Independent Review of

iRBD

Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD Dialogue

Analysis of the National Budget FY2015-16

Dhaka: 13 June 2015

CENTRE FOR POLICY DIALOGUE (CPD)
B A N G L A D E S H
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The CPD IRBD 2015 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report

Criteria for assessing the budget FY2016

- Five criteria for assessing the budget have been deployed to assess the efficacy of the recent budget experiences:

1. **Clarity and credibility** - Were the budgets designed within clear and credible limits for fiscal policy?
2. **Alignment with medium-term priorities**- Were the budgets closely aligned with the medium-term strategic priorities of government?
3. **Efficacy of capital budgeting framework-** Does the capital budgeting framework meet the national development needs in a cost-effective and coherent manner?
4. **Justification of the allocations-** Did the budgets present a comprehensive, accurate and reliable account of the public finances?
5. **Quality of proposed management and monitoring of the plan-** Is there a concrete plan to manage and monitor the commitments made in FY2016 Budget?

Issues flagged for discussion

Macroeconomic Context

- How did the present context inform the budget for FY2016?
- How realistic is the macroeconomic outlook proposed in FY2016 budget?

Fiscal Framework: Budgetary Allocation and Financing

- Is the fiscal framework losing credibility?
- How challenging will attainment of revenue target in FY2016 be?
- Are agriculture and social sectors marginalized within the public expenditure framework for FY2016?
- Can ADP for FY2016 be implemented without addressing the structural bottlenecks?
- Is the foreign aid requirement for FY2016 too ambitious?

Fiscal and Other Budgetary Measures

- What are the 'good' and 'not-so-good' fiscal measures proposed in the budget FY2016?
- Why should we continue the incentives for legalising undisclosed money?
- What is the revenue implication in FY2016 of the significant duty restructure?
- How has investment in industrial sector been incentivised in budget for FY2016?

Governance and Reforms

- Is the agenda for strengthening local government lost?
- The unsung agendas – what about reforms?

How did the present context inform the budget for FY2016?

How did the present context inform the budget for FY2016?

- **The national budget FY16 has been prepared in the backdrop of the following advantages in national economy:**
  - ✓ Low inflationary pressure
  - ✓ Declining interest rates
  - ✓ Stable exchange rates
  - ✓ Manageable fiscal deficit
  - ✓ Upward trend in remittance flows
  - ✓ Favourable balance of payments
  - ✓ Augmented foreign exchange reserves

- **However the economy has to confront the following challenges**:
  - ✓ Poor fiscal planning creating credibility gap
  - ✓ Domestic borrowing biased financing mix of the budget deficit
  - ✓ Sluggish private investments and poor job creation
  - ✓ Unachieved tax revenue target and overall poor revenue generation
  - ✓ Poor utilisation of concessional financial including project aid
  - ✓ Depressed export growth, both in the US and EU markets
  - ✓ Inability to take advantage of current macroeconomic stability for growth-friendly expansionary economic reforms

- **Major Task Ahead: Translating the current macroeconomic stability into higher GDP growth through acceleration of private investment**

How did the present context inform the budget for FY2016?

❑ Drawing strengths from global economy

- ✓ Low level of global commodity prices
- ✓ Falling price of crude oil
- ✓ Strong US Dollar
- ✓ Recovery and job growth in US and key EU countries

❑ Confronting challenges originating in global economy

- ✓ A weakened Euro
- ✓ Weak investment demand in oil-exporting economies
- ✓ Weakened global trade
- ✓ Growing competitive pressure from Vietnam, Cambodia and Pakistan
- ✓ New developments such as the TPP

How did the present context inform the budget for FY2016?

❑ The objectives of the budget for FY16 appear to be:

- ➢ High growth of revenue targeted for underwriting overreaching expenditure
- ➢ Harmonisation of taxes and tariff to support selected domestic activities and sectors
- ➢ Higher allocations for building physical infrastructures to enhance capacities

❑ Also Budget FY16 is being presented at a time when:

- ❖ The Sixth Five Year Plan is reaching its finishing line
- ❖ The Seventh Five Year Plan is commencing with the FY16 budget
- ❖ Coinciding with the launch of post-MDG international development goals

How realistic is the macroeconomic outlook proposed in FY2016 budget?

How realistic is the macroeconomic outlook proposed in FY2016 budget?

- The GDP growth target for FY16 is set at 7.0% (6.5% in FY15, provisional)
- Moderate improvement in GDP growth and investment (both private and public) forecasted – modest expectation regarding investment scenario
  - In FY16, 65% of incremental investment to come from private sector, remaining 35% from the public sector
- An additional (approx.) Tk. 57,000 crore private investment will be required in FY16
- ICOR is expected to decline (improve in productivity) in FY16 and stabilise
- The growth targets for FY2016 has been toned down in view of the underachieved growth targets that were envisioned in the SFYP
- Inflation is also expected to stabilise around 6%

Growth and Investment

Indicator	FY14 (A)	FY15 (B)	FY15 (R)	FY16 (B)	FY17 (T)	FY18 (T)
GDP growth (%)	6.1	7.3	6.5	7.0	7.2	7.4
Investment (as % of GDP)	28.6	29.7	29.0	30.1	31.0	31.8
Private (as % of GDP)	22.0	22.2	22.1	22.8	23.4	24.0
Public (as % of GDP)	6.5	7.5	6.9	7.3	7.5	7.8
ICOR	4.7	4.1	4.5	4.3	4.3	4.3
CPI inflation (%)	7.4	6.5	6.5	6.2	6.0	6.0

How realistic is the macroeconomic outlook proposed in FY2016 budget?

- It has been mentioned in the budget speech that annually 1.3 million jobs in the domestic market and 0.5 million abroad were generated during 2010-2013
- However, it has not been mentioned that between 2005-06 and 2010, the corresponding figures were 1.7 million and 0.6 million respectively - a slowdown in employment generation!
- This implies a slowdown in annual employment generation after 2010 (in both home and abroad) in comparison to previous four years

Is the fiscal framework losing credibility?

Is the fiscal framework losing credibility?

- **Revenue** (27.6%) projected to grow **faster** than **public expenditure** (23.1%)-
  - Total budget expenditure is set at 17.2% of GDP
  - Revenue income will be 12.1% of GDP
- **Development expenditure** (27.4%) programmed to **grow slower** than non-development revenue expenditure (29.2%) – impact of new pay scale!
- **ADP**: 32.9% of total public expenditure (31.3% in the RBFY15)
- **Budget deficit** has been projected at **5.0%** of GDP (same in RBFY15)
- Balance in financing budget deficit will be restored, if implemented –
  - **High foreign financing** target (39.6% growth over the RBFY15) has been set with anticipated **gross foreign aid flow** of **USD 4.9 billion (highest USD 2.9 billion in FY14)**
  - Government's **net bank borrowing** will **increase** by only 4.1%
- **The proposed fiscal framework is thus questionable**
- **The budget does not provide monitorable and transparent plan for implementation: needed result-based management**

Is the fiscal framework losing credibility?

- Budget targets take revised budget figures for FY15 as the reference point. However, these are likely to be lower when the full picture for FY2015 will be available which in reality will be lesser.
- In view of this, according to CPD projections, all major parameters of fiscal framework will need to register higher growth rates to attain the targets compared to those planned in the budget FY16.

Growth Rates: Budget and Reality (%)

Description	FY16B over FY15R	FY16B over FY15 Proj_CPD	FY15 Proj_CPD over FY14A	FY14A over FY13A
Revenue	**27.6**	**36.3**	**9.0**	**9.6**
NBR Tax Revenue	30.6	37.0	15.5	7.8
Non-NBR	13.2	32.3	-16.3	16.8
Total Expenditure	**23.1**	**42.6**	**10.0**	**8.2**
Annual Development Programme	29.3	42.6	22.9	11.8
Non-ADP	20.3	42.5	4.6	6.7
Deficit	**13.6**	**60.3**	**13.0**	**4.2**
Net Foreign Borrowing and Grant	39.6	151.1	23.6	-23.5
Domestic Borrowing	3.3	34.4	10.3	14.9

Is the fiscal framework losing credibility?

- Quality of fiscal planning has weakened over the last three years and is likely to continue in FY15
- One of the weakest links among the indicators relate to net foreign borrowing

Fiscal gap (Budget-Actual) as percentage of budget (%)

Indicators	FY11	FY12	FY13	FY14	FY15_CPD proj
Total Expenditure	**3.0**	**6.8**	**9.2**	**15.4**	**17.4**
ADP	14.7	17.3	9.0	13.9	15.3
Total Revenue	**-0.2**	**3.1**	**8.3**	**16.2**	**16.4**
NBR Revenue	-5.0	0.3	8.0	18.1	14.0
Deficit	**10.3**	**16.4**	**11.9**	**13.1**	**20.0**
Net Foreign Borrowing	75.7	72.2	50.4	76.7	50.6
Net Domestic Borrowing	-29.2	-12.3	4.4	-12.3	2.8

Is the fiscal framework losing credibility?

- As share of GDP, between FY12 and FY15 -
  - Revenue-GDP ratio also declined !
  - Public expenditure did not increase!
  - ADP has increased

Fiscal Framework as % of GDP (New Base)

Actual % share of GDP	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15 CPD_P	FY16B
Total Expenditure	**13.5**	**12.7**	**12.7**	**14.0**	**14.4**	**14.5**	**14.0**	**13.7**	**17.2**
ADP	2.9	2.8	3.2	3.6	3.6	4.2	4.2	4.5	5.7
Non-ADP	10.6	9.9	9.5	10.4	10.8	10.3	9.8	9.2	11.5
Total Revenue	**9.3**	**9.1**	**9.5**	**10.2**	**10.9**	**10.7**	**10.4**	**10.1**	**12.1**
Deficit	-4.2	-3.6	-3.3	-3.9	-3.6	-3.8	-3.6	3.6	5.0
Net Foreign Borrowing and Grant	**1.2**	**0.7**	**1.2**	**0.4**	**0.7**	**1.1**	**0.7**	**0.8**	**1.8**
Domestic Borrowing	3.0	2.8	2.0	3.3	2.9	2.7	2.8	2.8	3.3

How challenging will attainment of revenue target in FY2016 be?

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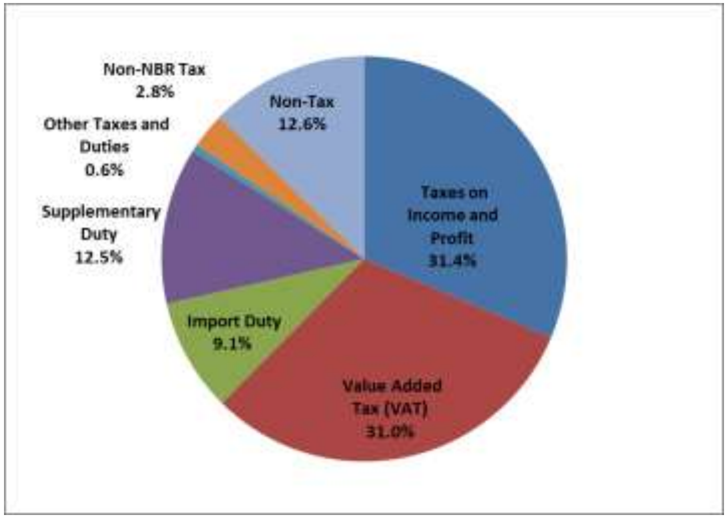
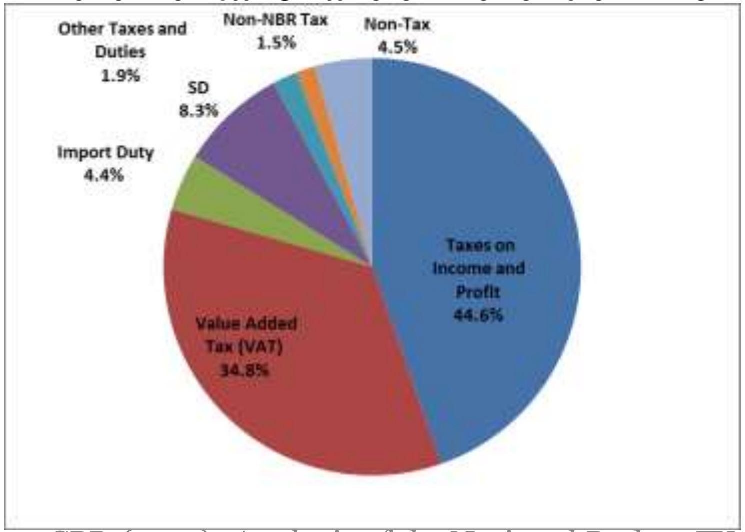
Share of Revenue FY16



Incremental Share of Revenue FY16



- FY16 budget targets an additional Tk. 45,072 crore revenue with a 27.6% growth over RBFY15
  - CPD Projection: (approx. Tk. 55,500 crore)
- NBR to take the lead role (accounting for 91.7% of incremental revenue) with 30.6% growth
  - LTU is expected to account for 30.9% of incremental NBR revenue
- 36.3% of incremental revenue from income tax; while 29.6% from VAT
  - Two-thirds of total income tax will be collected from companies
- Import duty collection growth target is set at 24.2%

How challenging will attainment of revenue target in FY2016 be?

- Non-NBR revenue (non-tax plus non-NBR tax) growth for FY16 remains at a reasonable level (13.2%)
  - Much will depend on mobile spectrum fee
  - Actual required growth could be as high as 32.3%
- **CPD projected Tk. 30,000 crore shortfall (from the original target) in FY2015 (from the original target) on 1 June 2015, in its *State of the Bangladesh Economy in FY2015* report**
- Under such a scenario required growth rate for revenue in FY16 may shoot up to around **36.3%,** while for NBR the actual target may stand around **37.0%**
- Earlier experience - only in FY08 (27.4% - CTG and international price effect) and FY11 (28.0% - international price effect) a higher growth was attained – two outlier years!

Are agriculture and social sectors marginalised within the public expenditure framework for FY2016?

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Total Public Expenditure

Sector	Share in BFY16	Share in RBFY15	Change in FY16B over FY15R	
	%		Crore Tk	%
Public Service	**19.2**	**13.6**	**24,208.0**	**74.5**
Interest Payments	11.9	12.5	5,244.0	17.6
Education and Technology	11.6	14.0	871.0	2.6
Transport and Communication	**9.7**	**8.3**	**8,834.0**	**44.5**
LGRD	7.1	8.0	1,708.0	8.9
Agriculture	6.8	7.6	1,860.0	10.3
Fuel and Energy	**6.3**	**3.9**	**9,202.0**	**98.5**
Defence Services	6.2	7.4	613.0	3.4
Social Security and Welfare	5.7	5.8	2,770.0	19.8
Public Order and Safety	4.6	5.8	-253.0	-1.8
Health	4.3	4.8	1,158.0	10.0
Housing	**1.0**	**0.8**	**898.0**	**44.5**
Industrial and Economic Services	0.9	1.2	-119.0	-4.1
Recreation, Culture and Religious Affairs	0.8	0.9	227.0	11.0
Others(Memorandum Item)	3.8	5.5	-1,789.0	-13.6
Total Expenditure	100.0	100.0	55,432.0	23.1

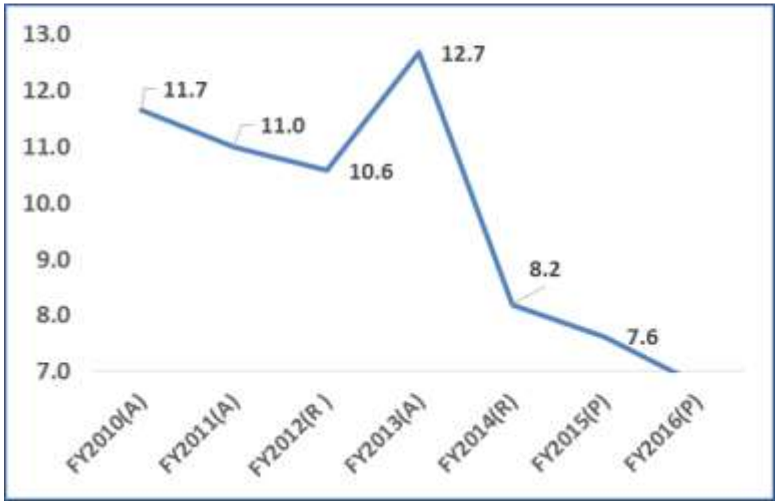
Are agriculture and social sectors marginalised within the public expenditure framework for FY2016?

- Allocation for Public Services is set to be 74.5% higher of RBFY15 (Tk. 24,208 crore)
  - Tk. 24,711 crore additional allocation for Finance Division! - Mostly to be paid for salaries
  - Additional Tk. 6,925 crore allocation for Investments in Shares and Equities
  - Tk. 5,000 crore has been for Investment for Recapitalisation – (for State-owned banks!)
- Interest payment remains the sector with third highest allocation
  - Domestic Interest Payments will increase by 18.5% in FY16– about 19.3% of total augmented non-development revenue expenditure – effect of deficit financing
- No clear mention of the total demand proposed for FY16
  - Total subsidy allocation is reduced by (-) 10.2%
  - Lower global prices will keep subsidy pressure in control
  - A comprehensive subsidy policy for Bangladesh is important!

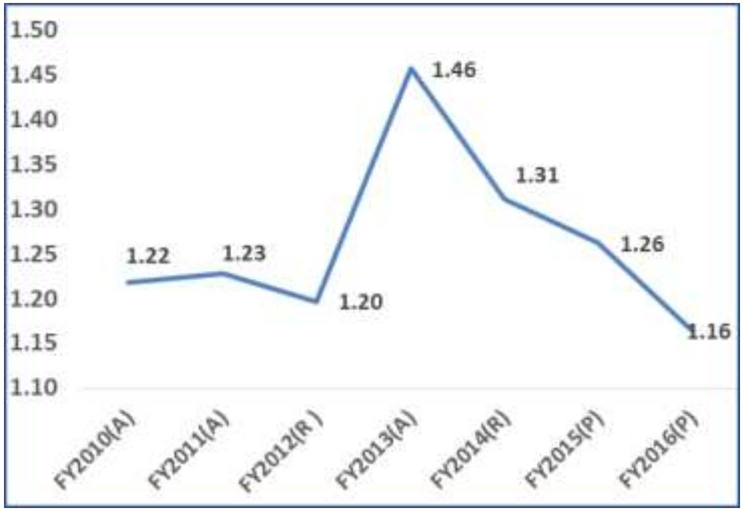
Are agriculture and social sectors marginalised within the public expenditure framework for FY2016?

- Total allocation for agricultural & allied sectors (AAS) is decreasing

Share of AAS in Total Budget



Share of AAS in Total GDP



- Average share of AAS in total budget was 10.3% during FY10-FY15, but reduced to 6.8% in FY16
- Average share of AAS in total GDP was 1.28% during FY10-FY15, but reduced to 1.16% in FY16
- Allocation for the Ministry of Agriculture in FY16 budget increased by only 2% (less than inflation rate; decline in real terms).

CPD (2015): Analysis of the National Budget FY2015-16

Are agriculture and social sectors marginalised within the public expenditure framework for FY2016?

- Allocation for the **education sector** is 11.6% of total budget in FY2016
  - Allocation is lower than the UNESCO suggested limit (20% of total budget)
- Share of **health** both as percent of GDP and total budget has been decreased
  - From 6.1% of total budget in FY2010 to 4.3% in FY2016
- Allocation related to **gender budget** has increased for 26 ministries and decreased for 14 ministries in FY2016
- The much awaited **child budget** has been introduced in FY2016: a welcome initiative
  - Child budget shows allocation for 5 ministries; however, no new allocation is made – allocation as a share of total budget is declining!

Ministry of Health and Family Welfare					
Type of Expenditure	2015-16	2014-15	2013-14	2012-13	2011-12
Total allocation as % of total budget	4.13	4.74	5	4.87	5.13
Total expenditure as % of GDP	0.71	0.75	0.7	0.71	0.73
Ministry of Education and Ministry of Primary and Mass Education					
Total allocation as % of total budget	10.72	11.91	13.33	11.81	12.51
Total expenditure as % of GDP	1.84	1.89	1.87	1.73	1.78
Ministry of Social Welfare and Ministry of Women and Children Affairs					
Total allocation as % of total budget	1.67	1.8	1.84	1.87	2.01
Total expenditure as % of GDP	0.28	0.27	0.26	0.28	0.27

Are agriculture and social sectors marginalised within the public expenditure framework for FY2016?

- Allocation for **social safety net programmes (SSNPs)** in FY16 was 2.2% of GDP
  - 6FYp target: 3% for FY15
  - About 30% is pension for retired government employees
  - Without government pension allocation was stagnant at 1.5% of GDP
- Allowances for major programmes under SSNPs have remained either unchanged or only changed insignificantly since FY10
  - Thus, the real value of Tk. 300 given as old age allowance would be Tk. 183 if price level of April 2015 is compared with price level of July 2010 (CPI in July 2010 and April 2015 was 147.1 and 211.5 respectively)
- Number of beneficiaries increased – a positive move!

Can ADP for FY2016 be implemented without addressing the structural bottlenecks?

Can ADP for FY2016 be implemented without addressing the structural bottlenecks?

- ADP of Tk. 97,000 crore has been proposed for FY16
  - About Tk. 50,250 crore (63% of original ADP and 67% of RADP for FY15) was implemented till May 2015 (last year the figures were 61% and 67% respectively)
- FY2016 ADP is 29.3% higher than RADP for FY15 and 20.8% higher than original ADP for FY15
  - In reality it will be 42.6% higher (CPD projection)
  - Project Aid component is 35.6% of total ADP (33.2% in RADP of FY15 and 34.5% % in original ADP of FY15)

❑ The ADP for FY16 has **999 projects** (1034 for ADP of FY15)

❑ In FY16 ADP only **41 new projects** are included (in FY15: 29) – 1.4% of total ADP allocation;
  - 159 new projects were included in the RADP for FY15

Can ADP for FY2016 be implemented without addressing the structural bottlenecks?

- 33.4% of allocation is provided to 330 projects which are supposed to continue to the next ADP (for FY17)
- However, highest number of projects (376 projects) are scheduled to be concluded in FY16, according to project completion timeline
- **249 carryover projects** account for **14.2%** of the total allocation
  - Transportation sector has 61 of these projects, while 'Physical Planning, Water Supply &Housing' Sector also has 40 number of similar projects
- Thus, total number of projects which should be concluded by end-FY16: **625**
- Planning Commission identified **324** projects which may be **completed in FY16**
- Highest number of unapproved projects – **860**!

Number of Projects According to Allocation Status

Project Status	FY10	FY11	FY12	FY13	FY14	FY15	FY16
Unapproved projects without Allocation	492	800	702	720	662	624	860
Projects listed to seek Foreign Funds	227	292	259	327	346	338	382
Total Number of Projects in the ADP with allocation	886	916	1039	1037	1046	1034	999

Can ADP for FY2016 be implemented without addressing the structural bottlenecks?

- CPD has selected a set of 26 projects under the ADP for FY15 for close scrutiny (share of these projects in total ADP in FY16 is 17.6%)
- Actual spending on these 26 were 34.3% during Jul-Mar FY15 (actual spending on all ADP projects were 43.8%)

❑ 14 of the 26 projects were supposed to be completed in FY15

  - ‘Construction of Haripur 412 MW Combined Cycle Power Plan and Associated Substation’ was not reported in the ADP for FY16 (its cumulative progress was 73.6 per cent till Nov FY15)

- Apart from Haripur project, the other remaining 13 projects were not completed in FY15 and were carried forward to the ADP for FY16
- Only Joydebpur-Mymensingh Road Development Project received adequate allocation for completion in FY16 – which was supposed to be completed by FY13

Can ADP for FY2016 be implemented without addressing the structural bottlenecks?

Status of (remaining) 24 priority projects (identified by CPD)

Possible implementation rate (%) if total FY16 allocation is spent

1-30% (3 projects)

- Construction of Bibiana-3, 400 MW Combined Cycle Power Plant, Veramara Combined Cycle Plant (360 MW), Construction of Nagarpur-Mirzapur Bridge

31-60% (10 projects)

- Dhaka-Chittagong 4-Lane, Dhaka Elevated Expressway PPP Project, Ashuganj 450MW PP, Ghorashal 365 MW Combined Cycle Power Plant, Shahjibazar 330 MW Combined Cycle Power Plant, Shikalbaha Duel Fuel 225 MW Combined Cycle Power Plant, Power Production and North Bengal Sugar Mill, Leather Industrial City, Dhaka (Second Revised), Construction of 950m long Dharla Bridge in Kurigram District

61-99% (11 projects)

- Padma Multipurpose Bridge Project, Third Karnaphuli Bridge, Dhaka-Chittagong Railway Development Project, Bhomra Land Port, Bhola 225 MW Combined Cycle Power Plant, Chapainawabganj 100 MW HFO Based Power Plant, Providing Electricity Connection to 18 lakh clients through Rural Electricity extension, Shahjalal Fertilizer Project, Mubarakpur Oil/Gas Well Exploration Project, Augmentation of Gas Production under Fast Track Program, Establishment of Gas Compressor Station in Ashuganj and Elenga

Can ADP for FY2016 be implemented without addressing the structural bottlenecks?

- Practice of **allocating symbolic allocation** (the minimum to keep the project in the ADP list) is still **pervasive**
- **14 projects under ADP received only Tk. 1 lakh for FY16;** 13 projects received this range of allocation in FY15
  - 12 of these are investment projects (10 in FY15)
  - All of these are carryover from ADP FY15
  - 9 of the 14 projects are from Transport sector (7 projects were in transport sector in FY15)
- **32 'investment' projects under ADP received only Tk. 1 crore or less** (besides those 12 investment projects with 1 lakh allocation) for FY16; 26 'investment' projects received such allocation in FY15
  - 21 of the projects are carryover (16 of those were carryover in FY15)
  - As a whole these 32 projects received only Tk. 12 crore allocation in ADP FY16 (averaged Tk. 37.6 lakh per project)
  - Projects from 11 different sectors shared this allocation

Can ADP for FY2016 be implemented without addressing the structural bottlenecks?

- The business as usual scenario as regards ADP continues -
  - Challenges of completion of concluding and carry-over projects
  - Cost and time-overrun continue
  - Large number of projects but implementation capacity of line ministries not improved accordingly
  - Rising number of unfunded projects
  - No reform or policy mentioned to bring discipline in the ADP
  - No result-based monitoring

Is the foreign aid requirement for FY2016 too ambitious?

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Budget Deficit and Financing

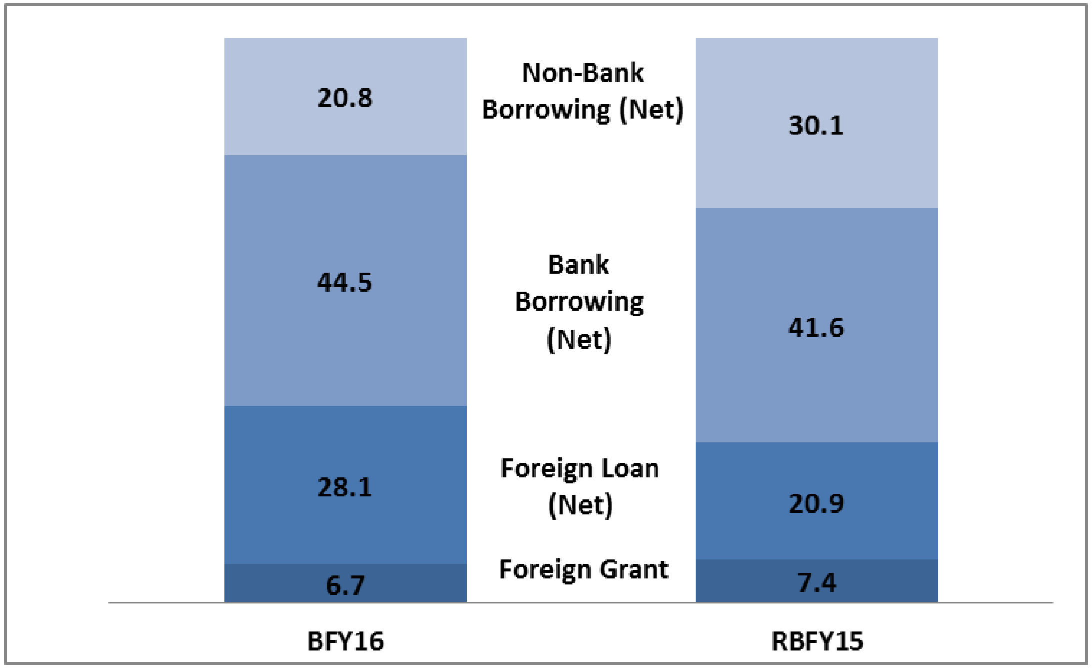
Description	BFY16		RBFY15		Growth
	Crore Tk	% of GDP	Crore Tk	% of GDP	FY16 over RB FY15
Revenue Collection	208,443	12.1	163,371	10.8	27.6
Total Expenditure	295,100	17.2	239,668	15.8	23.1
ADP	97,000	5.7	75,000	5.0	29.3
Non-ADP	198,100	11.5	164,668	10.9	20.3
Overall Deficit (Excl Grants):	86,657	5.0	76,297	5.0	13.6
Financing					
Foreign Grants	5,800	0.3	5,674	0.4	2.2
Foreign Loan (Net)	24,334	1.4	15,909	1.1	53.0
Foreign Loan	32,239	1.9	23,872	1.6	35.0
Amortization	7,905	0.5	7,963	0.5	(0.7)
Domestic Borrowing	56,523	3.3	54,714	3.6	3.3
Bank Borrowing (Net)	38,523	2.2	31,714	2.1	21.5
Non-Bank Borrowing (Net)	18,000	1.0	23,000	1.5	(21.7)
Net Aid	30,134	1.8	21,583	1.4	39.6
Net Aid (bln US$)	*3.9*	*1.8*	*2.8*	*1.4*	*39.6*
Gross Aid	38,039	2.2	29,546	2.0	28.7
Gross Aid (bln US$)	*4.9*	*2.2*	*3.8*	*2.0*	*28.7*

- 82.5% of incremental deficit is programmed to be financed by foreign sources

Is the foreign aid requirement for FY2016 too ambitious?

- Share of **domestic financing 65.2%** (71.7% in RBFY15)
- **Tk. 38,523 crore** (44.5%) will come from the **bank borrowing** (41.6% in RBFY15)
- Tk. 18,000 crore (20.8%) will come from non-bank sources (30.1% in RBFY15)
- Share of foreign financing will be 34.8% in FY16 (28.3% in RB of FY14)
- **Gross foreign aid** requirement will be around **USD 4.9 bln (USD 3.8 bln in RBFY14):** an almost impossible target in view of **only USD 2.3 billion** being received during **Jul-Mar FY15**
- **Much will depend on project aid utilisation of ADP: 90.7% of total foreign resources are for ADP projects**

Sources of Deficit Financing



What are the ‘good’ and ‘not-so-good’ fiscal measures proposed in the budget FY2016?

What are the 'good' and 'not so good' fiscal measures proposed in the budget FY2016?

Positive Fiscal Measures

- Personal income tax threshold has been raised by Tk. 30,000 to Tk. 2,50,000
- Allowances of the Government officials will be taxed
- Tax on Publicly Traded Cigarette Manufacturer increased from 40 % to 45% and change in price slabs for cigarettes (for VAT and SD)
- Tax has been imposed on income from Poultry & Hatchery in three progressive slabs – *expected to discourage misuse of zero-tax but could be a disincentive for genuine entrepreneurs*
- Tax at source on commission of buying houses is revised upward from 7.5% to 10%
- Extension of tax holiday and tax rebate for certain sectors
- CD on Capital Machinery: 1% for both export and domestic market oriented industries: *level playing field*
- Flat rate of Tax at Source for all Export items: to be considered as final tax liability of the exporters
  - RMG Products: 0.3% to 1.0% and Non-RMG Products: 0.6% to 1.0%
  - *A good move from the perspective of revenue generation. However, a part of this additional revenue should be used for dedicated support for ongoing restructuring in the RMG sector*

What are the ‘good’ and ‘not so good’ fiscal measures proposed in the budget FY2016?

Fiscal Measures which may need to be reconsidered

- Personal income tax imposed on gratuity income over Tk. 2.50 crore – *gratuity income should not be taxed in principle*
- Uniform minimum amount of tax of Tk. 4,000 for all taxpayers regardless of their geographical locations – *is not fair. Differentiated amounts are being considered*
- Tax on net wealth above Tk. 30 crore has been slashed down to 25% from 30% - *a benefit to the very rich*
- Tax for Publicly Traded Companies has been reduced to 25% from 27.5%
  - 10% tax rebate has now been abolished for issuing dividend of 30% and over. At the same time, companies do not need to pay income tax at the rate of 35% if less than 10% dividend is given – *will undermine the interest of share holders*
  - Penalty of 5% additional tax will be imposed if the dividend is less than 15%
  - *Overall, the changes will benefit companies*
- Existing provision of 10% deduction of tax at source on income from share market by any company or partnership firm has been removed
  - *Some adverse affect on revenue collection*

What are the 'good' and 'not so good' fiscal measures proposed in the budget FY2016?

Rate of Duty at Import Stage

- Major changes in rate of duties in FY16

Types of Duty	Increased	Decreased	Waived	Imposed	Total
Customs Duty	64	723	17	8	812
Supplementary Duty	401	366	7	21	795
Regulatory Duty	0	0	43	25	68
VAT on Import	0	0	14	0	14

- In FY16, the duty structure has been significantly revised
- Both CD and SD have been changed for a large number of products
- Unlike previous year, SD has been increased for more products than it has been reduced
- On the other hand, CD has been reduced for a significant number of products (723 items) while it has been decreased for only 64 items
- These changes indicate that there has been a move towards para-tariff measures as against tariff measures for protection of domestic industries
- It may be recalled that, IMF-ECF obligated Bangladesh to rationalise para-tariff measures

What are the 'good' and 'not so good' fiscal measures proposed in the budget FY2016?

Fiscal Measures which may need to be reconsidered

- Proposed SD (5%) on mobile usage should be exempted for a certain threshold.
- Higher specific duty on Raw and Refined Sugar – was a printing mistake(!) and will remain the same
- Higher CD on Optical Fibre Cable - Access to internet will be costlier
- Higher specific duty on Iron & Steel (semi-finished) - Cost of construction will increase
- SD increased from 30% to 45% CKD Motor Cycle: *Local manufacturers will be benefited* but *the assembling industries will suffer*
- Reduction on Some Prepared Food Products: *Local Industry will be affected*
- Reduction on Plastic Products: *Local Industry will be affected*
- Reduction of SD for a number of finished products may undermine competitive advantage of local products
  - Chocolate, pasta, sweet biscuits, waffles, bread
- SD increased to 20% Engines for Auto Rickshaw/Three Wheelers: *Cost escalation*
- VAT on Super Shops increased to 4% from 2%: *Consumers will bear the burden*
- Proposed rise of SD on selected inputs of leather and footwear products is likely to increase production cost

Why should we continue the incentives for legalising undisclosed money?

Why should we continue the incentives for legalising undisclosed money?

- The Finance Minister did not say anything about undisclosed (black) money in the speech. However, silence means continuation of earlier facilities to legalising undisclosed income (or 'whiten black money')
- *Special tax treatment (19C):* Opportunity continues for investment in government Treasury bond by paying only 10% tax
- *Special tax treatment* (*19BBBBB*): Tax per square metre is reduced from FY15 for investing undisclosed money in real estate sectors (residential building and apartments) outside of Dhaka and Chittagong cities.
  - *CPD estimates that the effective tax rate ranged between 1.49% and 3.72% depending on location and size of the apartment- the provision will discourage honest tax payers*
  - *Unethical considering social justice*
- *Voluntary disclosure of income (19E):* Scope continues for legalising undisclosed money in productive and income-generating sectors through payment of 10% penalty alongside the regular tax (provision includes capital market investment)
- ***Need for a predictable legal framework including a new law on undisclosed money and benami property***

What is the revenue implication in FY2016 of the significant duty restructure?

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- At the import stage, collection of revenue (import duty, VAT, SD, RD) during July-March FY15 was Tk. 26942 crore (29.1% of NBR's total collection)
- CPD has analysed the import duty structure for FY16 considering the actual import value for the first nine months of FY15
- According to the budget documents, the growth of CD, SD (import) and VAT (import) has been planned to be about 24% (for all the three)

Duties/taxes at import stage	BFY16 growth over RBFY15	Growth estimated from duty structure for FY16
Customs Duty	24.2	26.2
SD (Import stage)	24.1	6.3
VAT (Import Stage)	24.4	11.3

- CPD analysis found that, changes in the proposed duty structure is commensurate only with the targeted growth envisaged for CD collection. The estimated growth based on the changes in the duty structure diverges significantly from the budgetary plans for SD and VAT
- Difficult to estimate the impact of changes in income tax related measures – the budget speech did not mention any such implication

What is the revenue implication in FY2016 of the significant duty restructure?

Enhancing capacities of tax administration is critical for attaining of revenue mobilisation target for FY16

- ❑ Significant improvement of tax administration's capacity will be required to attain revenue mobilisation targets – however, it did not get any notable mention in the budget speech!
- ❑ Expansion of tax administration upto upazila level was planned earlier – no actual progress has been mentioned
- ❑ Transfer pricing cell needs to be strengthened
  - ➢ Will require adequate budgetary allocation for the needed soft infrastructure and human resources
  - ➢ It can also help combat trade mispricing (i.e. misinvoicing and misdeclaration)
  - ➢ Collaboration among relevant agencies (i.e. central bank, commercial banks)
- ❑ VAT and SD Act implementation plan needs to be finalised
  - ➢ Disputed issues need to be resolved (single rate vs multiple rates, reduced rate etc.)
- ❑ No mention about rationalisation of incentive structure!
- ❑ More effective utilisation of ADR window is needed

How has investment in industrial sector been incentivised in budget for FY2016?

How has investment in industrial sector been incentivised in budget for FY2016?

- Various fiscal and budgetary measures of the national budget FY16 will likely to reduce production costs, increase operative profit and thereby facilitate businesses
  - Changes in CD/SD/VAT, reduction of corporate tax rates and income taxes and budgetary allocation
- Infrastructure deficit is likely to remain a major concerning factor underpinning lack of adequate private investment
  - Only a few projects is expected to be completed in FY16 which will leave the demand mostly unmet
- Fast track projects may not be implemented as ‘fast’ as was hoped for
  - Significant progress has been made only in case of two projects: Padma bridge and Rampal power plant

Fast Track Projects: How ‘Fast’ are they?

Project Name	Finance modality	Deadline	Total cost (crore Tk.)	Allocation for FY16 Tk. Cr.)	To be completed by FY16
Padma Multipurpose Bridge (Revised)	BDG	2018	28790	7400	32.0
Dhaka MRT	JICA and BDG	2019 (early commissioning)	21985	385.6	1.80
Deep Sea Port at Sonadia	G-G	2055 (first phase 2015)	55000 (223 crore)	NA	NA
Paira Sea Port	G-G	2023	N/A	Two unapproved-unallocated projects in FY16	
Matarbari Power Project	JICA and BDG	2018 and 2021	35984	234	0.10
Rampal Power Project	JV	2019	14510	-	62.5
LNG Terminal	BOOT	2016	N/A	-	
Rooppur Nuclear P. Plant	Russia and BDG	2017	5242	NA	

How has investment in industrial sector been incentivised in budget for FY2016?

Land is a binding constraint for private investment in the industrial sector

- ❑ **SEZs: Five out of 30 approved projects are in early stage**; 1 at procurement stage, 3 at feasibility stage; and 1 CCEA approved
  - 6 to be established by the private sector; selected SEZs for investors of key FDI sourcing countries (China, India and Japan)
  - Incentives for industries in the SEZs should not create adverse incentive for industries in the DTAs
- Timely implementation of **RMG industry park in Munshiganj** needs to be ensured
- ❑ Slow progress of **tannery industrial estate project:** raises doubt as regards full implementation by the second revised deadline (2016)
  - ➢ 16.2% completed till March FY15, maximum possible completion by FY16 will be 59.0% as per allocation in the budget

How has investment in industrial sector been incentivised in budget for FY2016?

Land is a binding constraint for private investment in the industrial sector

- Progress as regards establishment of an **Active Pharmaceutical Ingredients (API)** in Munshigonj is not satisfactory (completion year: June, 2015)
  - 37.8% by FY15 and maximum possible completion in FY16 will be 74%
- No reflection as regards allocation for establishment of **Kaliakoir High-tech-Park** in Gazipur in FM's budget speech
  - No allocation has been made in ADP 16; only 1.9% of total work completed till FY15
- Establishment of **Mohakhali IT village** in Dhaka under PPP: only at the procurement stage

How has investment in industrial sector been incentivised in budget for FY2016?

Power and energy supply needs to be ensured for new investment

- Total allocation for the power sector in FY16 is Tk.18540 crore –mostly for power sector development projects; 98.5% higher than RADP FY15
  - Only 11% of total budget allocated for energy sub-sector
- Out of (CPD identified) 24 projects the following projects are likely to be completed in FY16
  1. Construction of Khulna coal based power plant connecting road;
  2. Land Acquisition, Land Development and Protection for Paira;
  3. 1320 MW Thermal Power Plant;
  4. Upgradation of Khulna 150 MW Peaking Power Plant to 225 MW Combined Cycle Power Plant;
  5. 21 Town Power Distribution Project and Development of New 132/133 KV and 33/11 KV Sub-station under DESA project
- Upon completion of these projects an additional 1,955 MW of electricity to be added in the national grid

Projects under Power Sector supposed to be completed by June, FY16

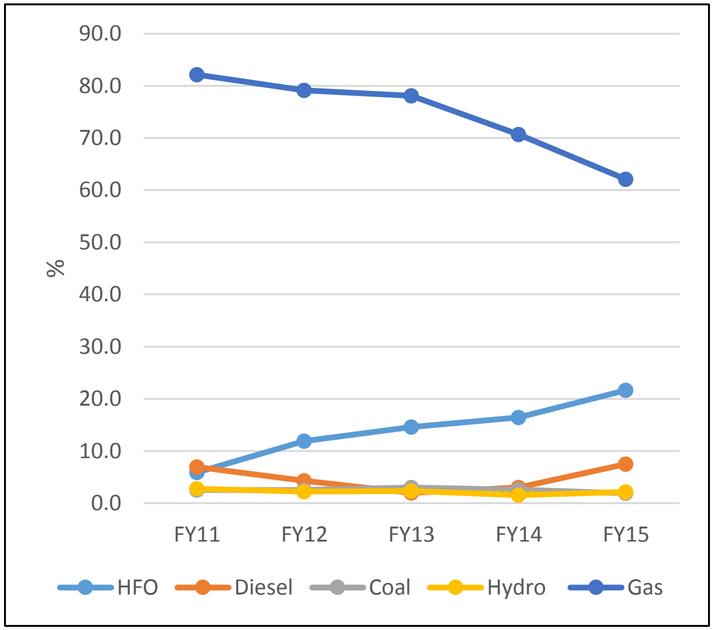
	Total	0-25%	25-50%	50-75%	75-100%
Percentage of maximum possible completion	4.5-100	4.5-15.4	25.5-49.9	54.6-71.2	77.9-100
Number of projects	32	5	8	7	12

How has investment in industrial sector been incentivised in budget for FY2016?

Power and energy supply needs to be ensured for new investments

- Under the existing composition of fuel-mix for generation of power, there is scant possibility for coal to be the main source in the coming years
  - Use of HFO and Diesel is increasing; gas is decreasing
- Total allocation for the energy and mineral resource division in FY2016 is Tk.2037 crore: a rise of 100%
- Out of 36 projects under energy sub-sector in ADP FY16 listed as "projected to be completed by FY16"
  - 16 projects likely to be completed
- 6 Projects cost over Tk. 100 crore; are supposed to be completed by June FY16.
  - 3 projects likely to be completed
- More allocation and quick implementation is needed for gas sector related projects

Composition of fuel Use(%)



Is the agenda for strengthening local government lost?

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- Allocation for LGD and Ministry of Chittagong Hill Tracts Affairs in FY16 has increased (growth in FY16 over RB15 is 11.0% and 13.9% respectively)
- Allocation for **rural development and cooperatives** in FY16 has decreased (growth in FY16 over RB15 is -15.8%)
- **Ministry of Chittagong Hill Tracts Affairs is lagging in terms of budgetary expenditure**
- ADP allocation for LGD is about Tk. 16,650 Crore. **The share has decreased** from 19.8% in RB15 to 17.2% in FY16

Is the agenda for strengthening local government lost?

- It appears that 'District Budget' has been discontinued after two years following its introduction- the first district budget, for Tangail, was included in FY14 budget and another six divisional districts namely Khulna, Chittagong, Rajshahi, Rangpur, and Sylhet including Tangail were included in FY15 budget
- The budget FY16 mentions about preparation of a **strategy paper** to address the issues of revenue distribution formula, procedure of decentralisation of power to the LGIs and areas of administrative reform. This needs to be prepared with due urgency
- In the budget speech FY16, proposal to allocate a lump sum amount for each district has been mentioned, but **no amount has been earmarked**
- Can it be done just through discussion between Finance and Local Government Ministry as the budget states?
  - A **Local government finance commission** should be constituted for comprehensively dealing with attendant issues.

The unsung agendas – what about reforms?

The unsung agendas – what about reforms?

One significant weakness as regards the way the FY16 budget has been designed is that it does not mention about progress, scaling up and plans concerning a number of good initiatives that were flagged in the FY15 Budget. In absence of this, it is difficult to ascertain what has been the fate of these initiatives

- **An Audit Act for budget implementation** was first mentioned in the FY14 Budget. In the FY 15 Budget it was mentioned that the Act was underway. The FY16 Budget does not mention what is the status of the Act
- FY15 budget mentioned about **installation of a state of the art debt database** to enhance the capacity of public debt management. There is no mention as to what has been the progress and how the data base is being used
- Following up on the first **District Budget** for Tangail in the FY14 budget, the FY15 budget presented 7 District Budgets. It was mentioned that gradually all districts will be brought under the purview of the District Budget. FY16 Budget does not mention what is the plan and progress in this regard
- A special allocation of Tk. 50 crore was proposed in FY15 budget for **construction of houses in divisional and district towns for neglected segments of the society**. There is no mention about progress and follow-up in this regard

The unsung agendas – what about reforms?

- It was announced in the FY15 Budget that there will be a **“stimulus package” for leather sector** (including some others). However, the FY16 budget does not mention any comprehensive stimulus package for this promising sector
- FY 15 budget stated that “Genuine” **fishermen** across the country were to be given an **identity card** and be registered in a database. FY16 Budget does not mention whether such a database has been created
- Proposal was made for **digitised land surveys** which would make zoning information and land ownership easy to digitally archive. Digital surveys and updated record keeping was said to be underway in parts of Dhaka. It is not known whether this work has been completed and whether, and how, this work is being scaled up
- No mention about farmers not getting **fair price of paddy and rice production**
- No follow-up on laudable environment related initiatives - ‘Environment Protection Surcharge’ or **“Green Tax”**, “**Eco-tax”** and **Hybrid Hoffman Kiln (HHK)** technology for brickfields

***A suggestion*: Future budgets may contain a matrix articulating key initiatives in the preceding budget, progress made in this context and a plan and timeline for key milestones to be achieved during the budget period**

The unsung agendas – what about reforms?

In its third reading of "State of the Bangladesh Economy in FY2015", CPD has suggested a number of reforms and had proposed setting up a number of independent commissions

Reform initiatives that need to be prioritised

- Public Services Act
- PPP Act
- Privatisation
- Financial Reporting Act
- Implementation of VAT and SD Act 2012

Five independent commissions

- An independent statistical commission to validate the macroeconomic correlates
- A permanent agriculture price commission
- A permanent local government financing commission
- An independent public expenditure review commission
- An independent financial sector reform commission

FY2016 Budget only mentions about placement of PPP Act in Jatiyo Sangshad, implementation of VAT and SD ACT 2012 from July 2016, merger of Privatization Commission with BOI and setting up of Financial Sector Reform Commission

Reform initiatives will need to be given highest priority if current macroeconomic stability is to be translated into a journey along higher growth trajectory

Independent Review of iRBD Bangladesh's Development

Thank You

CPD's Pre-Budget and FY2016 Budget related reports can be accessed from CPD website: http://cpd.org.bd/index.php/cpdirbd/