Chapter 3

AN ANALYSIS OF THE NATIONAL BUDGET FOR FISCAL YEAR 2004-2005

3.1 INTRODUCTION

3.1.1 Pre-budget Concerns and Challenges

The National Budget for the fiscal year 2004-05 (FY2005) has been placed in the context of a mixed macroeconomic performance in the FY2004. The benchmark of FY2004, on which the Budget for FY2005 has been prepared, includes both positive developments and negative drawbacks.

Positive Developments in FY2004

One major positive development in FY2004 has been the attainment of the GDP growth target (5.5 per cent) which was earmarked by the macroeconomic framework of Interim-Poverty Reduction Strategy Paper (I-PRSP). There was already a low fiscal deficit planned for and then the actual realised fiscal deficit turned out to be lower than what was planned (though some may also argue that this was because of low spending requirements of the government). There was a pick up in both domestic and foreign private investments in FY2004. Most of the proxy indicators of investment have also reflected this positive trend in investment in FY2004. In addition, steady agricultural production and fresh movements in the capital market have supplemented this positive trend of the economy. The performance of external sectors also followed the trail of import resurgence, particularly after the collapse of the last year, which is also an indication of growing domestic demand. Continued export recovery after the 9/11 terrorist attacks in USA was also observed. The buoyant flow of remittances contributed to the improvement in foreign exchange reserve and no shock was observed in the exchange rate during the FY2004.

Disturbing Developments in FY2004

Some failures in macroeconomic performance somewhat diluted the achievements of FY2004. Under-achievement in revenue earnings, particularly in the non-NBR and non-tax components, continued failure in the utilisation of ADP and low off-take of foreign aid are among the major disturbing developments of FY2004. The stagnated savings-investment scenario has been worsened by the lowest public investment rate in the last 14 years and there has been no change in the domestic savings rate as well. The income disparity is growing in many fields, particularly tax incidence, resulting in inequitable outcomes. The privatisation process faced near-retardation during the previous fiscal year. The political acrimony and agitation has intensified during the third and fourth quarter of the FY2004.

Macroeconomic Challenges for FY2005

In this milieu, the major macroeconomic challenges for the FY2005 would be to push the 5.5 per cent GDP growth rate beyond 6.0 per cent while ensuring a more equitable distribution of incremental GDP. A mere growth in GDP does not automatically lead to poverty alleviation and does not necessarily improve the lot of the poor. Rather, we need a more equitable distribution of incremental income created by the GDP growth. Improving the savings-investment scenario by lifting the private investment share from 17.5 per cent to beyond 20.0 per cent of GDP and improving the domestic savings rate from 18.3 per cent to at least 20.0 per cent of GDP would be other key challenges for the FY2005. The government will have to keep the inflation under control (currently 6.0 per cent) and maintain a stable exchange rate. More importantly, the government will have to hold back the *last-lap syndrome*, where the conservative attitude of the government at the end of its tenure will prevent it from taking any crucial reform initiatives.

Key Concerns of FY2005

The key concerns in producing a budget for the FY2005 have been the implementation and improvement of the delivery mechanisms of development programmes. Greater off-take of foreign aid and improvement of foreign aid disbursement (particularly project aid) are major concerns for the development programmes since the financing and utilisation rate of ADP are tagged to those. So, a fuller delivery of the development programme would be a cardinal concern for the FY2005. Increase in agricultural subsidy has been a prime debate before the budget. However, CPD believes that the effective delivery of agricultural subsidy, which includes better targeting, better volume and better quality, should be the major concerns. Broadening of the effective income tax base is also a very crucial issue. The growth of the income tax should ensure that people who can afford to pay income tax should be paying more and should promote measures to identify them more effectively without harassment. The non-NBR and non-tax rates (e.g. railway, postage) also need to be raised and adjusted as the rates are outdated and the quality of services is poor. CPD also highlights the rationalisation of para-tariff regimes of the country. Along with the 15.0 per cent VAT, there is an infrastructure surcharge of 4.0 per cent, advance income tax of 3.0 per cent and also supplementary duties of varying degrees; all of these are coming as taxes on taxes. Thus, rationalisation of para-tariffs is an important agenda for the government as the global prices have been going up in the recent past and the quasi-fiscal deficit of the government is increasing because of the high government taxes; prices of petroleum products are another major headache for the government.

Other key concerns of FY2005 include providing a new pay scale to government and quasi-government employees and establishment of a Permanent Pay Commission; expansion of safety-net programme; introducing separate savings scheme for pensioners/small savers and other disadvantaged groups; ensuring greater flow of Initial Public Offerings (IPOs) to the capital market; and monitoring global price hike of rice as well as domestic food stock. Finally, the government's absorbing mechanism of the post-MFA shock with large retrenchment, while pre-empting any large devaluation, will also be tested. However, the government will have to deal with the emerging energy crisis too, as there is a severe shortfall (about a 500 megawatt) in electricity.

3.1.2 Initial Observations

- As the country enjoys a "planning holiday", the National Budget for fiscal year 2004-05 (FY2005) has been placed as an extension of the three year National Strategy for Economic Growth, Poverty Reduction and Social Development (NSGPRSD), better known as I-PRSP.
- This NSGPRSD has been presented as a "Three Year Rolling Plan." Should we produce such a plan every year for the following three years, or after every three years, are we going to have another three-year plan? Till 2015?
- The budget for FY2005 has been anchored in the Mid-Term Macroeconomic Framework (MTMF) of the I-PRSP. Clarity on the macro-parameters within which revenue generation and allocation are going to take place is helpful. However, at least on two occasions, possibility of revising the MTMF has been alluded to. The first is when scarce resource (domestic + foreign) falls short of project. The second is if resources are not properly utilised as per target and reforms are not implemented.
- The 15 principles for developing pro-poor strategies have been well articulated. But there is no mention about reduction of mal-governance (including corruption) or strengthening of local government, which are well known pro-poor policies. Apart from the promised new programme for the "hardcore poor", all other principles are traditional ones with a clear bias towards microcredit programmes.
- The thought of reforms being accomplished "at such speed we deem appropriate and according to our own design" is well taken. But, on the one hand, this proposition does not stand up to "reality check," as the country remains under IMF programme and continues to enjoy various structural adjustment credits from the World Bank. On the other hand, "incremental reforms" may basically foretell no major reforms in such areas as public administration, local government, public expenditure, privatisation and energy until the next general elections.
- The expression of sensitivity about the existing negative influence of the non-economic factors is well appreciated. The economy is appealing for a greater need to improve the law and order situation of the country. Establishment of good governance also has to be addressed adequately, moving beyond partisan rhetoric.

- The fiscal stance of the budget is an expansionary one. In the backdrop of recent shabby delivery of the development programmes and faltering revenue collection, the high-reaching targets lack credibility. It is particularly so because there is no well-thought-out delivery strategy, which takes note of the impediments to implementation of government programmes and policies.
- Overt attempts to please a diverse constituency with symbolic allocation are reminiscent of the fact that the national election is not far away.

3.1.3 Some Salient Features of the Budget Presentation in FY2005

There have been some significant changes in the presentation of the budget this year. The budget was logically cogent in terms of size – it was smaller and it had its explicit macroeconomic parameters mentioned. As the government had its Mid-Term Macroeconomic Framework (MTMF) of I-PRSP, it was easier for the government to make the budget more cogent in line with the I-PRSP outline. The budget was not crowded with number of donors' endorsements as it was observed in the previous years. It also recognised the role of non-economic factors in the economy in terms of corruption and decreasing the volatility of the law and order situation. It also avoided the usual blame game, which goes on between the government and the opposition party. This time, the artificial bifurcation of the budget between the development and non-development expenditures has been minimised and the government has published a separate book that pooled the development and non-development sectoral expenditures under a single cover. The budget summary was more transparent in terms of resources availability and their usage. Finally, the tariff changes have been skilfully made obscure in the Finance Bill. All the changes in tariffs and duties were not mentioned in the budget annex that helped the government escape any major reaction from the market.

3.2 PUBLIC FINANCE

3.2.1 Changes in Reporting System

One has to be careful about some of the changes, which have been brought about in the government documents reporting the budget figures. They have been done to make the information more consistent and transparent and this can be perceived as a constructive measure. Foreign grants have been grouped together with total revenue. As a part of the changes in the reporting of government expenditure, the capital expenditures from the revenue budget have been taken out and put under "Non-Development Capital Expenditure." There are also some separate items under non-development expenditures that include net outlay from account operation, loans and advances, structural adjustment and programmes financed from non-development budget. Also, the "Non-ADP FFW & Transfers" are to be included under development expenditures.

Attempts have been made to bring both non-development and development expenditures under one Demand for Grant. This is a welcome step towards unification of the budget.

3.2.2 Overview

In FY2005, total revenue earning is targeted to grow by about 16.7 per cent along with total public expenditure growth of about 16.0 per cent. Both are very far-reaching targets. The matching realised figures for FY2004 were 13.8 per cent and 12.4 per cent respectively. Bangladesh suffers from both low domestic revenue yield and low public investment. Thus, such "high income-high spending" budget is commensurate with the potential need of the country. But the government's record in this respect, particularly in the case of implementation of development programmes, makes these targets suspect.

Due to the lacklustre revenue mobilisation and ADP implementation in FY2004, the economy has failed to achieve the projected figures of the MTMF of the I-PRSP. For example, in FY2004, the revenue-GDP ratio was to be 10.9 per cent, the achieved rate (based on revised figure) was 10.6 per cent. In case of public expenditure-GDP ratio, the realised figure was 14.8 per cent against a target of 15.8 per cent. Incidentally, shortfall occurs in the case of both development and non-development expenditures. Full realisation of the budget figures of FY2005 will not allow us to achieve the I-PRSP targets for revenue and public expenditure. No wonder the budget speech refers to revision of the MTMF!

The fact that the overall expenditure growth has been kept below the revenue growth is well taken. The gross budget deficit in FY2005 is, by and large, to remain steady at (-) 4.3 per cent at the same level of FY2004. Understandably, the low fiscal deficit occurred by default.

3.2.3 Revenue Earnings

The government has experienced a major shortfall in its revenue earnings during the last fiscal year (FY2004). The total revenue earnings as percentage of GDP accounted for a (-)0.2 per cent shortfall when compared with the I-PRSP target. This was mainly due to the underachievement of tax components. The targeted figure for the FY2005 also shows a deficit from the I-PRSP targets (Table 3.1).

TABLE 3.1

I-PRSP and Performance of Revenue Earnings, FY2004-FY2005

Item as per cent of GDP	FY2004			FY2005		
	I-PRSP	Actual	Change %	I-PRSP	Budget	Change %
Total Revenue	10.8	10.6	-0.2	11.3	11.2	-0.1
Tax	8.7	8.5	-0.2	9.2	9.1	-0.1
Non- tax	2.1	2.1	0.0	2.1	2.1	0.0

Source: CPD-IRBD Database (2004).

Still, the total revenue is to grow in FY2005 at 16.7 per cent, of which tax revenue at 18.8 per cent and non-tax at 7.9 per cent. National Board of Revenue (NBR) has the most "challenging" target of increasing its intake by 19.0 per cent. All these projected growth rates of revenue collection remain far above the trend rates.

TABLE 3.2

Sectoral Share of Revenue Earnings, FY2004-FY2005

	Sectoral Share			Growth			
	FY2003	FY2004 (revised)	FY2005	FY2004 (original) over FY2003	FY2004 (revised) over FY2003	FY2004 (revised over original)	FY2005 over FY2004 (revised)
Total Revenue	100.0	100.0	100.0	16.2	13.7	-2.1	16.7
Tax	80.2	79.9	81.4	16.5	13.4	-2.6	18.9
NBR	76.3	76.4	77.9	16.8	13.9	-2.5	19.0
Non-NBR	3.8	3.5	3.5	10.1	4.2	-5.4	16.0
Non-tax	19.8	20.1	18.5	15.1	15.1	0.0	7.9

Source: CPD-IRBD Database, 2004.

Structure of NBR Component

NBR accounts for about 78 per cent of total revenue intake. As a consequence of trade liberalisation, the role of customs duty has been falling over time. It is expected that growth of direct taxes (viz. income tax) and VAT (local) is to fill up the void and generate incremental resources.

However, figures show that in FY2004, within total NBR collection, the share of customs duty has gone up (from 18.9 per cent to 20.6 per cent), as against the decline in shares of income tax (from 15.4 per cent to 14.9 per cent) and VAT (from 25.9 per cent to 24.2 per cent). Concurrently, the contribution of supplementary duty has increased as well (from 14.1 per cent to 15.3 per cent). These trends are in direct opposition to what is intended. More importantly, the effective expansion of VAT (local) at a rate faster than income tax collection is making the tax incidence disproportionately biased against the income of the poor.

Income Tax

The FY2005 budget proposed a revision of income tax rate by raising the ceiling of tax-exempted income to Tk 100,000.0 from Tk. 90,000.0.

Despite the revision, the low-income group of taxpayers will pay relatively more compared to the high-income group people. Moreover, absolute tax burden has increased for the lowest slab of taxable income group by 25.0 per cent. For all other income groups, absolute tax burden reduced between 9.0 per cent and 16.0 per cent from the tax amount of FY2004.

This year, the government introduced a system of compulsory submission of expenditure statements for the *individual assessees* reflecting their style of living, which is targeted for bringing consistency between the tax return and standard of living. In case of *corporate assessees*, for bringing more companies into the self-assessment system, the requirement to show increase of income by 10.0 per cent every year has reduced to 5.0 per cent.

TABLE 3.3

Implication of Revised Income Tax Rate for Individual Assessee for FY2004-FY2005

(amount in Tk)

Income	Per month salary	Tax 2002-03	Tax 2003-04	Tax 2004-05	Difference Amount	Difference Per cent
100,001	8,333.0	2,500.0	1,200.0	1,500.0	300.0	25.0
200,000	16,667.0	12,500.0	11,000.0	10,000.0	-1,000.0	-9.0
300,000	25,000.0	26,250.0	24,000.0	20,000.0	-4,000.0	-17.0
400,000	33,333.0	42,500.0	39,500.0	35,000.0	-4,500.0	-11.0
500,000	41,667.0	62,500.0	59,500.0	50,000.0	-9,500.0	-16.0
600,000	50,000.0	82,500.0	79,500.0	67,500.0	-12,000.0	-15.0
700,000	58,333.0	106,250.0	102,500.0	87,500.0	-15,000.0	-15.0
800,000	66,667.0	131,250.0	127,500.0	107,500.0	-20,000.0	-16.0
900,000	75,000.0	156,250.0	152,500.0	127,500.0	-25,000.0	-16.0
	Minimum Taxable Monthly Income	6,250.0	7,500.0	8,333.0		
	Minimum Tax	1,200.0	1,200.0	1,500.0		
	Exemption	75,000.0	90,000.0	100,000.0		

Source: Author's calculation based on Budget statement FY2004-2005.

Till May 2004, the number of registered taxpayers was 15,50,000. In 2004-05, there is a target of identifying 300,000 new taxpayers from the prospective corporate businesses and individuals. Also, for submission of income tax return for all individuals, firms and companies or institutions, holding Tax Identification Number (TIN) has been made compulsory.

However, there is an apprehension that the empowerment of the NBR to choose any return for audit out of the self-assessment returns submitted by individual and company assesses will create more problems and frustrate the tax collection initiative.

To make the income tax system more equitable, CPD has always emphasised the need for rationalisation of income tax in line with VAT. CPD's recommendation has been to increase the income tax and to include more people, who can afford to pay taxes, under the tax base, rather than increasing the VAT, which affects the lower and upper class people almost equally. However, in the projected revenue target for the FY2005, *for each Tk 1.0 income tax, the government has targeted Tk 2.2 as VAT earnings.*

Value Added Tax (VAT)

The government is systematically broadening the VAT net aiming at a switch from customs duty to VAT. During the last budget, the government brought new items into the VAT net, including money exchange business, credit card, cigarette Band Roll & stamp, locally produced soft drinks, soap, detergent powder, mineral water, revenue from sale of all items in auction by the government (at the rate of net *1.5 per cent* of the auction value), semi-government and autonomous body, banks, insurance and other limited companies and decorators, caterers and sweetmeat shops within the metropolitan and the district town areas. This year, fresh items have been brought into the VAT net from both manufacturing and services sectors.

In the manufacturing sector, among others, these include: (a) Pressure cooker at manufacturing stage, (b) Food supplied in community centres, (c) 4 HR (Hot Rolled) coil at import stage, (d) LP gas cylinder at import stage, (e) Copra (of coconut) at import stage, and (f) Raw silk at import stage. In the services sector the items brought under VAT net include: (a) Shooting spots, amusement and theme parks, historical places, picnic spots and tourist spots, (b) House cleaning and maintenance organisations, (c) Lease or investment and credit financing institutions, (d) Express Mail Service, (e) Film distributors, (f) Lottery ticket sellers, (g) Upper grade tailoring shops at Dhaka and Chittagong, and (h) Commercial and residential apartment builders.

The VAT on pressure cooker at manufacturing stage may make local manufacturers uncompetitive. The VAT on hot rolled coil will increase the price of Corrugated Iron (CI) sheet, which ultimately hits the low-income group as the major use of CI sheet is for construction of houses. However, VAT on LP gas, copra and raw silk at import stage may act as protections for the domestic industries.

It is interesting to note here that during the last year, doctors and lawyers have been proposed for inclusion into the VAT net. However, in the face of the protest from these two professional groups, the idea was dropped. The policymakers did not take the risk to try it again this time.

The government is also planning to impose VAT on goods and services rendered against local and international tenders in foreign currencies, which might be a major source of revenue for it. The government has proposed to introduce rewards for the highest VAT-paying businesses and establishments of each district, although it is not clear which types of reward are being planned. Definitely, some fiscal rewards would be worthy of consideration in this regard.

Some restructuring has also been proposed in the budget, which concerns spinning and weaving industries and airlines. For the former, VAT has replaced excise duty. For the latter, application of fresh excise duty has been proposed.

The government is proposing to exempt VAT from two specific areas: indenting commission remitted from abroad, and locally manufactured wheat crushers. While the objective of the first one is to bring the money from indenting business into the country, the latter aims at providing further support to the agro-based industry and small and medium enterprises.

Tariff Reform

The customs duty contributes to 28.0 per cent of the total national tax revenue. However, application of para-tariff significantly distorts domestic markets. In some cases, customs duty and para-tariffs act as domestic protection measures. In others, these act simply as revenue generation measures. Moreover, these are applied as tax on tax. As a result, total collection at import stage rises up to 50.0 per cent of total tax revenue.

The budget proposed substantive reform for further liberalisation in tariff system, going beyond what was decided earlier. One may question the rationale and timeliness of the matter also.

During the last budget, it was announced that the tariff system would be reduced from a four-tier system to a three-tier system. The tariff slabs had been proposed to be 30.0 per cent, 20.0 per cent and 10.0 per cent. The budget for FY2005 has proposed to reform the system with three tiers; however, the highest slab has been proposed to be 25.0 per cent, which raised controversy from several quarters.

Firstly, many import substituting industries will be adversely affected due to increased competition with imported products, which will be imported with lower duties. Local manufacturing and backward linkage industries, particularly textile, ceramic, footwear, electronics, toiletries, agro-based and food-processing industries, will suffer from this decision. It is to be mentioned that importers of some 2,400 finished products now pay 30.0 per cent duty. Major finished products that fall under the highest duty slab include girls and women's suits, readymade dresses, boys and men's shirts (cotton or synthetic), women's petticoats, nightdress, babies' garments, sports outfit, undergarments, handkerchiefs, footwear, sports footwear, umbrella, tiles, flooring blocks and tableware. The highest duty is also applicable for kitchenware, ceramic articles, iron and steel products, metal industry, electro-mechanical domestic appliances like vacuum cleaner, food grinders and mixers, electric cables, different electric parts, bicycle, electric lamps, wooden furniture, toys, ballpoint pens, woven fabrics of cotton (dyed and unbleached), soap, shampoo, cosmetics, cigarettes, tobacco substitutes, fruit juices, tea and fish.

Secondly, the autonomous liberalisation through budgetary measures will reduce bargaining opportunity in the bilateral and multilateral negotiations of tariff reductions in which Bangladesh is involved. The average tariff in Bangladesh was 21.9 per cent in 2002, which was lower than India by 9.1 per cent.

Thirdly, the issues of coherence of policies of the International Financial Institutions (IFIs) with the negotiations dynamics are still under discussion in the WTO. Thus, pressure for reducing tariffs by the IFIs, which is the case this time, is contradictory and is creating disadvantageous situation for LDCs like Bangladesh. The government should reconsider the proposal of fixing the highest slab at 25.0 per cent and keep it to the promised level of 30.0 per cent.

Fourthly, reduction of duty slabs from four to three may also result in revenue loss. While Bangladesh is fighting for compensation of revenue loss in SAFTA and BIMSTEC, it is not clear why the government is creating such a situation through autonomous initiative.

It is also to be mentioned that the highest tariff slab in India is 30.0 per cent. A four-tier system is in practice there till now, which is under active consideration for revision.

TABLE 3.4

Further Liberalisation of Tariff System: Customs Duty in FY2005

	Earlier System (per cent)	Promised System (per cent)	Proposed System (per cent)
I	7.5	10.0	7.5
II	15.0	20.0	15.0
III	22.5	30.0	25.0
IV	30.0	–	–

Source: Compiled from various budget speeches and Economic Survey.

After revision, the list of importable articles now contains a variety of items numbering 6,799. The distribution of tariff lines is presented in Table 3.4 after the restructuring.

TABLE 3.5

Items Under Various Slabs

Tiers	Previous			Present		
	Nominal	Cumulative	Cumulative (%)	Nominal	Cumulative	Cumulative (%)
0.0 %	541	541	7.9	519	519	7.6
7.5 %	1,431	1972	29.0	1510	2029	29.8
15.0 %	1,305	3277	48.2	1,879	3908	57.5
22.5 %	1117	4394	64.6	0	3908	57.5
25.0 %	0	4394	64.6	2,891	6799	100.0
30.0 %	2405	6799	100.0	0	6799	100.0

Source: CPD-IRBD Database (2004).

The government estimated that the possible revenue loss from this restructuring would be Tk 775.0 crore. It, however, expects to collect Tk 3,328.0 crore from normal growth of import and administrative improvements.

Supplementary Duties: The government proposed three slabs of supplementary duties (15.0 per cent, 25.0 per cent, and 30.0 per cent) instead of seven slabs (15.0 per cent, 25.0 per cent, 30.0 per cent, 40.0 per cent, 50.0 per cent, 60.0 per cent and 75.0 per cent). This streamlining of supplementary duty will allow the government to use these para-tariff tools effectively for domestic protection and revenue generation purposes.

This time, the government did not propose any rise in Infrastructure Development Surcharge (IDSC), which was increased to 4.0 per cent during the last budget. The legitimate question is how the collection from IDSC is being distributed in the infrastructure development programmes of the government. The budget also observes no change in AIT, 2.5 per cent and VAT (import), 15.0 per cent.

Export Promotion

The government has also taken bold tariff measures for promoting the country's textile sector as the backward linkage industries of the garments sector. In addition to the facilities already provided, it proposed reduction in the existing rates of duty on most of the raw materials and essential machinery and spares needed by this industry. The number of HS 8-digit level items for textile sector, which will enjoy duty-free and VAT-free import, is 34.

Domestic Protection

Tiles Industry: For promoting domestic tiles industry, which is complementary to the booming construction sector, the government decided to reduce supplementary duty on locally manufactured tiles from 20.0 per cent to 5.0 per cent.

Processed Agricultural Products: The government is proposing to impose VAT on processed, primarily agricultural, products like fruit, pulp and paste, packed spices in powdered form, flavoured milk and yoghurt, etc. For this purpose, the government will fix the tariff value of these products.

IMPORT SUBSTITUTION

Dairy and Poultry: In order to give a further boost to the dairy and poultry industry of the country, the government proposed to withdraw customs duty and VAT on 87 capital machineries needed for this sector.

Coil: In place of tariff value, the government is planning to apply VAT on the normal value of domestically produced cold rolled coil. This initiative will increase the revenue generation scope for the government; but will diminish consumer welfare because the main product from these coils is Corrugated Iron (CI) tin, which is the main raw material for house building in rural areas.

SOCIAL CONCERN

Cigarettes: The government proposed slight change in supplementary duty structure for cigarettes at different slabs by 2.0 per cent, the implications of which are not clear. The duty, both customs and supplementary, could be increased substantially for revenue generation and discouraging the harmful trade, which adversely affect the productive power of the population.

SECTOR SPECIFIC TARIFF MEASURES

Energy: In the second Interim IRBD 2004 of the CPD, it was mentioned, "given the political costs involved in pushing up prices, the government will be well advised to reduce its taxes on petroleum products" (Bhattacharya, 2004). It was observed that the government restructured taxes on fuel. The government also proposed withdrawal of the existing Advance Income Tax (AIT) from all types of petroleum as well as reduction of the existing supplementary duty on Kerosene from 25.0 per cent to 15.0 per cent. As a result, tax burden on crude oil, kerosene and all other fuel oil will be reduced by 9.0 per cent, 25.0 per cent and 10.0 per cent respectively.

Health Sector: For encouraging establishment of high quality referral hospital of international standard for the treatment of life-threatening diseases, the government proposes to withdraw customs duty on medical and hospital equipment and accessories, withdraw all types of taxes and duties on certain life-support systems used in such hospitals.

Food and Beverage Industry: A proposal to reduce the supplementary duty on sugar from 30.0 per cent to 15.0 per cent has been made in order to promote domestic biscuits, chocolates, soft drinks, and condensed milk industries. It needs to be mentioned that CPD criticised last year's increase in such taxes. Consumers are expected to be benefited from the measure.

Mobile Telephony: A proposal to reduce customs duty on mobile phone sets from Tk 300.0-400.0 to Tk 150.0 has been proposed, which will boost the market growth and increase access to telephony.

Vehicle: Although the highest rate of customs duty is under consideration for reduction and the supplementary duty rates undergoing re-structuring, the government restructured supplementary duty on vehicles. The supplementary duty on motor cars and jeeps has been proposed to be revised at 30.0 per cent in place of the existing 15.0 per cent on those having cylinder capacity up to 1649. For those having cylinder capacity above 1649 but not exceeding 3000, it is proposed to be enhanced to 60.0 per cent from the existing 40.0 per cent, and for those having a cylinder capacity over 3000, it is proposed to be raised to 90.0 per cent from the existing 75.0 per cent.

It is not clear whether these rates are applicable for both re-conditioned and new cars. On one hand, these measures will facilitate revenue generation. On the other, the middle class will be deprived of access to cheap personal vehicles.

HARMONISATION

Export-Oriented Industries: The government has proposed to withdraw VAT at source on insurance, shipping bill of 100.0 per cent export-oriented industries and commission of Clearing and Forwarding (C&F) agents involved in such industries. The export-oriented industries will also receive 80.0 per cent refund of the tax paid on inputs relating to gas, electricity and insurance.

Paper: About 80.0 per cent of the paper imported in the country is now subjected to duty at a rate of 30.0 per cent, the remaining is subject to only a slightly lower rate. Both these rates are proposed in the budget to be unified and re-fixed at 25.0 per cent across the board. It, however, needs to be examined whether this duty benefits domestic printing industry and general consumers or not.

Billets: The government proposed to fix tariff value of ferro manganese, ferro silicon and silicon manganese used for the production of billets. These tariff values will be used for application of VAT on the finished products. It should be noted here that the re-rolling mills are producing billets locally and it is also imported from abroad. During the last fiscal, the price of MS rod and billets increased astronomically. It is expected that this particular measure will rationalise price on these materials.

Structure of Non-NBR Component

The share of non-NBR component has been plummeting over time (3.3 per cent of total revenue in FY2004 – down from about 5.5 per cent during the last decade). The most important item is non-judicial stamp, which recorded a negative growth in FY2004 (-3.3 per cent). Still, the target rate for non-judicial stamp in FY2005 is 14.4 per cent higher than FY2004.

Structure of Non-Tax Component

The share of non-tax revenue is also going down. The share of non-tax revenue as per cent of total revenue in FY2004 (revised) was 20.0 per cent, while in FY2005 the target rate is 18.5 per cent. Most important items are T & T (4.6 per cent), dividend and profit (2.6 per cent), administrative fees (2.6 per cent) and interest income (1.9 per cent). The predicted growth rate for FY2005 is 7.9 per cent (as against 15.1 per cent in FY2004). Tariff rates of these services need to be reviewed to make a realistic adjustment with social concerns in mind.

3.2.4 Public Expenditure

Revenue Expenditure

The target for revenue expenditure in FY2005 is Tk 30,518.0 crore, which is 13.8 per cent higher than the revised figure of FY2004. Three heads account for more than 70.0 per cent of the total. These three heads include: *pay and allowances* (24.0 per cent), *subsidies and transfers* (27.0 per cent), and *interest payments* (19.0 per cent). In FY2005, the allocation for defence services accounts for 12.7 per cent of the total revenue expenditure.

Revised figures for FY2004 show a shortfall of revised revenue expenditure in FY2004 over its original target for the same period. The revised figures of FY2004 show only a growth of 10.5 per cent over the revised realised figure of FY2003, when in the original estimate it had shown 16.8 per cent growth over FY2003 (target).

An additional amount of Tk 431.0 crore has been provided for "Repair and Maintenance," which is a positive aspect of the revenue expenditure. Another additional amount of Tk. 365 crore has been pledged for ongoing microcredit programmes with a view to reducing poverty. Moreover, Tk 200.0 crore has been allocated for Micro Entrepreneur Development Fund, a special fund for employment generation for hardcore poor and a special fund for re-training the voluntarily retired and retrenched employees.

A "Pay Commission" will be constituted at the beginning of the next financial year for re-fixation of pay scales for the officers and employees of the government and autonomous bodies taking into consideration the increased cost of living. The new pay scale will be effective from January 2005. CPD has strongly argued to set up a permanent Pay Commission for government employees. The CPD has also emphasised, along with pay enhancement, on the issues of Public Administration Reform such as workforce rationalisation, skill development, and predictability of career path, in its IRBD-Second Interim Report. CPD also believes that it is high time to think about establishment of a wage commission to ensure minimum pay for the low-paid working class.

In the budget, it has proposed to raise the medical allowances of all government employees from Tk 300.0 to Tk 400.0 per month from July 2004. The government will also grant one Festival Allowance equivalent to net monthly pension from the next fiscal year to all retired government servants. The government has also emphasised on the issue of "Public Administration Reform" by taking some important decisions like promotion of civil servants on the basis of merits and efficiency. The ministries/divisions have been already grouped into four clusters in order to promote specialisation in civil service and a provision of Tk 200.0 crore has been kept in next year's budget to fill up essential vacant posts.

The government needs to carry out these measures within the broader context of Public Administration Reform. One also wonders why a wage commission should not be set up as well.

Development Expenditure

Annual Development Programme

The ADP target for FY2004 was originally fixed at Tk 20,300.0 crore but was then axed down to Tk 19,000.0 crore. During FY2003, the total ADP implementation was only 80.0 per cent of the original target; this year the situation seems to be even more precarious. Information on ADP implementation until March of FY2004 suggests that a total amount of Tk 9,189.0 crore, i.e. about 45.0 per cent of the total allocation was spent during the first three quarter (July-March) of FY2004. Out of this amount, Tk 5,852.0 crore was spent as local resource and Tk 3,337.0 crore as project aid expenditure, which indicates that 50.0 per cent and 39.0 per cent of their respective allocations have been expanded. It is not clear though how effective it is to use the expenditure figure as a proxy of on-the-ground implementation of the projects.

The share of internal resources in ADP has crossed the 55.0 per cent mark in the proposed ADP for FY2005. In FY2004, the target for foreign resources was Tk 10,301.0 crore, accounting for a 50.7 per cent share in the total ADP finàncing. However, the revised figure shows that both the foreign and internal resources failed to reach the target in FY2004. The rate of foreign aid flow was lower than the internal resource mobilisation rate that turned around the external-internal share from 51:49 to almost 50:50.

The government is targeting a 55.5 per cent (Tk 12,207.0 crore) internal resource into the ADP for FY2005. The rest of the 44.5 per cent (Tk 9,793.0 crore) would come from the foreign financing, of which project aid accounts for about 33.7 per cent (Tk 7,425.0 crore) of total ADP financing.

The declining trend in both external and internal resource mobilisation in the recent past puts a question mark on the achievement of the proposed ADP. Keeping in mind the poor ADP implementation, CPD suggests that proper guidelines for expenditure and performance auditing of ministries should be undertaken as the major criterion for their future funding.

During FY2004, some of the ministries have failed to implement their allocated budget for development marginally, but some have failed utterly. Among those ministries, Planning Ministry's allocation was revised dramatically to about 7.0 per cent of its original. The original allocation was Tk 521.0 crore, which was reduced to Tk 33.0 crore (a 93.0 per cent reduction). In FY2005, the allocation for the said ministry is Tk 586.0 crore. The Ministry of Establishment's budget was also reduced by 31.5 per cent to Tk 39.0 crore from Tk 57.0 crore. For FY2005, its allocation is Tk 99.0 crore. The Ministry of Disaster Management's allocation was condensed by 74.0 per cent to Tk 50.0 crore from an original allocation of Tk 193.0 crore during FY2004. The Ministry of Liberation War Affairs also performed poorly with a revised ADP, showing a 77.0 per cent reduction in allocation. The original reduction was Tk 26.0 crore, which eventually reduced to Tk 6.0 crore. The allocation for FY2005 for the said ministry is Tk 46.0 crore. A similar situation has been noticed in the case of the Ministry of Information. The revised budget was trimmed by almost 49.0 per cent; an original allocation of Tk 82.0 crore was brought down to Tk 42.0 crore in FY2004, the allocation for FY2005 has been set at Tk 76.0 crore. The whole cluster of entertainment, culture and religious affairs ministries' allocation was revised and reduced by 20.0 per cent to Tk 257.0 crore from Tk 325.0 crore during FY2004; still their allocation was increased by almost 40.0 per cent from their revised allocation of Tk 359.0 crore.

It is observed that some of the ministries are provided with increased allocation in FY2005 even after failing to realise the original target and then revised targets were set at substantially reduced level during FY2004. In CPD's IRBD 2004 paper, mention was made on the poor condition of ADP implementation. It was suggested before the budget that the size of the ADP would be around Tk 17,000.0 crore. This suggestion, very unfortunately, might become a reality given the poor implementation of ADP by various ministries.

The CPD IRBD Second Interim Report observed that the aggregate ratio of ADP implementation compares almost equally with the same for the last year (with respect to actual ADP size). During the July-March period, the rate of ADP implementation for FY2001, FY2002 and FY2003 was 54.0 per cent, 42.0 per cent and 45.0 per cent respectively. However, it needs to be pointed out that such a business-as-usual approach will not be helpful in realising the full annual target of the ADP in the current fiscal year. It is now becoming increasingly obvious that one of the prime reasons for under-achievement of the ADP relates to low utilisation of foreign project aid available in the pipeline.

During the period July 2003-March 2004, Tk 7,128.6 crore, i.e. 60.0 per cent of the total government allocation was released for government expenditure. Among the line ministries, the Ministry of Religious Affairs utilised most of its allocation (70.0 per cent), followed by the Ministry of Home Affairs (69.0 per cent), Local Government Division (65.0 per cent) and the Ministry of Health & Family Welfare (57.0 per cent).

TABLE 3.6

Budget Allocation and Expenditure of Religious Affairs Ministry, FY2004-FY2005

	Allocation 2003-04 Budget	Revised 2003-04 Allocation	Allocation 2004-05 Budget	Growth between 2003-04 allocated and 2003-04 revised allocation (%)	Growth between 2003-04 allocation and 2004-05 allocation (%)
Non-Development	28.0	66.0	33.0	135.7	-50.0
Development	51.0	44.0	64.0	-13.7	45.4
Total	79.0	110.0	97.0	39.2	-11.8

Source: Compiled from Budget Survey FY2004-FY2005.

On the other hand, the Ministry of Liberation War Affairs, the Ministry of Information and the Planning Division were among the low ADP implementing ministries/divisions, utilising 5.0 per cent, 10.0 per cent and 13.0 per cent of their corresponding ADP allocations during the first three quarters of FY2004. The Road and Road Transport Division, Power Division and Ministry of Education have implemented around 55.0 per cent, 48.0 per cent and 45.0 per cent of their total allocations respectively during the first nine months of the FY2004.

One can identify at least four factors, which have contributed to the poor implementation of the ADP. First, introduction of the new public procurement policy squeezed the scope for indulging in corruption while implementing foreign aided projects created some disincentive to spend. Second, inability to undertake "prior actions" as agreed with the development partners under the project documents seriously constrained the country's access to foreign aid in the pipeline. Third, over-centralisation of the project-planning and programme approach made the utilisation of resources more time consuming. Finally, the state of uncertainty pervading the public administration in the backdrop of growing political confrontation encouraged many of the key persons in various government agencies to be indecisive or free sitters. *It is also getting abundantly clear that without an effective devolution of power and decentralisation of development administration through setting up of a strong upazila system, Bangladesh will not be able to effectively handle a larger ADP.*

Box 3.1: Sectoral Allocation of Development and Non-development Expenditure in FY2005

Sectors	FY2004 Revised	FY2005 Budget	Per cent growth of FY2005 over FY2004
Fuel and Energy	3977.0	4361.0	9.6
Transport and Communication	5709.0	6148.0	7.7
Rural Dev. & Cooperation	4685.0	4902.0	4.6
Education	6919.0	7859.0	13.6
Health	3345.0	3732.0	11.6
Agriculture	2859.0	4063.0	42.1
General Public Service	4995.0	8165.0	63.4
Social Security & Welfare	2015.0	2588.0	28.4
Industrial and Economic Services	616.0	595.0	-3.4
Recreation, Culture and Religious Affairs	647.0	712.0	10.0
Defence Services	3811.0	3901.0	2.4
Housing	561.0	611.0	8.9
Interest	5842.0	6533.0	11.8
Public Order and Safety	2387.0	2581.0	8.1
Memorandum Item	999.0	497.0	-50.2
Total	49367.0	57248.0	15.9

Source: CPD-IRBD Database (2004).

General Public Service (GPS)

- Large increase due to abnormally low allocation in FY2004, Development Support Credit was absent in FY2004 but has been budgeted for in FY2005. This is reflected in the allocation of the Finance Division, whose allocation increased by 73.0 per cent (from Tk 3,362.0 crore to Tk 5,807.0 crore).
- Planning Division allocation grew by 640.0 per cent between FY2004 and FY2005 (Tk 87.0 crore to Tk 644.0 crore).
- Establishment Division allocation grew by 24.0 per cent (Tk 342.0 crore to Tk 424.0 crore).
- Prime Minister's Office's allocation grew by 33.0 per cent (Tk 137.0 crore to Tk 235.0 crore).

Education

- Primary and Mass Education funding grows by 21.8 per cent (from Tk 2702.0 crore to Tk 3,292.0 crore). Majority of the increase (Tk 574.0 crore growth) is from Development allocation.

Agriculture, Fisheries & Livestock

- Agriculture allocation grew by 95.0 per cent (from Tk 910.0 crore to Tk 1,777.0 crore).
- Water resources allocation increased by 24.2 per cent (from Tk 911.0 crore to Tk 1,132.0 crore).

Social Security & Welfare

- Liberation affairs' increased by 55.6 per cent (from Tk 81.0 crore to Tk 126.0 crore).
- Social Welfare funding grew by 31.9 per cent (from Tk 389.0 crore to Tk 513.0 crore).

3.2.5 Fiscal Deficit

Overall budget deficit for the FY2004 was programmed at 4.8 per cent of GDP (Tk 15,809.0 crore), as the government targeted an 18.9 per cent increase in the total public expenditure from Tk 43,908.0 crore in FY2003 to Tk 51,980.0 crore in FY2004. The under-achievement of the public expenditure target (by -5.0 per cent) has slashed down the GDP-budget deficit ratio to (-) 4.2 per cent in the revised budget of FY2004. In this context, the government's target to achieve a 15.9 per cent higher public expenditure during the FY2005 has contributed to a marginal increase in the GDP-budget deficit ratio to (-) 4.3 per cent in FY2005 from (-) 4.2 per cent in FY2004.

In FY2004, the government targeted an amount of Tk 6,713.0 crore of foreign financing to fill up the 50.8 per cent of the total budget deficit. In practice, however, only 47.1 per cent of the total budget deficit was financed by the foreign financing and the remaining 52.8 per cent was financed by domestic resources (according to the revised budget FY2004). For the FY2005, the government has set a balanced target to finance its budget deficit with domestic (44.5 per cent) and foreign financing (55.5 per cent). Between the two major sources of domestic borrowing, borrowing from the banking sector would provide 16.3 per cent and another 28.2 per cent will come from non-bank sources. Bank source is to provide Tk 2,599.0 crore while Tk 4,500.0 crore will be provided by the non-bank sources. The nature of fiscal deficit is important as it is a synthetic indicator. It may grow when the economy is absorbing more investment, but it may go down because of inability spread.

3.3 SELECTED SECTORAL MEASURES

3.3.1 Agricultural Development

It has been proposed that there be a total allocation (revenue and development) of Tk 1,777.0 crore for FY2005 for Ministry of Agriculture (Tk 867.0 crore more than the revised allocation in FY2004). It is promised that in FY2005, agricultural extension research, training, production of improved seeds, conservation and distribution of seed and irrigation activities will be bolstered. In addition to the projects initiated under ADP, 16 development programmes financed from revenue budget will be implemented. Some major features of this year's budget are:

- Increased allocation on agricultural subsidy and agricultural incentives from Tk 300.0 crore in FY2004 to Tk 600.0 crore in FY2005. Increased budgetary allocation is a necessary precondition to bring about the desired changes. However, the sufficient condition for desired impact relies on the quality and effectiveness of implementation. Up to January 2004, only 31.4 per cent of the budgeted subsidies in FY2004 were utilised. Therefore, it is not clear how the targets of the FY2005 budget would be achieved through the existing institutions and implementation procedures.
- Cash incentive for export of agricultural products, fruits and vegetables will be raised to 30.0 per cent from 25.0 per cent. Past experience with disbursement of cash incentive indicates that due to the absence of clearly articulated and realistic procedures, allocated amount could not be spent. It is hoped that, proper mechanism would be in place and steps for awareness building among potential exporters would be taken to promote export of agro-products.
- Necessary incentives are to be provided for production of *rabi* crop.
- Bangladesh Bank will provide financing as required at a 5.0 per cent rate of interest to Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnayan Bank

(RAKUB) and other nationalised banks so that they can provide adequate agricultural loan to the farmers at an 8.0 per cent rate of interest. This is a clearly spelt out mechanism, which can be monitored to evaluate the progress and impact.

3.3.2 Fisheries and Livestock Sector

The government proposed a total allocation (development and revenue budget) of Tk 546.0 crore for the fisheries and livestock sector in FY2005 (an increase of Tk 110.0 crore from the revised budget allocation of FY2004). The budget mentioned that increased allocation would enable the ministry to increase expenditure for purchase of equipment and medicine for treatment of livestock, feed for livestock and poultry, production of vaccine, research, etc. The government has also announced import of capital items for poultry farms without customs and supplementary duties. These will surely reduce the cost of importing such items and would be beneficial to the poultry industry by reducing cost of production and enhancing competitiveness. The Ministry of Fisheries and Livestock will implement 30 projects under the development budget for extension of pisciculture (recovering fish habitat in open water bodies), extension of pisciculture technology at the Union level, extension of artificial insemination and also livestock services at the Union level. These are welcome initiatives but delivering the outcome would surely require concrete planning and monitoring. In the absence of such mechanisms, it would not be possible to achieve the targets. It may be noted that in FY2004 (up to January 2004), the ministry of Fisheries and Livestock spent 53.9 per cent of revenue budget and only 15.4 per cent of the development expenditure.

3.3.3 Water Resources

Government has proposed an allocation of Tk 1,132.0 crore in the revenue and development budget for Ministry of Water Resources in the budget for FY2005.

Up to January 2004, only 24.6 per cent of the development expenditure's budgeted amount for agriculture (allocated for Agriculture, Fisheries and Livestock, Environment, Land, Water, Ministry of Food) was utilised. In the case of revenue expenditure, utilisation was 60.9 per cent. Low implementation progress during the first half of the year may result in mis-utilisation at the end of the fiscal year. To overcome such problems in the proposed budget, one would naturally expect clear direction, which is missing in the budget document.

3.3.4 Rural Development

For local government and the rural development sector, it has been proposed that there be a total allocation (revenue and development) of Tk 4,902.0 crore in FY2005 (Tk 217.0 crore more than the revised budget of FY2004). The Local Government Engineering Department (LGED) will construct 3000 km of metal roads, 5,500 km of earthen road and 220 Union Parishad complexes. A "Char Livelihood Project" in five districts with an outlay of Tk 475.0 crore is being implemented to raise the living standards of the extreme poor, belonging to some disaster prone districts. The "Abashan Project" is being implemented by the Prime Minister's Office to provide land, houses, credit facility, education, health, family planning services and employment to 65,000 landless and extremely impoverished people. The Youth Development Directorate is also implementing projects for employment generation of unemployed rural youth, both men and women, through provision of training and microcredit.

In the case of rural development and local government, only 40.5 per cent of the revenue expenditure and 40.1 per cent of the development budget was utilised. Thus, it is to be seen how far the planned projects would be completed.

3.3.5 Industry

According to the provisional estimates provided by the BBS, the manufacturing sector grew at the rate of 7.41 per cent in FY2004, which is higher than that of FY2003 (6.6 per cent). The share of manufacturing sector in the GDP increased from 15.9 per cent to 16.2 per cent, which is well below the target of 25.0 per cent. It needs to be mentioned here that the growth rate of small industries was higher than large and medium industries.

On a point-to-point basis, industrial production has declined between February 2003 and 2004 by about (-) 2.7 per cent. Conversely, the first eight months' average QIP for FY2004 was only 1.5 per cent higher than the same in FY2003. It is interesting to note that the QIP during July-February of FY2003 grew by 5.1 per cent over the matching period of the previous year. It is contrary to the common wisdom that QIP is less in current year when overall growth in manufacturing sector is better than the previous years.

The industrial sector did not witness any new import tariff and tax; at the same time, the tariff peaks have been reduced through restructuring of tariff slabs. The measures are expected to boost industrial sector growth. The budget measures in some selected sectors are discussed below.

- *Textile:* Considering the importance of textile industry as a backward linkage industry of RMG sector, which is under tremendous pressure at the advent of the MFA phase out, the government proposed to reduce the income tax for the sector from 20.0 per cent to 15.0 per cent.
- *Jute:* The government reduced the income tax for jute industry, which might interest the private sector to invest in the sector. However, the disincentive of production of jute by the farmers was not addressed. As a result, the rebate will not bring the desired result.
- *RMG:* The government decided to withdraw collection of VAT from insurance, shipping bill and C&F agent's commission relating to 100 per cent export-oriented industries including readymade garments industries at source. Although the measures came as a rationalisation move of tax system, these will also benefit, at least to a certain degree, the exporters, particularly those belonging to the RMG sector, by inspiring them to attain more competitiveness.
- *Agricultural commodities:* Cash subsidy for export of agricultural commodities, introduced by the alliance government, has been increased to 25.0 per cent, which is considered as a welcome step. The government increased allocation for the promotion of agro-based industries to Tk 100.0 crore from Tk 50.0 crore in FY2005.

- *Equity Entrepreneurship Fund*: The government is continuing the allocation in EEF in FY2005. The volume of allocation is Tk 200.0 crore, which is Tk 100.0 crore less than that of the previous fiscal year. This fund is reserved for providing equity support to computer software, food processing and agro-based industries. It is to be mentioned that the system and framework of EEF was restructured following a CPD policy brief in FY2002, which started to give fruit and during last fiscal the application for fund exceeded the allocation. However, the disbursement was slow because of the cumbersome selection procedure.

3.3.6 Investment Promotion

Industrial Park: To create employment opportunities for about 900,000 people, the budget proposed building of an industrial park (to be set up by BSCIC) in the Adamjee Jute Mills complex and setting up of 150 industrial units by the Bangladesh Export Processing Zones Authority in the 74-acres land of the closed Chittagong Steel Mills.

Refinancing for SMEs: The Bangladesh Bank will expand refinancing facilities amounting to Tk 250.0 crore at 5.0 per cent rate of interest to financial institutions for extending credit to entrepreneurs of small and medium industries.

Restructuring Banks: The government allocated Tk 200.0 crore as capital for expanding the loan operation in rural areas through the Karma Sangsthan Bank (KSB), Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB). The allocation is expected to promote financing operations of these institutions targeting the rural non-farm economy.

3.3.7 Foreign Direct Investment

According to the BoI registration figures, the FDI increased from US$111.7 million during July-April period of FY2003 to US$242.3 million during the corresponding period of FY2004. The actual flow of FDI, including those in EPZs, was US$119.9 million for July-January FY2004, which was 54.3 per cent higher than that of the previous period. Despite this increase, the investment could not reach the peak of 1997.

Measures related to attracting FDI are few in this budget, which reflects the reality that non-economic factors dominate an investment climate where fiscal incentives matter in an insignificant way.

To encourage foreign direct and joint venture investment, the existing tax rate of 15.0 per cent on income from capital gains arising out of transfer of stocks and shares of private limited companies has been proposed for reduction to a level of 10.0 per cent.

3.4 SOCIAL SECTOR

3.4.1 Education

Education has received the highest allocation of Tk 7,680.0 crore in the combined revenue and development budget, which is 13.4 per cent of the total budget of 2004-05. Out of this allocation, Tk 3,071.0 crore will be spent from the development budget for implementing 51 projects in the education sector. Measures that will be undertaken in order to ensure human development include appointment of new teachers, construction of new classrooms, training of teachers, introduction of stipends at the primary levels and financial assistance to students. In addition to the current programme on "Primary Education Development Porgramme-2," a new project named "Reaching Out of School Children" for an amount of Tk 400.0 crore will be undertaken to create opportunities for primary education for the deprived children. The budget proposed to double the number of scholarships at different primary and secondary levels from 35,000 to 77,000 from July 2004-05. This will leave a positive impact on human development.

In terms of its share in total GDP, the allocation in the education sector was almost stable during the last few years, remaining at around 2.0 per cent of the GDP. Allocation in the education sector is 13.7 per cent higher than that of the previous budget (2003-04).

It is mentioned in the budget that in order to improve higher education, infrastructure facilities are being constructed, stipends for women have been introduced and four science and technology universities have been established. These are, however, not new proposals and the budget does not indicate whether these activities will be expanded or not. While quality of education at all levels remains a major concern, the budget also does not say anything about the job opportunities for these educated people.

3.4.2 Health

An amount of Tk 3,732.0 crore has been allocated for the health sector in the combined revenue and development budget, which is marks an increase by 11.6 per cent from the last year (Tk 3,345.0 crore). The share of health expenditure in the total budget is 6.5 per cent. Various measures for improving the health services, both in the urban and rural areas, include setting up of medical universities at the national level and medical colleges and health institutes in the private sector are being taken up for the development of the health sector.

However, how health services will be ensured among the urban poor is not mentioned. How many people will be benefited from the doorstep health services and how will it be ensured for the poor and deprived are not mentioned in the budget.

A new programme in 21 upazilas aimed at reducing the maternal mortality by 75.0 per cent in line with the MDGs being launched from July 2004 is a commendable step.

TABLE 3.7

Allocation for Social Sectors and Defence Services

Sectors	2004-05	2003-04 (Revised)	Increase (%)	Percentage share in total budget
Education	7,680.0	6,757.0	13.66.0	13.4
Health	3,732.0	3,345.0	11.56.0	6.5
Defence	3,901.0	3,811.0	2.36.0	6.8

Source: Compiled from Budget Survey FY2004-FY2005.

3.5 SAFETY NET

3.5.1 MFA Phase Out

In FY2004, the reduction of corporate tax from 30.0 per cent to 10.0 per cent up to June 2006 facilitated positive export growth by the RMG sector. This measure provides some breathing space to the sector. However, the sustainability of the growth in the sector will depend on improvement of productivity and diversification of the market and products within the sector.

The government has admitted that the MFA phase-out might have some short-term impacts on employment in this sector and its exports. To mitigate the potential negative impact, the government allocated a special fund with an allocation of Tk 20.0 crore "for retraining and creating employment opportunities for employees/labourers of garment industries." Considering even 0.1 million possible unemployment in the sector, this allocation will be Tk 2,000.0 per person which is very insignificant, given that a major portion will be spent for management of such programme. But this cosmetic measure will fail to address the concern of the workers and mitigate the creeping panic among the workers of the sector.

3.5.2 Privatisation and Golden Handshake

The government also allocated Tk 30.0 crore "for retraining and creation of employment opportunities for the voluntarily retired, retrenched employees/labourers." This fund has been provided by the World Bank. It is not clear how many workers and employees will be retrenched under the programme and how much compensation they will receive from the "voluntary retirement."

3.5.3 Social Safety Net

In the case of social safety net, it is a pleasant exception in the Bangladesh context that programmes undertaken during the earlier government are continued and improved by the successive governments. Under the FY2004 budget, the amount of *Old-age Allowance and Widowed and Deserted Women Allowance* would increase to Tk 165.0 per month (from the existing Tk 150.0) and the number of beneficiaries would be increased from 15.0 lakhs to 18.0 lakhs. The government also raised the allocation for the "Fund for Acid-burnt Women and Rehabilitation of Physically Handicapped" to Tk 65.0 crore. Allocation of Tk 150.0 crore as "Fund for Mitigating Risk due to Natural Disaster" and Tk 148.0 crore as "Fund for the Housing of the Homeless" deserves to be lauded. The government also decided to raise the number of beneficiaries of "Honorarium Programme for Insolvent Freedom Fighters" by 10,000, reaching 60,000. The budget proposed to increase distribution of foodgrain under VGD, VGF, FFW, TR, GR and other non-monetised channel from 6.5 lakh metric tons in FY2004 to 7.4 lakh metric tons in FY2005. In addition, budget for food for works programme (cash) also increased from Tk 140.0 crore in FY2004 to Tk 168.0 crore. It may be mentioned here that total amount of foodgrain distributed under these programmes was 8.4 lakh metric tons in FY2002, which is still high to reach.

The government also allocated Tk 100.0 crore to meet sudden natural disasters as block allocation in the next year's budget to the Ministry of Food and Disaster Management.

The major problem lies in implementation of social security and welfare measures. Until January 2004, only 21.5 per cent of the budgeted amount in FY2004 has been spent. Therefore, it is not clear if the targets of distribution would be achieved at all. One may even question the proper targeting of the deserving people to whom the desired benefit would be delivered. The budget failed to outline the delivery mechanism for the allocated amount of support to the deserving individual. In the case of social security measures, geo-targeting is needed. Special and targeted employment programmes for the vulnerable poor should have received priority in the upazilas with high incidence of poverty. According to a recent study, the areas with highest incidence of poverty (greater than 47.0 per cent) are the depressed basins in Sunamganj, Habiganj and Netrokona districts; the north-western districts of Kurigram, Nilphamari and Nawabganj; and Cox's Bazaar and coastal islands of Bhola, Hatia and Sandeep. The areas with low levels of poverty are the greater Dhaka and Barisal regions, and Bogra, Pabna, and Jessore regions.

3.5.4 Mitigating Economic Shocks

In addition to the poverty-targeted programmes, the budget also proposed two new programmes to enable employees/labourers to face sudden economic shocks with an allocation of Tk 50.0 crore for these programmes. Out of Tk 50.0 crore, Tk 30.0 crore is put aside for retraining and employment creation opportunities for voluntarily retired, retrenched employees/labourers. The remaining Tk 20.0 crore will be used for retraining and creating employment opportunities for employees/labourers of garment industries.

3.5.5 Microcredit for Self-employment

The budget proposed a combined allocation (development and non-development) of Tk 5,850.0 crore for various kinds of programmes related to expansion of microcredit programmes by NGOs and six ministries. Through its *Abashan Programme* the government plans to rehabilitate 65,000 landless and homeless families through self-employment.

Increased allocation to Palli Karma Sahayak Foundation (PKSF) for microcredit programme, fund for NGO Foundation, special fund for employment generation of the hardcore poor and fund to create micro enterprise in the rural areas through the PKSF are proposed in the budget of FY2004. Moreover, the budget also proposed an allocation of Tk 100.0 crore for promotion of agro-based industries.

3.6 LAW AND ORDER

Recognising the seriousness of the law and order situation, the government decided to allocate Tk 2,367.0 crore for the Ministry of Home Affairs, which is 32.2 per cent higher than that of the previous year. Of the amount, Tk 306.0 crore would be pumped into the Police Administration for its modernisation through improved logistics support and making the Rapid Action Battalion (RAB) fully operational. It is well understood that the present state of the law and order has largely resulted *inter alia* from the inadequate size of the police force, existing state of the high level corruption within the department, and lack of professional ethics among the members of the force. The budget did not address these important issues, and did not provide a clear guideline as to how these problems will be solved. If no measures are taken to increase the size of the entire force, develop professional ethics of the police personnel, and curb corruption within the department, spending money for obtaining more logistics, initiating a new battalion would have little impact on the deteriorating law and order condition.

The government also made a separate allocation of Tk 5.0 crore for forming the independent Anti-Corruption Commission.

Defence Services: The allocation for the defence sector has increased by 2.36 per cent from Tk 3,811.0 crore in 2003-04 (revised) budget to Tk 3,901.0 crore in the combined revenue and development budget, which is 1.2 per cent of total GDP. In the total budget, the share of allocation for defence has decreased from 7.7 per cent in 2003-04 (Revised) to 6.8 per cent in the proposed budget.

3.7 CONCLUDING OBSERVATIONS

Bangladesh remains a country of paradoxes, where on the one hand the economy suffers from under-investment, and on the other, investible surplus remains unutilised. Thus, in the final analysis, it boils down to the question of delivery, rather than effective and quality delivery, of public resources to the disadvantaged groups. Under the circumstances, magnitude of allocation acquires secondary importance.

Bangladesh is living between twin crises. On the one hand, it needs bigger budget for achieving higher GDP growth and meeting the MDGs. On the other, it fails to implement even a much smaller budget from that perspective, inviting criticisms from the sceptics. The country needs to be pulled out from these gravitational paradoxes.

In this context, the implementation outlook appears to be myopic due to absence of a cogent strategy. There is hardly any introspection or soul-searching about the causes, which have led to significant shortfall in ADP implementation in the successive years. There is nothing on public administration reform, local government strengthening, means to improve utilisation of foreign aid, improving the quality of services in public health and education, etc. *So the question is what is the main reason behind this under-utilisation-is it the absorption failure, demand failure, delivery failure, outreach failure or governance failure?*

Each of these may be equally responsible. Thus, in the final analysis, full delivery of the resource package as well as faithful delivery of the development outlay will be the yardstick for judging the success of this year's budget. In the absence of successful delivery of the development package envisaged by the government, it will be difficult to anticipate gearing up of the private investment. Incidentally, the early signals of pick up in private investment in FY2004 have already been blurred during the third quarter. If the government fails to ensure supply of quality electricity in adequate quantity to protect life and property of its citizens, much more than implementation of budgetary measures will be at stake.

However, review of various revealed variables of the MTMF shows that a number of key indicators are performing below the target. These include such key variables as domestic savings, both public and private investments, revenue-GDP and public expenditure-GDP ratios. Inflation rate has gone beyond the targeted rate. On the other hand, GDP growth rate along with export-import growth rate remains on target. Accordingly, in the coming months, protecting the integrity of the macro framework may emerge as an issue.

With impending external shocks such as MFA phase-out and possible escalation of internal conflict such as political confrontation, the delicate balance between development and stagnation may be broken. However, safeguards against such situations remain beyond the scope of a national budget.