

ANNEX 2

Dialogue Report on An Analysis of the National Budget FY2009-10

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 Parliament (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

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Vice President, Forum for Planned Chittagong

Mr Dilip Barua

Hon'ble Minister for Industries, Government of Bangladesh

Mr Dilip Barua

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Mr Pulak Kanti Barua

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Former Member of the Parliament

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ANNEX 2

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