chronology of Major Economic Events *January - December 2009*

Date	Major Economic Events
January 1	❑ World Bank agrees to finance an investment project worth USD 60 million to support modernisation of Bangladesh Railway.
	❑ The National Board of Revenue (NBR) starts enforcing compulsory use of electronic cash registers (ECRs) in big and medium sized shops in the six city corporations.
January 3	❑ Bangladesh decides to make Malaysia its major source of refined fuel oil import, in the face of waning bond with Kuwait Petroleum.
	❑ Employers in Romania complained that Bangladeshi male workers who have gone for strikes left jobs violating contracts. They expressed interest in recruiting skilled female workers from Bangladesh's RMG sector.
January 4	❑ According to Bangladesh Bank statistics, remittance inflows set a new record in 2008 crossing the USD 8 billion mark. In the just-concluded calendar year, remittance worth USD 8.22 billion came to the country, marking a 25.36 per cent growth.
January 6	❑ Awami League President Sheikh Hasina assumes responsibility of steering Bangladesh's development process over the next five years as the country's new Prime Minister.
January 7	❑ Bangladesh Bank decides to pursue expansionary monetary policy to drive growth and create jobs in line with the agenda of the new government.
January 9	❑ Commercial banks borrow Tk. 5,000 crore from Bangladesh Bank through Repo (repurchase agreement) and call money market to meet their increasing liquidity crisis.
January 10	❑ Government takes initiative to streamline the loss making state-owned enterprises (SoEs) through fiscal policy and strong monitoring.
January 12	❑ Bangladesh decides to forward a proposal to donors including the World Bank and the Asian Development Bank (ADB) for a budgetary support of around USD 800 million a year.
	❑ Yarn makers request the government to roll out a stimulus package to safeguard the sub-sector from any fallout from the global financial crisis.
January 13	❑ Bangladesh Bank increases the rate for daily cash reserve requirement (CRR) against deposits by 50 basis points to help banks better manage liquidity.
January 14	❑ In a bid to contain inflation, Bangladesh Bank fixes the target of private sector credit growth at 18.5 per cent, bringing it down by 6.44 percentage points.
January 15	❑ Prime Minister Sheikh Hasina forms a special cell for the Ministry of Power, Energy and Mineral Resources aiming to scaling up country's power and gas production.
	❑ Government decides to withdraw all duties from solar energy equipment.
January 18	❑ Bangladesh Bank directs banks to provide adequate loans to farmers during the Boro season.
	❑ A 14-member committee led by the Deputy Governor of Bangladesh Bank is constituted to recommend assistance, as regards banking facilities, for the ship-building industry.

Date	Major Economic Events
	❑ Prime Minister Sheikh Hasina urges the United States (US) to invest more in Bangladesh and requests for extension of cooperation in energy and power sectors, at a meeting with the US Ambassador.
January 21	❑ ADB Vice President, Xiaoyu Zhao, declares strong support and cooperation to help Bangladesh make sustainable progress towards achieving the millennium development goals (MDGs).
January 22	❑ Prime Minister Sheikh Hasina urges the Saudi government to increase development assistance to Bangladesh and recruit larger volume of human resources from the country.
January 26	❑ South Korea assures to provide Bangladesh over USD 200 million as development assistance and allow greater market access for Bangladeshi products in the Korean market.
	❑ More than 40 local organisations, including private sector companies, sign up for UN Global Compact Local Network for Bangladesh, the main United Nations (UN) instrument for promoting corporate social responsibility (CSR) .
January 27	❑ NBR reports that revenue income at import level dropped by about 14 per cent in last December due to the impact of the global economic recession.
	❑ UN Food and Agriculture Organization (FAO) assures Bangladesh of providing all possible assistance to ensure the country's food security.
January 28	❑ Frozen foods exporters demand loans from "adjustable block accounts" to overcome the sectoral liquidity crisis in the wake of ongoing global financial depression.
January 29	❑ Government signs an agreement with the New Zealand-based consultancy firm Maunsell AECOM Ltd. for preparing the design of the Padma Bridge.
	❑ Bangladesh Bank warns government of excess bank borrowing and suggests three measures to help reduce "fiscal pressure." These are: to increase duties on import of luxury goods, to cut unnecessary costs, and to create an action plan to create fiscal space.
February 1	❑ Bangladesh Bank issues show cause notices to five banks for not informing the central authority about suspicious transactions.
February 2	❑ Government forms two separate high-powered committees to prepare climate change strategies and deal with the Tk. 300 crore funds.
	❑ India-Bangladesh Chamber of Commerce and Industry (IBCCI) places a six-point proposal to the Finance Minister in a move to increase the country's annual exports to India to USD 1 billion from existing about USD 400 million by June 2011.
February 3	❑ Executive Committee of the National Economic Council (ECNEC) approves a project of Tk. 340 crore to help Bangladesh Petroleum Exploration & Production Company (BAPEX) to increase its oil and gas exploration capability and the Bakhrabad Gas Field Company to boost gas supply to Chittagong within two years.
	❑ Export Promotion Bureau (EPB) data shows that export earnings went down by 10.07 per cent in December 2008 against the same month of 2007.

Date	Major Economic Events
February 4	❑ The World Food Programme (WFP) expresses interest to work with Bangladesh for ensuring food security, increasing food aid for poor people, and formulating right strategies for food stock and supply.
February 5	❑ Government decides renewal of the bilateral trade agreement between Bangladesh and India under which the two countries will use their waterways, roadways and railways for transportation of goods.
	❑ Government forms two high-powered expert committees to work out ways and means to resolve the longstanding maritime boundary demarcation disputes with India and Myanmar, and the crucial issue of sharing water of 40 common rivers with India.
February 6	❑ Government decides to start work on Trans-Asian Railway (TAR) that would connect the country's railway system to a 81,000-km network stretching from Europe to East and South-East Asia.
February 9	❑ Bangladesh and India sign two deals relating to trade and investment - the Bilateral Investment Promotion and Protection Agreement (BIPA), and renewal of the 1980 Trade Pact.
	❑ Bangladesh Bank Governor advises scheduled banks to follow the appropriate rules and regulations while disbursing loans among women entrepreneurs.
February 11	❑ In a bid to increase remittance inflow through legal channels, Bangladesh Bank decides to divide the countries across the world into five zones and introduce reward worth Tk. 30 lakh to the highest remitter from each zone.
	❑ South Asian Association for Regional Cooperation (SAARC) countries, at a Secretary-level meeting, agree to work on further liberalising their markets among themselves in a bid to cope with the global economic downturn.
February 14	❑ India starts construction of Tipaimukh barrage barely one km away from Jakiganj border threatening to dry up the flow of the Surma and Kushiara rivers during the winter.
February 16	❑ Unnerved by the bad debt that crossed 10 per cent of the total lending by non-bank financial institutions (NBFIs), Bangladesh Bank in a meeting with the institutions asks for bringing it down at the earliest possible.
February 19	❑ Bangladesh government and the United Nations Development Programme (UNDP) sign an agreement for implementation of a new development project entitled "Construction of Server Stations for the Electoral Database."
February 21	❑ EPB receives spot orders of USD 385,000 at the Madrid International Fashion Fair held in the Spanish capital on 12-14 February.
February 22	❑ Government decides to revitalise social safety net programmes by expanding the test relief (TR) and Food for Work (FFW) programmes in the rural areas, and keeping open market sale (OMS) of rice only for the target groups to ensure food security of the people.
February 23	❑ A World Bank report titled "Bangladesh: Strategy for Sustained Growth" says that Bangladesh can possibly become a middle-income country by 2016 if gross domestic product (GDP) growth continues to sustain a rate of 7.5 per cent throughout the period.

Date	Major Economic Events
February 24	❑ Government decides to form a high-powered taskforce to face the challenges of the ongoing global financial recession.
February 25	❑ Securities and Exchange Commission (SEC) decides to allow merchant bankers and retail investors to make joint investments on a profit-and-loss sharing basis.
February 26	❑ Government reinstates procedural restrictions on the import of yarn through Benapole border.
March 3	❑ Centara Hotels and Resorts a major hotel and chain store group in Thailand, announces its investment plans worth upto Tk. 3,000 crore in Bangladesh's growing hospitality and retail business.
	❑ Bangladesh Bank directs commercial banks to disburse at least 10 per cent of small and medium enterprise (SME) funds among women entrepreneurs.
March 5	❑ SEC approves rules of book building system for initial public offer pricing to attract big issues to stock market.
March 7	❑ Bangladesh Garment Manufacturers and Exporters Association (BGMEA) requests government to provide immediate stimulus package to help the export-oriented garment industry to weather off adverse impacts of the global economic recession.
March 8	❑ Visiting World Bank Vice President for South Asia stresses the need to strengthen social safety net programme to face fallout from the global recession.
March 9	❑ The Metropolitan Chamber of Commerce and Industry (MCCI) suggests government to adopt a stimulus package combining monetary, fiscal and sectoral policies to counter effects of the global economic crisis.
March 10	❑ Malaysia cancels previously approved visas for more than 55,000 Bangladeshi jobseekers in view of the impact of global economic recession on its manufacturing sector.
	❑ Dhaka Chamber of Commerce and Industry (DCCI) places its demands to government to come up with a bailout plan for the readymade garment (RMG) sector.
March 12	❑ SEC comes up with a set of measures to increase the flow of funds to the capital market, including enhancement of the margin loan ratio provided by brokers to clients, increasing the capacity of banks and NBFIs to give loans to brokers, and immediate issuance of more licenses to merchant bankers.
	❑ The United Kingdom (UK) decides to give assistance for coordinated development of Bangladesh's coastal areas under a GBP 60 million (over Tk. 560 crore) trust fund.
March 15	❑ The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) requests a Tk. 6,000 crore rescue package to cope with the global financial meltdown.
March 17	❑ The maritime delimitations talks between Bangladesh and India start in the Indian capital of New Delhi.
March 18	❑ Government shuts down the gas-fired Palash Urea Fertilizer Factory and Ghorashal Fertilizer Factory for two weeks.

Date	Major Economic Events
	❑ MCCI recommends a supportive monetary policy and conducive tariff regime rather than direct cash incentive to exporters as stimulus package as part of government's effort to tackle the recession.
March 23	❑ FBCCI proposes a tax cut to create a congenial business atmosphere for efficient tackling of the knock on effect of the ongoing global recession.
March 29	❑ Government decides to provide rice instead of cash, in the second phase of the 100-day Employment Generation Programme.
April 1	❑ According to the World Bank's Global Economic Prospect 2009, GDP growth in Bangladesh in the current fiscal year will be 4.5 per cent, which is much lower than what government anticipates. The growth is expected to further drop to 4 per cent in the next fiscal year.
	❑ In a major policy shift, government decides to discontinue the Poverty Reduction Strategy Paper (PRSP) in its development programme and revert to Five-year Plan (FYP) from 2011.
	❑ Bangladesh Bank considers investing the country's foreign exchange reserve actively with a diversifying attitude to earn return from investment.
April 5	❑ Bangladesh Road Transport Corporation (BRTC) takes an initiative to procure 400 compressed natural gas (CNG)-fueled buses. The corporation will procure 100 CNG buses with financial assistance from the Nordic Development Fund.
	❑ World Bank will provide USD 81 million in credit to Bangladesh for implementing Higher Education Quality Enhancement Project (HEQEP) aimed at improving standard of education at university level.
April 6	❑ A five-member delegation of Indian Chamber of Commerce, Kolkata, expresses interest to invest in Bangladesh in a greater way and extend all cooperation in reducing the existing trade gap between the two neighbouring countries.
	❑ Finance Minister discloses that the Medium Term Budgetary Framework (MTBF) fails to attain its desired goals, mainly because of the failure on the part of concerned agencies to properly establish their ownership over the programme.
April 9	❑ British Department for International Development (DFID) announces to provide GBP 250 million over the next five years to help out the poor and vulnerable people of Bangladesh.
April 12	❑ Prime Minister Sheikh Hasina directs the Ministry of Industries to import sugar and pulses through Trading Corporation of Bangladesh (TCB).
	❑ Government orders the owners of industries, which are yet to set up effluent treatment plant (ETP), to complete the installation by 30 June 2009 for the sake of protecting the environment.
	❑ Government brings down the per kg price of rice at OMS to Tk. 16 from Tk. 18.
April 15	❑ Industries Minister inaugurates a pilot project on the low-rated lending scheme through disbursement of cheques, and announces that small and medium manufacturing

Date	Major Economic Events
	enterprises will now get bigger loans amounting up to Tk. 5 lakh, up from Tk. 50,000, at a single-digit interest rate of 9 per cent, in next two years.
April 16	❑ Food and Disaster Management Minister says that government is redesigning the 100-day Employment Generation Programme to identify its weaknesses.
	❑ The Cabinet approves a new information and communication technology (ICT) law and the new Organisation of the Islamic Conference (OIC) Charter.
April 19	❑ Bangladesh Bank issues a circular asking the commercial banks to ease rescheduling of loans for recession-hit export sectors, such as frozen food, leather and jute goods, without any down payment.
	❑ Finance Minister announces the interim package of fiscal and policy supports for the country's agriculture, power and export sectors to help ward off immediate effects of the ongoing global recession.
April 20	❑ Government fixes the mill-gate rate of unpacked soybean oil at Tk. 73 per litre, while palm oil at Tk. 59 to keep the prices stable in the local market.
April 22	❑ Bangladesh Bank issues a circular asking the chief executives of all primary dealer banks and NBFIs to follow the amended guidelines for liquidity support.
	❑ Government decides to reduce the existing land registration fees and make payments procedure easier.
April 23	❑ Newly constructed Bibir Bazar landport at Comilla border opens with traders hoping to have increased volume of trade with Tripura and adjoining states of India.
April 24	❑ The International Monetary Fund (IMF) and the World Bank warn that the global financial crisis may impede attainments of the 2015 MDGs.
April 25	❑ Industries Minister says that government will no more privatise state-owned enterprises (SoEs), as successful bidders are not using the divested SoEs for the purposes they had promised.
April 26	❑ Amid a gas crisis in power plants, government orders temporary shutdown of Chittagong Urea Fertilizer Ltd. for an indefinite period to divert gas for power generation.
	❑ A meeting of the Food Planning and Monitoring Committee declares procurement prices of per kg Boro paddy at Tk. 14 and rice at Tk. 22 to encourage farmers, and protect their interest.
April 28	❑ ECNEC approves 11 development projects involving about Tk. 1,635 crore including Tk. 229 crore from Japan Debt Cancellation Fund (JDCF).
May 3	❑ United Arab Emirates (UAE) says it will allow foreign labourers retrenched in the country to stay there for upto six months. This move is likely to benefit nearly one million Bangladeshi workers.
	❑ Planning Minister launches a poverty map of Bangladesh, estimating poverty at district and upazila levels, with the aim to enable government and policymakers to identify the poorer areas, and allocate resources for pulling the distressed out of the curse.

Date	Major Economic Events
May 5	❑ ECNEC approves the Clean Air and Sustainable Environment Project for Dhaka along with three other major projects worth Tk. 788 crore.
	❑ Bangladesh Bureau of Statistics (BBS) calculates per capita income of Bangladesh at USD 690 in the current fiscal; it was USD 608 in the previous year.
May 6	❑ Full-scale movements of ships to and from the Chittagong port harbour resumes after over two weeks of suspension.
May 7	❑ Expatriates' Welfare and Overseas Employment Minister informs that Malaysia will gradually recruit the 55,000 retrenched Bangladeshi workers.
	❑ Communications Minister hands over a cheque of around Tk. 135 crore for land acquisition in Madaripur district for the construction of Padma Multipurpose Bridge.
May 8	❑ ADB announces to give Bangladesh USD 200 million as budget support by December this year from the newly formed recession fund of the organisation to tackle the fallout of global meltdown.
May 10	❑ Bangladesh Railway signs a consultancy agreement with Canarail Consultants Inc. of Canada to improve the quality of Dhaka-Chittagong rail track under a railway development project.
	❑ Sugar is included in the list of essential food items, for which lending rate on import financing has also been refixed down at maximum 12 per cent from the existing 13 per cent.
May 13	❑ Finance Minister says that government will keep the fiscal deficit at 5 per cent of GDP despite a sluggish revenue growth.
	❑ FBCCI places around 400-point pre-budget recommendation, including provision for allowing undisclosed money, before the National Consultative Committee on Budget.
May 15	❑ FBCCI decides to make a list of the sick industries, identified by the government between 1991 and 2007.
	❑ EPB prepares draft proposals for the Export Policy 2009-12 with several new recommendations to expedite exports.
May 16	❑ NBR decides to start a tax survey at all upazilas of the country to increase revenue collection.
May 17	❑ Finance Ministry short-lists 28 tax and revenue proposals from the lawmakers, economists and charities for "serious perusal" for the upcoming budget.
	❑ Finance Ministry allocates Tk. 10 crore to set up a capital market institute, which will provide training to develop skilled human resources for the country's stock market.
	❑ Government borrows Tk. 825 crore through auctions of treasury bills. It will result in withdrawal of the same amount from the market over the week.
	❑ Finance Minister declares not to raise the ceiling of tax-free income from the present Tk. 165,000 in the next budget.

Date	Major Economic Events
May 19	❑ Bangladesh Bank plans to offer special incentives for private banks that will disburse large sums of loans to the agriculture sector and women entrepreneurs.
	❑ ECNEC in its meeting approves four development projects involving a total cost of Tk. 426 crore to be financed from local resources.
May 20	❑ Exports of fresh water shrimp to the European Union (EU) faces a suspension for the next six months in the wake of cancellation of more than 50 consignments to the region due to the detection of health hazardous antibiotic-nitrofuran.
May 21	❑ Revenue collection target of the NBR in the next fiscal year is fixed at Tk. 60,000 crore.
May 24	❑ Cabinet Committee on Public Purchase approves import of 17.45 lakh metric tonnes of petroleum from Kuwait over the next 21 months under a renewed deal.
May 25	❑ Government identifies six projects for implementation on a "very urgent" basis under the proposed public-private partnership (PPP) budget.
	❑ Dhaka Stock Exchange (DSE) and Chittagong Stock Exchange (CSE) form a joint committee with their senior officials to select and implement uniformal and integrated automated system for price fixation under book building method.
	❑ MCCI notes in its latest review of the economic situation that the country continues to experience a slowdown in economic activity in the third quarter (January-March) of the current fiscal, as most of the major economic indicators depict signs of weakness during the quarter.
May 26	❑ The Industries Minister presents the draft Industrial Policy for Bangladesh at a consultation meeting attended by eminent business persons of the country.
	❑ Government finalises Tk. 30,500 crore annual development programme (ADP) for FY2009-10 giving priority to the development of agriculture, transportation, and power and energy sectors.
	❑ World Bank shows its satisfaction with the spending of its funds in Bangladesh during the first five months of the present government and pledges increased assistance for rapid socioeconomic development of the country.
May 27	❑ Bangladesh Bank advises the NBFIs to double their capital by the end of this calendar year.
May 29	❑ Agriculture Ministry presents an expenditure outlay of Tk. 2,695.45 crore for the next budget, which is substantially higher than the budget outline provided by the Finance Ministry.
May 30	❑ NBR starts audit of the taxpayers' files after a lapse of a couple of years.
	❑ Bangladesh Bank announces to prioritise credit flows for productive sectors, such as SMEs and agriculture.
June 1	❑ High Court asks government to set up food courts at district level within a year.
June 2	❑ ECNEC approves six development projects involving about Tk. 969 crore, including Tk. 560 crore coming as project aid.

Date	Major Economic Events
	❑ Bangladesh Bank issues a circular requesting all the state-owned commercial banks to suspend agricultural loan recovery activities in the *Aila*-hit areas for next one year. All the commercial banks are also asked to charge maximum 13 per cent interest on loans to the NBFIs.
June 4	❑ State Minister for Housing and Public Works says government plans to build four satellite townships around Dhaka to ease acute housing problems.
June 6	❑ Bangladesh Bank governor recommends establishment of a separate "risk management unit" in every bank and financial institution to address and mitigate the potential business risks.
June 7	❑ Manpower and Overseas Employment Minister says in the parliament that the government plans to expand the manpower export market to African countries.
June 9	❑ Bangladesh Bank strengthens intervention in the foreign exchange market through buying foreign currency from the commercial banks in the backdrop of falling overall import orders.
June 11	❑ Finance Minister declares a Tk. 1,13,819 crore national budget for FY2009-10.
June 14	❑ Government decides to expand three wings of NBR (income tax, valued added tax (VAT) and Customs) by raising the number of manpower and territorial zones, and turning nine land customs houses into full fledged divisional offices.
	❑ Government forms a ten-member committee to formulate a concrete policy for Monthly Pay Order (MPO) allocation and enlistment of new educational institutions
June 15	❑ Cabinet approves Bangladesh's accession to the Asian Highway network.
June 16	❑ ECNEC approves five development projects involving about Tk. 1,497 crore, including Tk. 850 crore coming as project aid, and Tk. 65 crore from JDCF.
June 17	❑ Cabinet Committee on Economic Affairs asks the Communications Ministry to start construction of the elevated expressway in the capital under PPP in a bid to ease traffic congestion.
	❑ Bangladesh Energy Regulatory Commission (BERC) reduces price of each 12.5 kg liquefied petroleum gas (LPG) cylinder from Tk. 850 to Tk. 700 following recommendation from Bangladesh Petroleum Corporation (BPC).
June 19	❑ Bangladesh pushes forward the clock an hour to better utilise daylight and save electricity.
June 20	❑ Government sanctions a sum of Tk. 1.16 crore as house-building grant, and 0.86 million tonnes of rice as relief for rehabilitation of 75,496 *Aila*-hit families in 10 upazilas.
	❑ Government shuts the Jamuna Fertilizer Company Ltd. to divert gas of around 40 million cubic feet per day (mmcfd) to power plants aiming to boost electricity generation.
June 24	❑ US oil company Chevron completes its three-dimensional seismic survey at Moulovibazar field to ascertain the presence of additional reserves for augmenting gas production.

Date	Major Economic Events
June 25	❑ Bangladesh signs deals with two top global rating agencies, Moody's and Standard & Poor's, to analyse the country's financial health and come up with rating of its credit-worthiness.
June 29	❑ Government reduces the timeframe for legalising undisclosed money to one year from three years.
June 30	❑ Parliament passes the national budget for FY2009-10 with the adoption of the Appropriation Bill 2009.
	❑ Bangladesh Bank asks the commercial banks to incorporate the international commercial terms, generally known as Incoterms, appropriately to facilitate exporters to reduce the cost of transportation.
	❑ Prime Minister Sheikh Hasina directs the Energy Division to send a proposal to the cabinet committee on economic affairs to award nine offshore gas blocks to two international oil companies.
	❑ Government gives Tk. 200 crore to the Bangladesh Power Development Board (BPDB) to offset subsidies on power supply by private independent power producers (IPPs).
July 1	❑ Bangladesh Bank asks banks to ensure displaying schedule of charges at visible places in the head offices and branches by July 15.
	❑ Bangladesh Telecommunications Company Limited (BTCL) raises its local call rate by up to 300 per cent to introduce a nationwide flat rate.
	❑ A provisional report by Bureau of Manpower, Employment and Training (BMET) states that manpower exports went down by 60 per cent in June compared to the same period of last year.
	❑ SEC orders DSE and CSE through a letter to suspend share trading of 28 'Z' category companies out of listed 90 until further order.
	❑ Government forms a three-member Information Commission under the Right to Information Act 2009.
July 2	❑ Grameenphone receives approval from the SEC for floating its initial public offerings (IPOs).
July 3	❑ Rehabilitation of the cyclone *Aila*-hit farmers starts in the southern districts through distribution of free seeds and fertilisers for the Aman season. Government decides to distribute the agricultural aid among around 1.76 lakh farmers from 75 upazilas in 12 *Aila*-affected districts.
July 4	❑ Marico Bangladesh Limited (MBL), a subsidiary of Indian Marico Limited, receives green light from the SEC to raise more than Tk. 13.42 crore from Bangladesh capital market.
	❑ BPDB assesses that around USD 3 billion is needed to implement government's robust plan to increase power production at a satisfactory level.

Date	Major Economic Events
July 5	❑ Food Minister declares that the government has set a target of procuring 28 lakh tonnes of foodgrains in the current fiscal year, of which 26.75 lakh tonnes will be distributed under public food distribution system (PFDS). Of the aforesaid 28 lakh tonnes of foodgrains, 16 lakh tonnes will be procured from domestic market, 1.5 lakh tonnes are expected as aid, while 10.5 lakh tonnes will be imported.
July 8	❑ SEC withdraws trading suspension order on three companies – Meghna Condensed Milk Industries, Meghna PET Industries and Chittagong Vegetable Oil Industries.
July 9	❑ Bangladesh Bank asks commercial banks to submit detail information about their stockholdings in listed companies.
July 10	❑ Government declares to appoint 6,000 doctors and 3,000 nurses in public hospitals to address the acute crisis of healthcare personnel in the country.
July 11	❑ Economic Relations Division (ERD) requests World Bank and ADB for USD 1 billion as budgetary support credit amid bleak projections in the context of the financial crisis.
July 12	❑ Bangladesh Bank asks all banks to submit monthly reports from now on about their stock portfolios, with detailed information by categories of purchase, mortgage and deposit.
	❑ NBR issues a Statutory Regulatory Order (SRO) exempting 215 items from paying advance income tax for import.
	❑ Agreeing to the Japan International Cooperation Agency's (JICA) proposal, the Finance Ministry decides to pay 3 per cent commission to a Japanese bank for transferring Yen.
July 13	❑ Bangladesh Bank seeks amendments to the Banking Companies Act to restore discipline in commercial banks.
July 14	❑ SEC introduces a lock-in period barring sales of new convertible shares or shares against warrants issued by a listed company.
	❑ Government approves procurement of 25,000 tonnes of edible oil by state-owned TCB in a bid to keep the local market stable during the upcoming Ramadan.
	❑ Bangladesh Bank Governor announces Farm Loan Policy containing measures to boost farm output and rural economic activities along with a strengthened supervision on private bank's loan disbursement.
	❑ BPDB proposes to increase electricity prices by 24.31 per cent to reduce the gap between power supply cost and sales.
July 15	❑ Government announces a plan of action to detect nitrofuran in shrimp exports to avoid any ban on the item by major importers in the EU and US.
	❑ Mauritius authorities decide to send some 6,000 Bangladeshi workers back home in six months citing global recession impacts.
	❑ An inter-ministerial meeting of government gives go-ahead to a massive deep-sea port project to be implemented in three phases at a total cost of Tk. 60,000 crore.

Date	Major Economic Events
July 16	❑ Bangladesh Bank Governor calls upon all private and state-owned banks to set up independent risk management unit in every local branch to avoid any untoward situation amid the global recession.
	❑ The four-day Textech 2009 and its affiliated expositions start at Bangladesh-China Friendship Conference Centre.
July 18	❑ Finance Ministry decides to make disbursement of development funds conditional on satisfactory progress of project implementation works on a monthly basis.
July 19	❑ Bangladesh Bank announces its Monetary Policy Statement (MPS) for the period of July-December 2009.
	❑ Government seeks USD 1,149 million global assistance for mitigating the impact of natural disasters on a long-term basis, especially in the coastal districts which are most vulnerable to the effects of climate change.
July 22	❑ Government decides to cut the number of meetings at the Bangladesh Secretariat and declares two weekly non-visitors days.
July 23	❑ Bangladesh seeks additional assistance of USD 500 million from the ADB to generate more employment in the country against the backdrop of global economic recession.
July 24	❑ Dhaka Water and Sewerage Authority (WASA) embarks on a four-year plan to set up two more water treatment plants at Pagla and Keraniganj during the 2009-2012 fiscal at an estimated cost of Tk. 2,800 crore.
July 25	❑ SAARC transport Ministers at their second meeting in Colombo agree to study Dhaka's proposal for making Mongla Port a regional hub to serve landlocked Nepal and Bhutan, and build a greater connectivity within the region.
July 27	❑ Government decides to procure 65,000 tonnes of edible oil, sugar, pulses, onion and gram ahead of Ramadan.
July 28	❑ China signs an agreement with the visiting Bangladesh delegation in Beijing to construct the seventh Bangladesh-China Friendship Bridge over the Arialkha River in Madaripur.
July 30	❑ Government raises its power generation target to 10,000 mega watts (MW) from 7,500 MW in next four years to meet a growing demand stoked by the country's economic growth.
August 1	❑ Government increases natural gas prices for all consumer groups except for CNG stations by an average of 11.22 per cent with effect from 1 August.
August 3	❑ Bangladesh Bank decides to provide loans at low interest rate for setting up the solar energy, biogas and ETPs through the commercial banks from its Tk. 200 crore revolving fund. Bangladesh Bank issues circular directing commercial banks to provide the loans under its refinancing scheme.
August 4	❑ ECNEC approves four projects involving expenditure of about Tk. 1,537 crore. The projects are: Basic Education Project - Phase 2 (Amended) for the Working Children, project for setting up three 50-bed BDR hospitals (Chuadanga, Thakurgaon and Khagrachhari), construction of Bangladesh Public Service Commission (PSC) secretariat

Date	Major Economic Events
	complex (second phase) at Sher-e-Bangla Nagar and road network development and maintenance project-2 (amended) of the Roads and Highways Department.
August 5	❑ A technical committee of the Finance Ministry, formed to deal with shocks from the global economic meltdown, in its first meeting in the current fiscal year expresses satisfaction with the country's economic indicators.
	❑ World Bank informs government that it will cancel the allocation of money for Voluntary Retirement Scheme (VRS) if the excess manpower in industrial units is not retrenched.
August 6	❑ Bangladesh Bank approves a Tk. 500 crore fund at a meeting for the country's cash-strapped sharecroppers.
August 8	❑ The Finance Ministry requests other ministries and divisions for sending their advices within seven days to formulate a guideline for PPP scheme and to set up a PPP cell.
	❑ Five companies apply to the stock market regulator seeking approval to issue their IPO worth Tk. 58.5 crore.
August 9	❑ SEC decides in a meeting not to allow any mutual fund worth below Tk. 50 crore.
August 10	❑ Government starts Ramadan market price monitoring and limits holding of sugar stocks by wholesalers to 15 days to ensure its smooth supply.
August 13	❑ Second Asian International Trade Expo 2009 begins at city's Bangbandhu International Conference Centre.
August 16	❑ Bangladesh Bank warns government and SEC that repeated offer for investing undisclosed money in share market and productive sectors may disrupt the country's financial discipline.
August 17	❑ TCB fixes the prices of sugar at Tk. 40 per kg, gram at Tk. 50 per kg, palm oil Tk. 58 per litre, unpacked soybean oil at Tk. 70 per litre and bottled soybean oil at Tk. 76 per litre to be sold during the Ramadan.
August 19	❑ BPDB primarily selects about 20 locations for the installation of high-cost rental and peaking power plants with a combined capacity of 1,300 MW.
	❑ According to United Nations Conference on Trade and Development's (UNCTAD) *Least Developed Countries' Report 2009*, Bangladesh is on a list of 31 countries that are in substantial need of food assistance in 2009.
	❑ Government decides to distribute 26 lakh metric tonnes of foodgrains among the poor and distressed, especially the *Monga*-hit people, in the FY2009-10.
August 20	❑ SEC at a meeting approves applications of Provati Insurance and Dhaka Insurance to raise funds through issuing IPOs. Both the insurance companies will raise Tk. 9 crore each through the IPOs.
	❑ Government fixes wholesale prices of potato at cold storage gates between Tk. 22-23 per kg, onion Tk. 16-19 per kg, and garlic and ginger Tk. 55-60 per kg for the month of Ramadan.

Date	Major Economic Events
August 21	❑ Government decides to expedite the pre-implementation process of third container handling facility titled "Karnaphuli Container Terminal" at Chittagong port as a part of its continued capacity building and to cope with growing containerised trade.
	❑ The IMF decides to give USD 700 million in soft loan assistance to Bangladesh to cope with the impact of the global economic downturn.
August 22	❑ Knitwear manufacturers sign an agreement with the Food Ministry to provide rice at cheaper prices for their workers. Knit factory workers can buy five kg of rice a week, totaling 20 kg a month, at a price of Tk. 16 per kg.
August 24	❑ The Cabinet Committee on Economic Affairs approves awarding of three offshore blocks to two international oil companies (IOCs) keeping provision in the production sharing contract for export of gas in the form of liquefied natural gas.
August 25	❑ ECNEC approves three stadium development projects involving Tk. 152 crore to facilitate smooth holding of the ICC Cricket World Cup 2011 in Bangladesh.
August 26	❑ A cabinet body in consultation with the experts finalises the Climate Change Strategy and Action Plan designed to address, through various programmes, the adverse impacts of global warming on the life and livelihoods in Bangladesh.
August 29	❑ Dhaka Transport Coordination Board decides to introduce exclusive bus services for school children by late October as part of its effort to ease terrible traffic congestion.
August 30	❑ Bangladesh Bank through a circular, relaxes the foreign exchange regulations relating to advance payment against imports, particularly by exporters.
	❑ Bangladesh Bank withdraws Tk. 830 crore more from the banking system using 30-day Bangladesh Bank Bills to mop up excess liquidity from the market.
September 1	❑ The new rates of land value, fees and tax are put into effect.
	❑ Government forms an eight-member committee, with representation from both the public and private sectors, to work out Dhaka's strategy for reaching an understanding with other least developed countries (LDCs) to uphold their common demands at the World Trade Organization (WTO).
	❑ Bangladesh Bank initiates the cash digitalisation process with the approval of a private bank's proposal to introduce pre-paid cash card in the country.
September 2	❑ Bangladesh Bank and non-government organisation BRAC sign an agreement on disbursement of agriculture credit to sharecroppers.
	❑ The National Education Policy Formulation Committee submits the National Education Policy to the government with the recommendations of extending the primary-level education upto Class VIII and secondary upto Class XII.
	❑ Government signs a credit agreement worth USD 130 million with the International Development Association (IDA) to help increase access to electricity through installation of affordable solar home systems in rural areas.
September 3	❑ TCB starts purchasing 1,000 tonnes of sugar from refiners' association at a cost of Tk. 39 per kg in an effort to contain price of the item.

Date	Major Economic Events
September 4	❑ The Finance Minister says that the apparel exporters' demand to give Tk. 3,000 crore from government's incentive package to pay workers' wages and allowances ahead of Eid-ul-Fitr is "unacceptable."
September 7	❑ For trading junk shares, a separate trading floor - over-the-counter (OTC) market is introduced at the DSE.
September 8	❑ The *Global Competitiveness Report (GCR)*, an annual publication of the World Economic Forum (WEF) released by the Centre for Policy Dialogue (CPD), a partner organisation of the WEF, says Bangladesh ranked 122nd out of the 134 countries surveyed last year.
September 10	❑ Bangladesh and India issue a joint statement after a four-day Foreign Minister level meeting where India agrees to facilitate Nepal-Bangladesh and Bhutan-Bangladesh connectivity.
	❑ Government allocates Tk. 6 crore for four upazilas in Khulna and Satkhira to repair the houses of people hard-hit by the cyclone *Aila*. Besides, Tk. 4 crore is allocated for other affected upazilas of the coastal districts.
	❑ BERC awards licenses to 10 captive power plants (CPPs) and 12 CNG stations.
	❑ ADB and government of Bangladesh sign an agreement for a $55 million soft loan to improve small-scale water services which would help cut rural poverty and address the climate change impacts.
September 13	❑ BPDB floats tender for 10 public sector power projects totaling to 820 MW capacity.
September 15	❑ Government places in parliament a draft of the amended second PRSP with an estimated expenditure of Tk. 3,108 billion to achieve the goals and targets set out in the modified document.
September 22	❑ ADB forecasts Bangladesh's economic growth at 5.2 per cent for FY2009-10, down from nearly 5.9 per cent in the previous year.
September 23	❑ Bangladesh seeks USD 5 billion from the developed countries in compensation as an affected country due to climate change caused by global warming.
September 24	❑ Donor countries give assurance that they will help Bangladesh in implementing the revised PRSP.
September 27	❑ Bangladesh Bank warns commercial banks against charging high interest rates for loans by distorting the definition of SMEs.
	❑ Cabinet Committee on Economic Affairs approves the three-year Import and Export Policy 2009-12.
September 29	❑ Two committees are formed to investigate the recent sugar scam that led to an abnormal rise in the commodity's price during Ramadan.
September 30	❑ Government constitutes a committee to devise a rapid strategic plan to raise USD 5-10 billion which will help the country to finance 7,000 MW electricity generations over the next five years.

Date	Major Economic Events
October 1	❑ SEC decides at a meeting not to allow merchant banks and brokerage firms to give their clients margin loan on purchasing 'Z' category shares.
	❑ Bangladesh Bank issues a circular to all commercial banks to follow strictly its instruction to charge interest rate below 13 per cent in case of housing loan.
	❑ Expatriate Welfare and Overseas Employment Minister informs that Bangladesh has earned USD 6.1 billion in last eight months despite the global economic recession that affected both overseas jobs and earnings.
October 2	❑ Chittagong Urea Fertilizer Ltd. resumes production after five months suspension of production.
October 3	❑ DFID decides to provide GBP 300 million assistance over the next six years for reducing poverty in Bangladesh.
October 4	❑ Subscription of the IPO of Grameenphone Ltd. begins. The country's largest mobile phone operator is set to float 6,94,39,400 ordinary shares to raise around Tk. 486 crore from public.
	❑ DSE de-lists 51 low profile 'Z' category companies and asks the issuers to be listed on the OTC market, a separate trading floor for trading of shares of de-listed and unlisted companies.
October 5	❑ The weekly meeting of the Cabinet endorses a temporary job policy for youths, both male and female, having Higher Secondary Certificates (HSC) and equivalent qualifications through engaging them in "nation-building activities."
	❑ Human Development Report 2009, released worldwide, shows that Bangladesh moves two positions up to 146th place among 182 countries in the Human Development Index (HDI) ranking, but still holds the last position among South Asian Nations.
October 6	❑ Government rejects World Bank's proposal for engaging non-government organisations (NGOs) in implementing a Tk. 622 crore agriculture project which will cover crop, livestock and fishery sub-sectors.
October 7	❑ Bangladesh decides to meet its additional oil demand through imports from Vietnam and Malaysia along with existing sources like Kuwait, Saudi Arabia, India and UAE.
	❑ Commerce Ministry revises the rates of sugar for millers, wholesalers and retailers upward.
October 8	❑ Bangladesh serves legal notices to India and Myanmar to settle the disputes over maritime boundary claims before a UN tribunal as it decides to take the issue to a compulsory arbitration under the UN Convention on the Law of the Sea (UNCLOS).
	❑ Petrobangla and the US company ConocoPhillips, at the conclusion of the first round negotiation, agree in principle to include a provision in the model production sharing contract for two blocks that no exploration will be carried out in "overlapping areas."
October 9	❑ Finance Minister states that the World Bank will allow Bangladesh to spend its unused USD 1.7 billion, stuck for different conditions, on any project it wants.

Date	Major Economic Events
October 10	❑ Finance Ministry releases fund worth more than Tk. 50 crore for Foreign Ministry to conduct a seismic survey by next March in the Bay of Bengal to get authentic data to substantiate Bangladesh's maritime claims to the UN.
October 12	❑ ADB decides to provide Bangladesh USD 76 million soft loans to help create employment opportunities by expanding non-urban SMEs.
	❑ Prime Minister Sheikh Hasina directs the Science and ICT Ministry to expedite the ongoing negotiation with Russia for setting up nuclear power plants in Bangladesh, in a bid to alleviate the country's power generation crisis.
	❑ Government approves new timings for government and non-government offices, educational institutions, banks and financial institutions keeping the current daylight saving time in place.
	❑ Bangladesh Bank moves to resume reverse repo operations to take excess liquidity off the banking sector.
October 13	❑ ADB approves USD 744 million loan for Bangladesh to face the world economic recession fallout.
	❑ Cabinet committee on public purchase approves import of two lakh MT of urea fertiliser to ensure adequate supply in the next Boro season.
October 14	❑ The International Food Policy Research Institute (IFPRI) releases its Global Hunger Index (GHI) which states that Bangladesh has made significant strides in achieving food security as its hunger scenario has improved since 1990. This Index ranks Bangladesh 67th among 84 countries.
	❑ Bangladesh Bank directs commercial banks in a circular to form separate subsidiaries to operate any merchant banking.
October 15	❑ Government fixes targeted production of 3.30 crore tonnes of rice for FY2009-10 to achieve food security in times of crisis.
	❑ Bangladesh Bank puts in place a three-tier monitoring system to ensure proper distribution of Tk. 12,000 crore in farm loans across the country.
	❑ Finance Ministry forms a committee to recommend measure for safeguarding the country's textile sector from the consequences of global financial recession.
October 18	❑ Bangladesh Bank permits banks to raise capital through debt instruments instead of issuing only rights and bonus shares.
October 19	❑ Government extends service age of freedom-fighter officials and employees of the country by two years, from 57 to 59 years. To this effect, the Cabinet chaired by Prime Minister Sheikh Hasina approves the Public Service (Retirement) (Amendment) Bill 2009.
October 21	❑ SEC directs merchant banks, brokers and dealers to suspend margin loans against the shares of 28 well-performing companies, as investment by borrowing in these securities becomes too risky.

Date	Major Economic Events
October 25	❑ A 20-member German business delegation comprising representatives from ship-building, engineering and energy sectors arrives in Dhaka to explore the potential of booming sectors such as ship-building and information technology (IT), marking the first visit of European ship-builders to Bangladesh.
October 26	❑ ADB signs four agreements to lend Bangladesh USD 744 million to help fight off the impacts of global recession.
	❑ SEC asks merchant banks, portfolio managers, brokers and dealers to immediately stop margin loans until further order.
	❑ Central bank governors of South Asia at a symposium in Dhaka reach a consensus on collaborative efforts by members of SAARC to support farmers in a bigger way to attain self-sufficiency in foodgrains.
October 29	❑ Government, along with UNDP, launches the first ever Climate Change Adaptation Project of USD 5.4 million in Dhaka.
	❑ Government decides to continue subsidising fuel and fertiliser sectors despite IMF's disapproval of the initiative.
November 1	❑ Government, factory-owners and RMG workers decide in principle to introduce trade unionism in the sector to avert rerun of labour unrest.
November 2	❑ Bangladesh Bank introduces online payment system facilitating fund transfers and payment of utility bills over the net.
	❑ Government cuts domestic prices of non-urea fertilisers by 36 per cent to boost cultivation of winter crops and Boro rice.
	❑ Cabinet approves the Vested Property (Restoration) (Amendment) Bill 2009 proposing provisions for publication of a gazette notification in 210 days with a list of such property for their restoration to owners or their successors.
November 5	❑ ECNEC approves seven projects of important economic and development implications involving an estimated expenditure of Tk. 2,977 crore entirely from government exchequer.
November 9	❑ Bangladesh and Bhutan agree to establish land transport facilities between the two countries to enhance "intra-regional" trade and travel.
	❑ Bangladesh registers its objection with the UN to India's claim over certain areas in the Bay of Bengal three months after a similar opposition lodged against Myanmar's claim over sea waters.
November 10	❑ World Bank asks Bangladesh to put on hold all local procurement activities under their financed projects since the amendments made to the Public Procurement Act (PPA) 2006 are not consistent with its procurement guidelines.
	❑ Bangladesh Bank signs a USD 25 million loan agreement with ADB to channel more funds to marginal farmers.

Date	Major Economic Events
November 11	❑ Government announces a 52 per cent increase, on average, in the basic salary of public servants in the seventh National Pay-scale, and fixes the highest salary at Tk. 40,000 and the minimum at Tk. 4,100.
	❑ Bangladesh's foreign exchange reserve crosses the USD 10 billion mark for the first time in history, through a buoyant remittance inflow, moderate exports and declining import payments.
November 12	❑ Government sets the procurement prices for rice and paddy at Tk. 22 and Tk. 14 per kg, respectively, aiming to collect 3 lakh MT of rice in the next Aman season.
November 16	❑ Bangladesh commits in the "World Summit on Food Security" to eradicate domestic hunger by becoming food self-sufficient by 2013 and making food available to the vulnerable.
November 17	❑ Bangladesh ranks 13th from the bottom, three steps up its position last year, in the annual Corruption Perception Index (CPI) of 2009 released by the Transparency International.
November 25	❑ Government announces a series of additional fiscal and policy stimulus packages, the second in line, worth over Tk. 1,000 crore for export sectors to offset negative impacts of global recession on the domestic economy.
	❑ Government decides to allocate 1,664 MW electricity per day for farmers to ensure uninterrupted irrigation in the coming Boro season.
November 26	❑ NBR, through an SRO, reduces taxes on a number of industrial raw materials such as corrugated iron, cold rolled coil and galvanised plain sheet, as part of a new tariff structure to help local manufacturing industries and real estate to grow faster.
	❑ Cabinet Purchase Committee approves 10 projects, including a Tk. 430 crore bid for importing 2 lakh MT of urea fertiliser from China under a contract to cater for a high demand in the upcoming grand farming season.
November 30	❑ The Seventh Session of the WTO Ministerial Conference starts in Geneva, Switzerland.
December 2	❑ Government finalises the amended Second PRSP.
	❑ Government signs a memorandum of understanding (MoU) with a foreign company for development and commercial operation of the much-neglected Mongla Port on PPP arrangement with a foreign direct investment (FDI) worth USD 3.0 billion.
December 3	❑ Bangladesh Bank statistics show that remittance has reached as high as USD 1.05 billion in November.
December 4	❑ Government decides to issue "Krishi Card" to 1.42 crore farmers, including the landless and the marginalised by the end of December for distribution of agricultural inputs, loans and other subsidies in a more transparent and effective manner.
	❑ Commerce Ministry issues an SRO prohibiting export of both aromatic and non-aromatic rice till 31 December 2009 to stabilise rice prices and ensure availability of the staple in the domestic market.

Date	Major Economic Events
December 7	❑ Cabinet Purchase Committee approves a proposal to award contracts to three bidders to turn the Dhaka-Chittagong highway into four lanes from two lanes at the cost of Tk. 1,655 crore.
	❑ ADB and Bangladesh sign two agreements for USD 22 million in soft loans to help promote tourism and complete the Padma Bridge design.
	❑ Government's decision to resume exports of fresh-water shrimps comes into effect.
December 8	❑ Government imposes a ban on export of raw jute to ensure smooth supply of the natural fibre to local mills, which are facing trouble due to rising prices of jute amid increased demand of jute goods in the international market.
December 9	❑ ECNEC approves five development projects involving Tk. 433 crore, including one for construction of Bangladesh-China Friendship Exhibition Centre.
December 11	❑ Foreign ministers of seven-member countries of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) sign "Convention on Cooperation in Combating International Terrorism, Trans-National Organized Crime and Illicit Drug Trafficking" at the 12th BIMSTEC Ministerial Meeting in Myanmar's new capital Nay Pyi Taw.
	❑ Bangladesh and UNDP sign a deal worth USD 50.75 million to extend the Comprehensive Disaster Management Programme (CDMP) for another five years.
December 17	❑ ADB projects Bangladesh's GDP growth at 5.2 per cent for FY2009-10.
December 21	❑ SEC asks banks, other financial institutions and insurers to form separate subsidiaries to run brokerage and dealer activities.
December 22	❑ Bangladesh Bank fixes fees of about 20 types of services, including letters of credit (L/Cs) and saving deposits, to protect the interest of depositors and investors.
December 23	❑ Cabinet Committee on Purchase approves bids of five rental power projects with a capacity of generating a total of 330 MW electricity.
	❑ Government, through a circular, lifts the 17-year old ban on import of day-old chicks to stabilise local chicken market.
December 27	❑ Bangladesh Bank increases its refinancing fund for housing loan to Tk. 700 crore from the existing Tk. 500 crore to meet growing demand for the popular low-interest bearing credit facility.
December 29	❑ ECNEC approves increase of allocations for Dhaka-Chittagong highway project to Tk. 2,382 crore.
	❑ National Economic Council (NEC) approves the revised Second PRSP for three fiscal years (FY2009-11) with a budget of Tk. 3,457 billion.

Date	Major Economic Events
December 30	❑ Cabinet Committee meeting chaired by Prime Minister approves in principle an MoU with Delhi, seeking open-ended import and export of electricity with an option to purchase power from both public and private sectors of India. It also approves a proposal to amend policy guidelines for expanding private sector's participation in generating power.
December 31	❑ Bangladesh Bank opens a separate SME department with an aim to boost finance for small and medium enterprises.
	❑ Government extends ban on aromatic rice export for another six months.
	❑ Government readjusts the daylight saving time by resetting the time at Greenwich Mean Time (GMT)+6 hours.