Chapter II

Analysis of the National Budget for FY2008-09

2.1 INTRODUCTION

As is known, the National Budget for the fiscal year 2008-09 (FY2008-09) and Revised Budget for FY2007-08 were presented by the Hon'ble Advisor for Finance and Planning on 9 June 2008. In keeping with its tradition, the Centre for Policy Dialogue (CPD) presented its budget reaction the following day at a Media Briefing. The present report has been prepared in continuation of yet another of CPD's traditions which aims to analyse major proposals in the budget with a view to assess the implications of the budget proposals for the economy, highlight the challenges of implementation of the proposed measures and identify areas where additional interventions were required. The analyses are based on data and information generated by various Ministries, departments and agencies of the government, CPD's own surveys and also other sources. The objective of the present report is to put under scrutiny the Budget FY2008-09 document at a time, when the budget proposals are being discussed by various stakeholders so that policymakers could benefit from reactions of the citizens and take cognisance of their suggestions whilst finalising the Budget document.

2.1.1 Departures and Distinguishing Features of Budget FY2008-09

In presenting the budget for the previous year i.e. FY2007-08, the caretaker government (CTG) was aware that it would be responsible for implementing the budget proposals for the duration of the entire fiscal year. This time around, in the backdrop of the election roadmap and national aspiration for democratic transition by the end of 2008, it is envisaged that the CTG will be responsible for implementing the budget proposals only during the first half of the FY2008-09; it is expected that the responsibility to implement the budget proposals during the second half of FY2008-09 will fall on a democratically elected government.

The Finance Advisor has termed the Budget for FY2008-09 as a "document to overcome crisis." Evidently, this is a clear recognition of the manifold challenges faced by the CTG in terms of maintaining macroeconomic stability, attaining growth targets and implementing the planned activities envisaged in the Budget for FY2007-08. As is known, these challenges originated both in the global market and also in the domestic economy, in the backdrop of high inflationary trends in the global market and consecutive natural disasters which affected the domestic economy negatively. International market prices of food, fuel, fertiliser, vegetable oil and other essential items, and also those of machineries, industrial raw materials and intermediates had registered a rise in the range of 50-120 per cent in the span of one year. Floods cost a crop loss to the tune of about 1.6-1.8 million tonnes of rice and the damage caused by cyclone Sidr was estimated to be at least about USD 1.8 billion. Adverse global and domestic factors slowed down economic performance in FY2007-08, with growth rates in key sectors such as agriculture, (both crop and non-crop sub-sectors) and the industry falling behind the budgetary targets.

It is true that a number of key macroeconomic indicators did start to register some improvements, particularly in the latter half of FY2007-08 thanks to higher Boro harvest (of about 17.5 million tonnes), larger credit infusion to both agriculture and industry, higher industrial growth and higher export, enhanced remittance flows, and better domestic resource mobilisation through significantly higher income tax collection. A large scale public food distribution system (PFDS) and extensive safety net programme were successfully geared up to provide food security in the aftermath of floods and cyclone.

However, underachievement in annual development programme (ADP) implementation, including in some key sectors such as energy, continued to severely constrain the investment environment required to stimulate employment generation and accelerate poverty reduction. Higher expenditure, required to sustain mounting subsidies, required the CTG to incur an increasingly larger debt burden. Consequently, level of overall economic performance remained below the projected targets. Growth of gross domestic product (GDP) initially projected at 7 per cent for FY2007-08 had to be subsequently revised downward to 6.2 per cent (in the FY2008-09 budget speech). Each of the eight objectives as set out in the budget speech for FY2007-08, which included maintaining macroeconomic stability; accelerating economic growth; keeping inflation within tolerable limits; reduction of poverty; ensuring food security; ensuring regional and income equity; and removing constraints to private sector-led growth came under challenge as the fiscal year progressed.

The budget for FY2008-09 had to be thus formulated in the backdrop of the aforesaid realities on the ground. Understandably, there is an attempt in the budget FY2008-09 to address these emergent challenges through various fiscal initiatives, and revenue and developmental expenditure measures.

As is known, following the implementation of Poverty Reduction Strategy (PRS) during 2005-07, and its extension in 2008, a three-year PRS-II is now being finalised. Budget FY2008-09 is supposed to be the first year of PRS-II. PRS-II was expected to act as the key medium-term plan that would be implemented through allocation of resources through subsequent budgets. Indeed, the budget for FY2009 takes cue from the Medium Term Macroeconomic Framework (MTMF) prepared for PRS-II. However, the key targets, including those for poverty reduction, reduction of income inequality and employment creation are yet to be set out in PRS-II. It is thus not surprising that there is no clear indication in the budget with regard to these targets. The question of sequencing of the two documents remains. There is a need to ensure both coherence and synchronisation of the key targets in PRS-II and the budgets prepared during the period of implementation of PRS-II, so that both the documents are geared to implement the medium term macroeconomic framework targets in tandem.

The budget for FY2008-09 talks about attaining three major objectives: maintaining macroeconomic stability, accelerating GDP growth and achieving poverty reduction. The budget mentions eight priority areas: maintaining price level of essentials within tolerable limit; employment generation; widening and deepening of social safety net programmes; reducing regional disparity; increasing agricultural projection; ensuring food security; increasing power generation; and the overall development of communication network including information technology (IT).

An attempt has been made in the following sections to examine the various proposals in the budget FY2008-09 from the perspective of the objectives and targets mentioned in the budget speech.

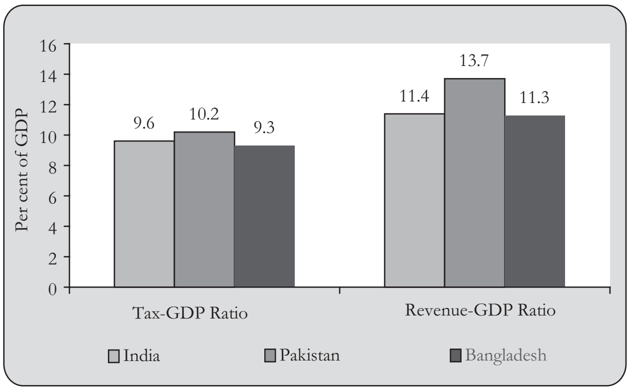
2.2 PUBLIC FINANCE FRAMEWORK

One of the primary concerns of the proposed budget for FY2008-09 is overcoming the crises stemming from global and domestic markets. The budget is exposed to a number of challenges. One major concern is the expenditure target. Expenditure budget for the fiscal year approaches the milestone of Tk. 100 thousand crore, which whilst not being significantly larger compared to the revised budget of the last year, is appreciably higher than the original budget of FY2007-08. However, the prevailing inflationary pressure perhaps justifies this increased expenditure since the growth will not be significant in real terms. Despite the large budget, marginalisation of development expenditure is evident with lowest ever targeted ADP (in terms of share of GDP). With the high deficit target of 5 per cent of GDP, mobilising resources to finance this earnings-expenditure gap might turn out to be a major challenge for the government during the fiscal year. Notwithstanding the fact that a record aid inflow will be required, pressure on domestic sources will also be significant, forcing higher borrowing from the banking system that might threaten credit flow to the private sector.

2.2.1 Revenue Earnings

A target of Tk. 69,382 crore in revenue collection has been set for FY2008-09, which is Tk. 8,843 crore or 14.6 per cent higher than the revised figure for FY2007-08. Revenue-GDP ratio and tax-GDP ratio are targeted at 11.3 per cent and 9.3 per cent respectively, remaining more or less stagnant compared to the revised targets of FY2007-08 (11.3 per cent and 9.0 per cent respectively). However, these targets are somewhat modest when compared to neighbouring economies (Figure 2.1).

Figure 2.1: Revenue-GDP and Tax-GDP Ratio of South Asian Countries



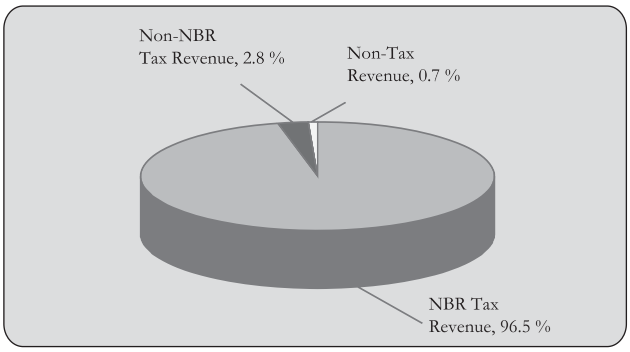
Source: CPD-IRBD database.
Note: * Budget figures for FY2008-09.

NBR Tax Component

Targets set for FY2008-09 requires National Board of Revenue (NBR) tax earnings to achieve 18.6 per cent growth over the revised budget of FY2007-08, compared to 27.1 per cent growth in the revised budget of FY2007-08 over the actual receipts of FY2006-07. This target leaves NBR to contribute 78.6 per cent of the total revenue earnings for the next fiscal year, which was 75.9 per cent in FY2007-08, according to the revised estimate.

Revenue growth in FY2008-09 will solely depend on the increased earnings by the NBR as the targets require the NBR to contribute 96.5 per cent of the total additional revenue (Tk. 8,843 crore) of FY2008-09 (Figure 2.2). According to the targets, supplementary duties (SD) will have to record the highest growth (19.5 per cent), followed by value added tax (VAT) (19.0 per cent) and income tax (18.6 per cent). Import duty is targeted to increase by 16.8 per cent. However, growth target for import duty may not be eventually met in view of the slow growth performance demonstrated during the recent years, owing to reduction or withdrawal of duties on import of food items and critical inputs for industrial sector.

Figure 2.2: Contribution to Revenue Growth by Components: FY2008-09



Source: Budget document.

Provision of legalising undisclosed money reintroduced in the budget for FY2008-09 may again contribute towards the targeted NBR growth. However, continuation of this facility in consecutive years may weaken its impact. At the same time, with the anti-corruption drive losing some of its momentum, achieving NBR target will be a challenge in FY2008-09.

Non-NBR Tax and Non-Tax Components

Growth target for Non-NBR tax component Narcotics and Liquor (NL), Vehicles, Land and Stamps) has been set at 12.1 per cent in FY2008-09, which was 10.1 per cent in the revised budget of FY2007-08 over the actual receipt of FY2006-07. The projected growth for FY2008-09 will marginally reduce the share of non-NBR tax in total revenue to 3.3 per cent, which was 3.4 per cent in the revised budget for FY2007-08.

Major surprise, however, comes from the target of non-tax revenue set for FY2008-09. While the posted growth in FY2007-08 (revised budget) was as high as 42.7 per cent over the actual receipt of FY2006-07 under this head, budget for FY2008-09 targets only 0.5 per cent growth (over the revised budget of FY2007-08). Conversion of Telegraph and Telephone (T&T) board into a company is said to be the cause behind the significantly lowered growth in non-tax revenue collection. But even if the revenue collected from T&T board is excluded from the total non-tax revenue collection of FY2007-08, the growth posted in that fiscal year would be 21.2 per cent over the actual receipt of FY2006-07 (including revenue from T&T). Therefore, the growth target in earnings from the non-tax component still appears to be rather conservative. Contribution of non-tax component in the total revenue earnings of FY2008-09 is also set to decrease to 18.2 per cent (20.7 per cent in the revised budget of FY2007-08).

2.2.2 Public Expenditure

The budget for FY2008-09 proposed an expenditure target of Tk. 99,962 crore, which is

Tk. 20,348 crore (25.6 per cent) higher than the original budget and Tk. 13,877 crore (16.1 per cent) higher than the revised budget of FY2007-08. This indicates faster expenditure growth target against the revenue growth of 14.6 per cent. Public expenditure as a percentage of GDP in FY2008-09 will be 16.3 per cent, which is marginally higher than that of FY2007-08 (16.1 per cent, revised). Share of ADP in the total expenditure, which was already getting marginalised in FY2007-08 compared to the previous years, got squeesed further in FY2008-09. Within the total expenditure, share of ADP and non-ADP expenditure accounts for 25.6 per cent and 74.4 per cent respectively, while their respective shares in FY2007-08 (revised) were 26.1 per cent and 73.9 per cent. In FY2006-07 (revised), these figures were 32.3 per cent and 67.8 per cent respectively.

Table 2.1: Sector-wise Distribution of Total Expenditure

Sector	FY08 (Revised)	FY09 (Budget)	Change	
			Crore Tk.	%
Public service	9052	14824	5772	63.8
Fuel and energy	3585	4340	755	21.1
Industrial and economic services	662	951	289	43.7
Social security and welfare	4627	8207	3580	77.4
Agriculture	8690	9126	436	5.0
Housing	804	935	131	16.3
Recreation, culture and religious affairs	838	879	41	4.9
Interest	11967	12565	598	5.0
Transport and communication	6042	6070	28	0.5
Education and technology	11654	12258	604	5.2
Health	5261	5862	601	11.4
Public order and safety	5147	5588	441	8.6
LGRD	6945	7285	340	4.9
Defence services	5951	6405	454	7.6
Total expenditure	81225	95295	14070	17.3

Source: Budget documents.
Note: Excluding loans and advances, domestic and foreign debt, food account operations and structural adjustment expenditure.

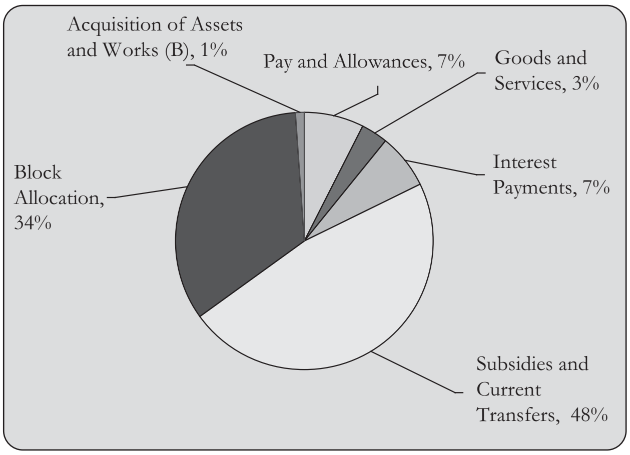
A sector-wise distribution analysis of total expenditure (development and non-development) reveals that highest growth will take place in social security and welfare sector (77.4 per cent), followed by public service sector (63.8 per cent) over the revised allocation of FY2007-08. Expenditure on industrial and economic services sector and fuel and energy sector are also targeted to post significant growth of 43.7 per cent and 21.1 per cent respectively (Table 2.1). Higher expenditure on social security and welfare sector stemming from increased expenditure on safety net programmes might help to ease the impact of inflation among the poorest population.

Revenue Expenditure

Revenue expenditure (augmented) target for FY2007-08 is Tk. 62,635 crore, which is Tk. 8,402 crore or 15.5 per cent higher than the revised figures for FY2007-08. Economic analysis of revenue expenditure reveals that expenditure on account of the three major heads, "salary and allowances," "interest payments" and "subsidies and transfers"[2] - which is set to account for 80.6 per cent of the total actual revenue expenditure, will grow by 4.7 per cent, 5.0 per cent and 21.0 per cent respectively in FY2008-09. Tk. 3,395 crore is kept as block allocation which was only Tk. 447 crore in the revised budget of FY2007-08. An increased block allocation raises some concerns since this type of allocation goes against transparency aspects of a budget.

It is to be noted that the total growth in revenue expenditure in FY2008-09, according to economic classification, over the revised budget of FY2007-08, is mostly due to the increased expenditure on subsidies and increased block allocation (Figure 2.3).

Figure 2.3: Contribution to Growth in Revenue Expenditure by Major Heads



Source: Budget document 2008-09.

[2]Subsidies and transfers in economic classification excludes those of BPC, PDB and Petrobangla.

These two subheads contribute about 84 per cent of the total additional revenue expenditure of FY2008-09 (subsidies and transfers: 48.9 per cent, block allocation: 35.1 per cent). Increased domestic debt servicing liabilities will contribute about 7.5 per cent to this growth.

Total subsidy demand (including Bangladesh Petroleum Corporation (BPC), Bangladesh Power Development Board (PDB) and Petrobangla) for FY2008-09 is estimated to be Tk. 13,641 crore which is 127.4 per cent higher compared to the original allocation for FY2007-08. However, due to growing fuel, fertiliser and food subsidy demand, revised budget of FY2007-08 increased the allocation to Tk. 12,129 crore. Even then, subsidy allocation of FY2008-09 is Tk. 1,512 crore or 12.5 per cent higher (Table 2.2). Total subsidy payment in FY2008-09 will be 13.6 per cent of the total budget.

Table 2.2: Distribution and Growth of Subsidy Expenditure

	FY2007-08 (Budget)	FY2007-08 (Revised)	FY2008-09 (Budget)	Change (Budget 2009 over Revised Budget 2008)	
				Crore Tk.	%
Food	785.0	735.0	1318.0	583.0	79.3
Agriculture- fertiliser and electricity	1500.0	3642.0	3738.0	96.0	2.6
Agriculture- diesel	750.0	250.0	540.0	290.0	116.0
Export- cash incentive	1.1	1270.0	1050.0	-220.0	-17.3
Others	64.0	15.0	55.0	40.0	266.7
BPC	1200.0	5317.0	6106.0	789.0	14.8
PDB	600.0	600.0	400.0	-200.0	-33.3
Petrobangla	0.0	300.0	434.0	134.0	44.7
Total	5999.0	12129.0	13641.0	1512.0	12.5

Source: Budget documents 2008-09.

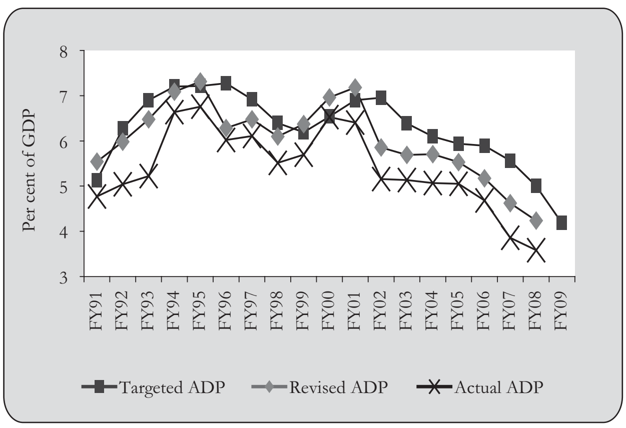
Development Expenditure: ADP

New ADP target for FY2008-09 is set at Tk. 25,600 crore. Although the size of this ADP is 13.8 per cent higher than the revised ADP of FY2007-08, it will be 3.4 per cent lower than the original ADP of FY2007-08. This will be a unique phenomenon as it will be the first time that an ADP has been planned to be smaller than the original ADP of the previous year. ADP growth in real terms (taking current 10 per cent average inflation into account) in FY2008-09 over the original ADP of FY2007-08 would be even lower by about 13 per cent, which approximates the revised ADP (RADP) of FY2007-08. In fact, ADP of FY2008-09 is targeted to be only 4.2 per cent of the GDP, which is the lowest since FY1990-91 (Figure 2.4). Such a low ADP raises serious concerns. Reduced development expenditure is expected to have negative implications for the economy from the perspective of employment generation, infrastructure development and private sector investment.

Another distinguishing feature of the new ADP is the high share of foreign resources in its financing. Foreign component is targeted to contribute about 47 per cent of the total ADP, which was 37 per cent in the RADP of FY2007-08 and 40 per cent in the original ADP of FY2007-08. This would require larger mobilisation of donor assistance in FY2008-09, and an inability to do so will put into doubt about implementation of the ADP.

In the new ADP, social welfare and industries sector received the highest increase over the RADP of FY2007-08 by 138.6 per cent and 103.4 per cent respectively. Rural development sector got highest allocation (Tk. 3,523.0 crore or 13.8 per cent of the total allocation) in the ADP of FY2008-09, followed by education and religion (Tk. 3,519.0 crore or 13.7 per cent), and power (Tk. 3,502.9 or 13.7 per cent). Agriculture and energy (oil, gas and natural resources) sectors have also been prioritised in the ADP of FY2008-09 with 38.4 per cent and 75.9 per cent increased allocations respectively over the RADP of FY2007-08

Figure 2.4: ADP as Per cent of GDP



Source: CPD-IRBD database.

As was the case for the original ADP of FY2007-08 (mentioned in CPD's analysis of the national budget of FY2007-08, made on June 2007), ADP of FY2008-09 also raises the question about an attempt to transfer the fiscal burden from the previous year to the budget for FY2008-09 (Table 2.3).

Table 2.3: Changes in ADP for Selected Sectors

Sector	Change (Crore Tk.)	
	ADP08 - RADP08	ADP09 - RADP08
Transport	752.6	899.3
Education and religious affairs	721.3	489.4
Power	644.1	513.9
Rural development and institutions	381.9	348.5
Health, nutrition, population and family welfare	286.7	142.6
Oil, gas and natural resources	270.5	348.0

Source: Budget document 2008-09.

Sectoral allocation structure shows that large downward revisions were experienced by some of the sectors from the original ADP to RADP in FY2007-08. These sectors again experienced large upward revision in the allocation made in the ADP of FY2008-09 over the revised ADP FY2007-08. This tendency towards transferring fiscal burden from one fiscal year to another may lead to increased cumulative expenditure for years to come.

One innovative information provided in the new ADP for FY2008-09 is the allocation made to different regions to reduce regional inequality. However, per capita ADP allocation for different regions does not tally with regional inequality indicators. Except for Barisal, regions with lower hardcore poverty rates paradoxically received larger per capita allocations (Table 2.4).

Table 2.4: Allocation to Reduce Regional Inequality in the ADP of FY2008-09

Region	Per Capita ADP Allocation (Taka)	Hardcore Poverty Rate
Rajshahi	621.5	34.5
Barisal	1354.2	35.6
Khulna	957.4	31.6
Dhaka	1000.2	19.9
Chittagong	1724.4	16.1
Sylhet	1287.2	20.8

Source: Budget document 2008-09.

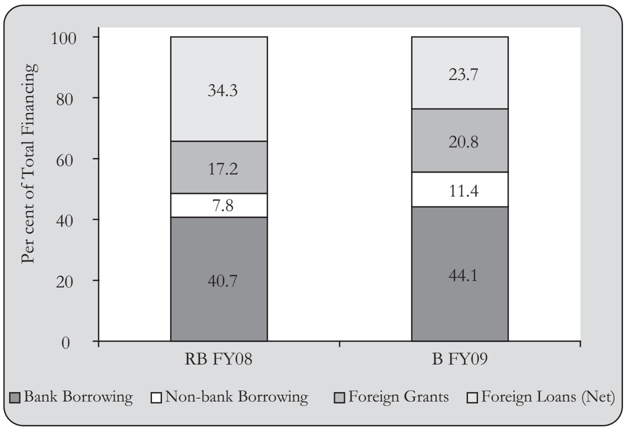
Given the increasing investment needs of the country, an improvement in implementation capacity was called for this year, rather than a reduction in the size of ADP. Thrust needs to be put on raising the efficiency of implementation of the ADP which would enable public service delivery institutions to handle larger ADP. The budget for FY2008-09 could have kept a special allocation in this regard. Quality implementation of some sectors with crucial importance for the economy, like the power and energy sectors, should get the highest priority throughout the fiscal year in the face of the existing crises.

2.2.3 Budget Deficit and Financing

A large deficit of Tk. 30,580 crore (excluding grants) has been projected for FY2008-09 which will be 5.0 per cent of the GDP (Table 2.5). Given the deficit of Tk. 25,546 crore in the revised budget of FY2007-08 (4.8 per cent of GDP, excluding grants and BPC liabilities), budget deficit in FY2008-09 is set to increase by 19.7 per cent.

Given the increased expenditure pressure by higher import payments and subsidy demands, this high deficit became a reality without an escape rout. The crucial part of it will be the mode of financing rather than its size. As the targets indicate, domestic sources will contribute to the tune of 55.6 per cent (Tk. 16,998 crore) of the total deficit financing. Tk. 13,498 crore (79.4 per cent) of domestic financing will be made from the banking system which was Tk. 10,398 crore or 83.9 per cent in the revised budget of FY2007-08, indicating 29.8 per cent higher bank borrowing in FY2008-09 (Figure 2.5). Tk. 3,500 crore (20.6 per cent) will be financed from the non-bank instruments.

Figure 2.5: Sources of Financing



Source: Budget documents.

A major concern would be the high projection of foreign financing made in the budget. Share of foreign financing (net, including grants) is set to be 44.4 per cent in FY2008-09, which will be of Tk. 13,582 crore in net terms and Tk. 17,803 crore in gross terms (without amortisation). This means roughly USD 2.6 billion gross aid inflow (USD 2.0 billion in net terms) will be required during FY2008-09. An analysis of aid inflow to Bangladesh since independence reveals that highest foreign assistance was received in FY1989-90, which was USD 1.81 billion in gross terms. Aid projections of FY2008-09 thus appear to be overoptimistic and may not eventually materialise. This may force the government to resort to increased domestic borrowing in the end, possibly requiring an even higher bank borrowing.

Table 2.5: Fiscal Framework in Budget FY2008-09

	Revised Budget FY2007-08	Budget FY2008-09	Growth	Per cent of GDP in Revised Budget FY2007-08	Per cent of GDP in Budget FY2008-09
Revenue collection	60539.00	69382.00	14.60	11.30	11.30
Total expenditure (excl BPC liabilities)	86085.00	99962.00	16.10	16.10	16.30
ADP	22500.00	25600.00	13.80	4.20	4.20
Non-ADP	63585.00	74362.00	16.90	11.90	12.10
Overall deficit (excl grants and BPC): Financing	-25546.00	-30580.00	19.70	-4.80	-5.00
Foreign grants	4388.00	6346.00	44.62	0.82	1.04
Foreign loan (net)	8756.00	7236.00	-17.40	1.60	1.20
Foreign loan	13024.00	11457.00	-12.00	2.40	1.90
Amortisation	4268.00	4221.00	-1.10	0.80	0.70
Domestic borrowing (excl BPC)	12400.00	16998.00	37.10	2.30	2.80
Bank borrowing (net)	10398.00	13498.00	29.80	1.90	2.20
Non-bank borrowing (net)	2002.00	3500.00	74.80	0.40	0.60
Total aid req (net)	13144.00	13582.00	3.30	2.50	2.20
Total aid req (net, bln USD)	1.90	2.00			
Total aid requirement (gross)	17412.00	17803.00	2.20	3.30	2.90
Total aid requirement (gross, bln USD)	2.50	2.60			

Source: Budget document 2008-09.

Experience of the neighbouring countries indicates that concerns about inflationary pressure arising from high bank borrowing by the government may not be fully justified. However, there is always a possibility of the private sector being threatened by a credit crunch owing to the potential "crowding out" effect from such borrowings. Continued monitoring of the situation will be required by the Bangladesh Bank, particularly in terms of the dynamics and volatility manifested in the call money market.

2.3 OVERVIEW OF FISCAL MEASURES

2.3.1 Tax and Duty Measures

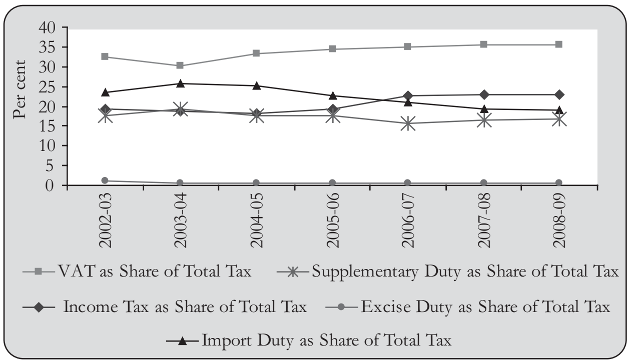
Direct Tax

Traditionally, Bangladesh has depended more on indirect tax than income tax for revenue generation. Though there have been efforts to increase the tax net through various initiatives such as modernising the existing revenue administration through computerisation and setting up of large taxpayer units (LTU) in all districts for facilitating the process of tax payment, share of income tax remains relatively low compared to, for example, VAT. As in the previous years, in FY2008-09 the share of income tax is estimated to be 23 per cent compared to the share of VAT at 35.7 per cent. Figures 2.6 and 2.7 provide trends of tax structure in Bangladesh during FY2002-03 and FY2008-09.

Budget Proposal: Personal Income Tax

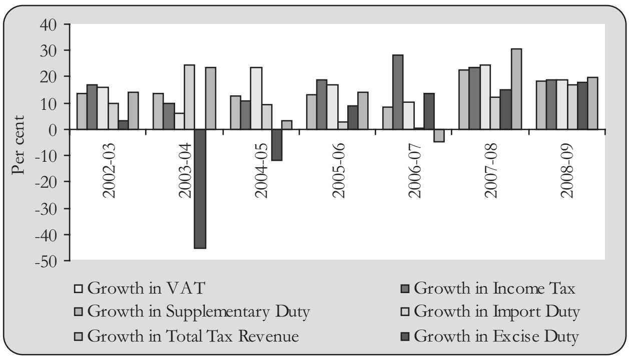
- The existing boundary for general tax free income, tax rates, income slabs for individuals will remain unaffected in FY2008-09. Given the high inflation rate at 10 per cent during FY2007-08, the proposed budget could have considered a mark up to allow for the impact of inflation on earnings of citizens.

Figure 2.6: Various Taxes as Per cent of Total Tax



Source: Compiled from FY2008-09 National Budget of Bangladesh (www.mof.gov.bd).

Figure 2.7: Growth of Taxes



Source: Compiled from FY2008-09 National Budget of Bangladesh (www.mof.gov.bd).

- However, budget proposals for FY2008-09 have extended benefits for certain personal income tax payers such as female and senior citizens which are positive moves. Both India and Pakistan have also increased limit of tax free income for female in their respective budgets for this fiscal year.

- For female and senior tax payers aged above 70, tax free income up to Tk. 165,000 has been proposed. In case of India, tax free income for female taxpayers is Tk. 288,000, and in case of Pakistan it is Tk. 244,800.

- Ceiling for taxable income from agriculture has been increased to Tk. 200,000. However, for female and people above 70 years this limit has been set at Tk. 215,000.

Table 2.6 presents the structure of personal income tax.

Table 2.6: Income Tax Slabs

Bangladesh		India	
Rate	Taka	Rate	Rupee
Nil	150,000	Nil	0 - 150,000
10 per cent	275,000	10%	150,001 - 300,000
15 per cent	325,000	20%	300,001 - 500,000
20 per cent	375,000	30%	500,001 +
25 per cent	Above		
Minimum taxable income	12,501		
Minimum tax	2,000		
Maximum exemption	150,000		
For female			
Tax free income	165,000		180,000
Tax free agricultural income	215,000		
For senior citizens (above 70 years old)			
Tax free income	165,000		225,000 (individuals above 65 years)
Tax free agricultural income	215,000		
For agriculture			
Tax free income	200,00		

Source: Budget speech of the Finance Advisor of Bangladesh FY2008-09; indiabudget.nic.in/ub2008-09/ubmain.htm.

Budget Proposal: Corporate Income Tax

- Existing tax rate for companies listed for public trading has been proposed to be reduced from 30 per cent to 27.5 per cent, and for companies not listed for public trading from 40 per cent to 37.5 per cent in order to influence more firms to enlist in the stock exchange and positively impact the equity market. This is a welcome move.

- The 45 per cent rate for banks, insurance, financial institutions and mobile phone operators will remain unchanged.

- Corporate tax payers will have to pay income tax on dividend income in accordance with the applicable scheduled rates for companies instead of the existing 15 per cent. Taxing of dividend income is being viewed as a means of double taxation, which may hinder the growth of the capital market.

- According to Section 16CC of the Income Tax Ordinance, all companies, irrespective of profit or loss, currently have to pay a minimum tax on the basis of their turnover which is clearly in breach of the fundamental principles of Income Tax. The Finance Advisor has proposed to rescind this Section, which is a step in the right direction.

The structure of company tax is presented in Table 2.7

Table 2.7: Company Tax Rate

(in Per cent)

Sectors	FY2007-08	FY2008-09
Listed for public trade	30.0	27.5
Not listed for public trade	40.0	37.5
Bank, insurance and other financial institutions	45.0	45.0
Dividend income of corporate tax payers	15.0	Applicable scheduled rates for companies
Mobile phone operator	45.0	45.0

Source: Budget speech of the Finance Advisor of Bangladesh, FY2008-09.

Budget Proposal: Special Tax Benefit

- The tax exemption period for income from farms engaged in fisheries, poultry, cattle breeding, dairy, mushroom cultivation, silk worm production, seed production, marketing of locally produced seeds sectors and income generated from cultivation of flowers and plants, etc. by another three years from 1 July 2008 to 30 June 2011.

- Two types of opportunities have been extended for the declaration of undisclosed income.

  - First, the fine for undisclosed income will be set at a fixed rate of 10 per cent for each year of evasion in FY2008-09. At present the rate of fine ranges from a minimum of zero to a maximum of five times the amount of evaded tax.

  - Second, undeclared legal income accrued in any year has been given an opportunity to legalise income by paying a penalty of 7 per cent on the tax payable along with the regular taxes at rates applicable for FY2008-09. This shall come into effect from 1 July 2008 to 31 October 2008. Last year, the rate of fine was 5 per cent and the timeframe was only for two months.

Two observations can be made as regards the above options on undisclosed income.

- The first option described in para 153(3) of the budget speech does not clearly say whether the undisclosed income would be legal or illegal as has been clearly mentioned in case of the second option in para 165(1) of the budget speech that the income has to be undeclared legal income. Though it has been mentioned by the Finance Advisor during a post-budget press conference that only undeclared legal money will get such opportunity this ambiguity has to be clarified in records.

- There are several economic and moral implications as regards the provisions for tax evaders. It is true that the revenue base will be expanded to some extent from collecting this undisclosed income, but in the long run, this policy may be seen as a way of discriminating the regular tax payers and favouring the tax dodgers. Instead of relaxing measures every year for certain section of people there should be attempts to create a genuine sense of civic responsibility among citizens. Also it has been experienced that in many instances, tax evaders do not come forward on their own to pay tax with a penalty, it is the tax administration which has to go around investigating tax evaders and collect tax. The "carrot and stick" approach may be adopted in this case. That this should be done by both moral persuasion and proactive tax collection drive. FY2007-08 was an exceptional year when the anti-corruption drive had a significant impact on tax collection. However, when such drive is expected to lose momentum in the coming months, there should be other in-built mechanism within the NBR to collect tax from tax evaders. The announcement of honouring three highest tax payers and two longest paying tax payers from each district every year is a welcome initiative.

- Any income generated from constructions of multi-storied buildings in areas outside the areas of the City Corporations, Cantonment Board, Municipalities of district headquarters and Municipal Areas under Dhaka district, is to be exempted from tax for the next 10 years. This provision has been made in order to retain cultivable land which is being rapidly lost due to construction of buildings for residential purposes. This may provide incentives for investment in development of planned housing in more remote areas in these regions.

- The income from exports of handicrafts, computer software development, data processing, data entry and call centre is to be kept tax free from 1 July 2008 to 30 June 2011 to maintain growth in these sectors.

- Customs duty (CD) and VAT of drugs for thalassemia disease have been withdrawn. Duties on other life saving drugs have also been made zero. This is a commendable measure.

- Proposal to continue with the provision of imposition of income tax at a discounted rate of 15 per cent on textiles and jute sectors from 1 July 2008 to 30 June 2011 is a positive move.

Indirect Tax

Budget Proposal: Reduction and Waiver of Duties

With a view to contain price increase of essential commodities, promote local industries and increase agricultural production there have been attempts to reduce taxes of various forms. Some of them are as follows. These are also presented in Table 2.8.

- Withdrawal of CD on the import of food grains and edible oil will help the government stabilise the existing market conditions.

- Fertiliser will continue to enjoy zero per cent CD along with capital machinery and spares imported for dairy and poultry industries considering the huge loss incurred by the poultry sector resulting from bird flu virus. Also, dairy and poultry industry will benefit from a waiver of all duties and taxes on importation of plastic trays used for transportation and maintenance of poultry chicks, and nursery trays used for seed growing.

- There will be a reduction in the CD on agricultural equipment such as irrigation pumps, tractors and diesel engines to 3 per cent to reduce production costs for this sector.

Table 2.8: Reduction and Waiver of Duties

Sector	Item	Measures	Implications
Agriculture and food	Food grain and edible oil	Continue zero CD on import of food grain and edible oils	Will ease price pressure on consumer
	Fertiliser and seed	Continue to enjoy zero CD along with capital machinery and spares imported for dairy and poultry industries	Will help recover loss due to bird flu virus
	Dairy and poultry industry	Waiver of all duties and taxes on importation of plastic trays	Will help reduce cost of production
	Agriculture equipment	Reduced to 3 per cent	Will reduce production cost
Automobile	Ordinary non-luxurious Microbus (1500-1800 CC)	SD 20 per cent	Will facilitate transportation of industrial raw material and passengers
Capital machinery	Capital machinery and spare parts	Reduced from 5 to 3 per cent	Will help boost investment and industries
Construction	Import of mild steel (MS) bar and rod	Withdrawal of 15 per cent VAT on importation	Will have positive impact on real estate
Media	Printing paper	Duty reduced from 15 to 12 per cent	Will lower prices of books and newspapers
Medicine	Drugs for Thalassemia	VAT and CD have withdrawn on medicine used for Thalassemia	Will save children's lives
	Life saving drugs	Zero duty	Will lower prices and help save lives
	Inhaler actuator	CD reduced from 25 to 7 per cent and SD abolished	Will help patients with respiratory problems

Source: Budget speech of the Finance Advisor of Bangladesh, FY2008-09.

- Finished products will continue to have a duty of 25 per cent while zero per cent duty on food stuff, medicines and raw cotton will be continued.

- The rate of tax for capital machinery and spare parts has decreased from 5 per cent to 3 per cent. Given the depressed investment scenario, import of capital machinery and spare parts may be made duty-free to strengthen the industrial base of the country.

- There will also be a 7 per cent duty on finished rods and billets instead of the previous 10 per cent, and the additional 1.5 per cent surcharge on the imports is to be lifted as well. Duties on steel industry chemicals have been cut down by one-third of the initial rates. This is expected to ease the price of real estate.

- While duties on luxurious vehicles have been increased (described below), SD on microbuses between 1500 to 1800 CC, used for transportation of industrial raw been reduced from 60 per cent to 20 per cent. This probably has been proposed with a view to reduce the transportation cost of both industrial goods and common passengers. However, without monitoring of the usage of such microbuses, differentiation cannot be made between private use and commercial use as mentioned above.

- Duty on computers and peripheral devices has been reduced from 5 per cent to 3 per cent. This reduction in duties will benefit the growing IT industry in Bangladesh and is a positive change.

- Existing CD of 25 per cent has been reduced to 7 per cent for importing inhaler actuator, used as medicaments, and SD has been abolished. This is a commendable measure towards health care.

Budget Proposal: Increase and Imposition of Duties

A number of items will face increased duties. These measures have been taken to promote local industries and discourage consumption of luxurious goods (Table 2.9).

Table 2.9: Increase and Imposition of Duties

Sector	Item	Measures	Implications
Agriculture	Sugar	SD imposed	Might distort market prices
Automobil	Luxurious vehicles	Adjustment of SD of 60, 100, 250 and 350 per cent	Increase prices of vehicles. Government's revenue collection may increase
Education	Pictorial and drawing books for children	25 per cent CD as well as imposition of VAT	Increase prices of drawing books. This is a measure to tax knowledge!
Health	Raw material for manufacturing tobacco	Imposition of 60 per cent SD	Serve public health interest
Industry	Capital machinery	Withdrawal of indemnity bond and imposition of 1 per cent CD	Raise producers' cost
Media	Satellite channels	SD increased from 15 to 25 per cent	Increased cost will have to be borne by customers

Source: Budget Speech of the Finance Adviser of Bangladesh, FY2008-09.

- Specific duty has been raised on sugar to protect domestic suger cane growers. It might distort the market prices.

- The indemnity bond system is to be abolished and replaced with a concessionary rate of 1 per cent CD. This will raise producer's cost. However, this has come in the wake of complaints by entrepreneurs who have faced harassment in taking advantage of the previous system.

- Pictorial and drawing books used for educational purposes are to be charged 25 per cent CD compared to the 10 per cent last year. The government has taken this initiative as it feels these books are not in tune with the country's cultures and values. However, this move might only encourage piracy and a reduction in the government revenue in the long run. This measure is rather knowledge unfriendly.

- An attempt has been made to discourage luxurious vehicles by readjusting SD of 60, 100, 250 and 350 per cent on vehicles having higher displacement capacity. This could be a way of government's revenue generation. The eligibility criterion of reconditioned vehicles has been fixed: a time gap of 365 days between registration and deregistration. Vehicles also have to run 1,000 kilometres before shipment. This is a good initiative in favour of customers who used to be cheated very often at the time of buying vehicles. Proposal to reduce the SD on importation of ordinary non-luxurious Taxicabs will be allowed to be converted into normal vehicles and get registered by paying 20 per cent duties after 8 years. Given the poor maintenance of taxicabs in Bangladesh, before allowing these to run further, their fitness should be examined properly. Otherwise, they may contribute to environment pollution.

- The media is also about to face certain challenges. SD for satellite channel distributors has been increased from 15 per cent to 35 per cent. This has been proposed in an effort to discourage foreign commercials broadcast via satellite which supposedly encourage domestic consumers to demand more imports of foreign goods. It has been stated that this is an indirect effect. This increase if duties will ultimately be borne by the customers. In a globalised world, attempt to discourage people from consuming global products through increasing the rate of pay channels is somewhat unreasonable.

- An SD of 60 per cent on the raw materials for manufacturing of cigarettes and 20 per cent on the papers used in producing packaging materials of cigarettes has been imposed. This should have positive impact on human health.

Budget Proposal: Value Added Tax

- Enhancement of threshold level for VAT from existing Tk. 2,000,000 to Tk. 2,400,000. This will be helpful for the small businesses. This may also encourage payment of VAT.

- The limit of house rent for which tax will be deducted at source will be increased from Tk. 15,000 to Tk. 20,000 per month. While this may give some relief to the house owners, it may not mean much to those who live in rented houses as rents has tended to be increased on the excuse of inflation and irrespective of such tax incentives by the government.

- The budget proposes to continue withdrawal of VAT and CD on imports of drugs used for treatment of the deadly thalassemia disease. This is a positive step to save lives of children.

- Cottage industry will benefit from simplification of VAT and reduction of VAT on some of the cottage-made products like biscuits, fabrics, etc. This will help small and medium enterprises (SMEs).

Notable Proposals

Budget Proposal: VAT Collection

- In order to ensure proper business records keeping, use of Electronic Cash Registers (ECR) was made mandatory from 1 July 2008 for all medium and large enterprises located within a City Corporation area and in the district towns. The system will be introduced in the divisional towns and from 1 July 2009 and in the district towns from 1 January 2009 to allow businesses time to adjust to the changes.

- No duties or taxes shall be imposed on imports of ECRs. Existing 15 per cent VAT, 3 percent advanced income tax (AIT) and 1.5 per cent advanced trade VAT (ATV) on import of ECRs will be abolished for ordinary traders.

Budget Proposal: Non-resident Bangladeshi

- The budget has proposed duty-free clearance of ordinary electronic appliances brought by Non-resident Bangladeshi (NRB) by amending the existing baggage rules. This has been proposed in view of the hassles faced by NRB foreign exchange earners at the airport.

- This proposal is a positive one. However, the budget has not proposed any measure for the NRBs towards utilisation of their remittances in a more productive way. Given the fact that they are the single most important contributor to the foreign exchange earnings of the country, there should be special packages for them for investment of remittances in productive sectors. Also, in order to increase the remittance there should be special allocation for training centres which would facilitate upgradation of migrant skills.

Change in Tariff Structure: Impact on Revenue Earnings

With a view to simplify the tariff structure and provide support to the importers of raw materials and intermediate inputs, the government has restructured the overall tariff structure by replacing the existing three tier slabs to a four tier one. The existing 5 per cent, 10 per cent and 15 per cent CD have been replaced by 3 per cent, 7 per cent and 12 per cent respectively, and the existing 25 per cent remains unchanged. Apart from these specific changes in tariff structure, the government has made alterations in the supplementary duty, VAT and Harmonised System (HS) Code structure.

Table 2.10: Simulation with Proposed Changes in Tariff Structure

	CD	SD	VAT	AIT	ATV	Total Tax Incidence (TTI)	Change in TTI and Impact on Revenue Earnings (%)
CD decreased from 10 to 7 per cent							
Old	10	0	15	3	1.5	31.3150	-3.4995
New	7	0	15	3	1.5	27.8155	
CD decreased from 15 to 12 per cent							
Old	15	0	15	3	1.5	37.1475	-3.4995
New	12	0	15	3	1.5	33.6480	
CD decreased from 25 to 12 per cent (special item)							
Old	25	0	15	3	1.5	48.8125	-15.1645
New	12	0	15	3	1.5	33.6480	
CD increased from 15 to 25 per cent (electrical apparatus, domestic industry protection)							
Old	15	0	15	3	1.5	37.1475	11.6650
New	25	0	15	3	1.5	48.8125	
SD increased from 20 to 60 per cent (unmanufactured tobacco)							
Old	25	20	15	3	1.5	77.9750	58.3250
New	25	60	15	3	1.5	136.3000	

Source: CPD estimation based on the government SROs and Tariff Structure.

The proposed budget has increased CD on 39 HS items mainly to protect the interest of the domestic industries. The supplementary duty on 50 HS items has also been increased. The budget Statutory Regulatory Order (SRO) has proposed splitting of 7 HS item into 14 HS item and has also proposed the deletion, merger and addition of 19, 14 and 11 items respectively.[3] With this change in the tariff structure, the government revenue earnings from import duty is expected to increase by 16.8 per cent (even though the overall tariff structure has been liberalised, the government expects increase in revenue earnings from import duty). This will be a challenge.

The government has set Tk. 225.36 billion, 41.0 per cent of the total revenue target, as the collection target for customs department for FY2008-09. This must have taken congnisance of the specific changes (increase) in some commodities in terms of CD and SD, perhaps with a view to providing protection of domestic industries. However, an NBR study estimates net revenue loss of Tk. 9.55 billion in FY2008-09 due to the considerable readjustment of the duty structure in the proposed budget. The NBR will incur loss amounting to Tk. 10.25 billion due to restructuring of the duty slab, while Tk. 600 million for duty reduction on scrap iron. With the proposed imposition of 1.0 per cent duty on import of capital machinery under indemnity bond in the backdrop of widespread allegation of abuse of the bond facility, the NBR will perhaps be able to collect additional revenue worth about Tk. 700 million. The government has proposed an increase of "specific duty" for importing refined sugar by Tk. 1,000 to Tk. 6,000 per ton. This readjustment of SD on sugar will enable NBR an additional revenue earnings worth Tk. 600 million. Table 2.10 presents the change in revenue earnings as a result of duty changes.

While in the last budget, the government's proposal to change the tariff structure lead to an anti-domestic industry bias situation, this time the government was careful enough not to repeat the same mistake. CPD estimation shows that, when CD changed to 7 per cent from 10 per cent, the total tariff incidence decreases by 3.5 per cent. This has been done to safeguard the interest of the producers of finished goods who use raw materials as input for their final products. When CD decreases to 12 per cent from 15 per cent, mostly for intermediate goods that are used as industrial inputs, the total tariff incidence is decreased by 3.5 per cent.

In the interest of public health, the government raised SD of raw tobacco by 60 per cent, leading to a 58.3 per cent increase in revenue earnings in that particular item, while it has reduced the SD of non-alcoholic beer by 40 per cent (earlier it was 100 per cent). This should be viewed as a health friendly initiative.

[3] This new proposed structure will affect about 3510 HS items (defined at HS 8 digit level).

2.4 PRICE STABILISATION MEASURES

Price hike of essential commodities has been one of the major challenges facing the incumbent CTG of Bangladesh. In the proposed budget for the FY2008-09, the Finance Advisor has identified "maintaining price level of essentials within tolerable limit" as one of the eight priorities. A number of measures, both market-based and non-market-based, has been proposed to keep prices of essential commodities at a tolerable limit. These measures ranged from fiscal measures (e.g. continuation of zero or reduced import tariff on certain commodities) to direct market interventions (e.g. continuing open market sales (OMS) outlets of daily essentials). To mitigate the negative impact of high price on the food security of the poor segment of the society, the budget has proposed to broaden allocation and coverage of the safety net programmes. In addition, the budget has proposed employment generation programmes for the poor and the marginalised. A new programme titled "100-Days Employment Guarantee Scheme" is proposed with an allocation of Tk. 2,000 crore to generate employment for 20 crore man-days for the ultra-poor and the rural middle and lower middle class communities. Alongside, a further allocation in terms of food worth Tk. 1,578 crore is proposed under the Food for Work (FFW) Programme, which is expected to generate another 14.4 crore man-days of employment. The budget has also proposed measures to stimulate agricultural production. These are related to subsidy for agriculture and reduction in duties on import of agricultural inputs and machineries (see Section 2.6 for details).

To arrest the rising prices, following direct measures are proposed in the Budget.

Continued Withdrawal of Tariff on Necessary Food Items: Considering the high global price of rice and wheat, the budget has proposed to continue with the zero duty on import of rice and wheat (which was initiated on 8 March 2007).

Measures through Monetary Policy: In order to curb inflation, the Bangladesh Bank has stated that it will adopt a contractionary monetary policy. The government has set a target rate of 9 per cent in place of the prevailing 10 per cent inflation rate.

Box 2.1: Reasons for Price Hike

A CPD study has attempted to investigate the reasons behind the creeping inflation that has reached a 10 per cent level now in terms of current figures. Domestic reasons include increased production cost of domestic commodities, market concentration/collusion of market agents (both at importers and bepari levels), information gap between different stakeholders, a large number of market intermediaries, dislocation in market structure due to anti-corruption drive, increased transportation cost, relatively high cost of doing business, high interest rate and bank charges, lack of institutional monitoring mechanism, and finally, an inflationary expectation originating from the current inflation trend. International reasons include global supply shocks due to adverse climatic conditions in major exporting areas, productions of bio fuels and global price hike of petroleum products and supply snags.

Direct Market Interventions: To raise efficacy of marketing system by reducing the number of market intermediaries and to continue temporary measures like OMS by Bangladesh Rifles (BDR), Trading Corporation of Bangladesh (TCB), Food Directorate and establishment of open market (Unmukta bazaar). The budget proposed a comprehensive plan to distribute food to the tune of 30 lakh metric tonnes through OMS at a concessional price.

Institutional Measures: The government has taken initiatives to introduce Consumers' Rights Protection Ordinance. The initiation of this act will somehow ease the price hike of the essential commodities.

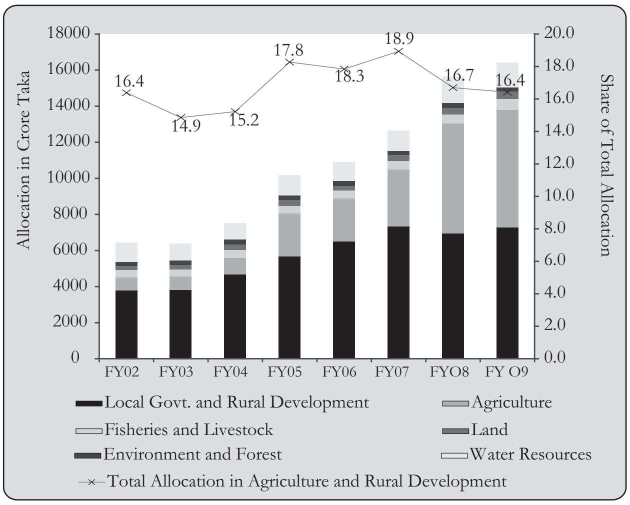
The Finance Advisor has mentioned about keeping prices of essential items like rice, wheat, edible oil, lentils, onion and garlic at normal level (also during the Ramadan). However, he did not mention about any specific measures to achieve this. The government's initiatives in the area of legislative, regulatory, institutional and macroeconomic policies to improve government's capacity to manage the market for essential commodities are welcome steps in this context.

2.5 SECTORAL AND REGIONAL MEASURES

2.5.1 Agriculture

Increasing agricultural production is mentioned as one of the eight identified priorities. Accordingly, agriculture and rural development is given the highest priority in FY2008-09 budget (Figure 2.8). Total allocation for agriculture and rural development in FY2008-09 is Tk. 16,411 crore (16.4 per cent of the budget) against Tk. 15,632 crore in FY2007-08 (16.7 per cent of total budget for FY2007-08). Allocation for agriculture and rural development in the proposed budget for FY2008-09 is 5 per cent higher than that of FY2007-08. Allocation for the agriculture and allied sectors (crop, livestock, fisheries, forestry, land, and water resources) is Tk. 9,126 crore (9.12 per cent of total budget). Total ADP allocation for agriculture in FY2008-09 is Tk. 1,862.63 crore (7.28 per cent of total ADP in FY2008-09; 75 per cent higher than FY2007-08 RADP) which is allocated for 149 agricultural projects.

Figure 2.8: Total Revenue and Development Allocation in Agriculture and Rural Development



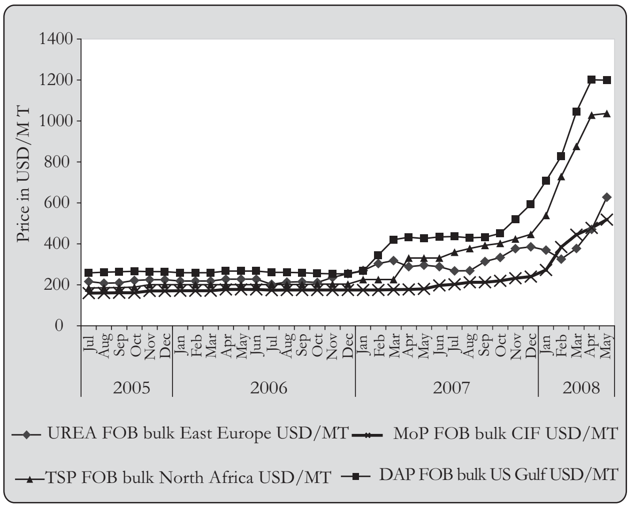
Source: Budget documents.

Subsidy for Agriculture: To boost agricultural production in FY2008-09, Tk. 540 crore is allocated for diesel subsidy against actual disbursement of Tk. 250 crore in FY2007-08. This is a good and feasible initiative and has been continued over the second year. In case of subsidy for fertiliser, it is not clear how much resources have been allocated. The Budget has mentioned a total allocation of Tk. 13,648 crore as subsidy for fuel, food and fertiliser. It does not specify how much is allocated for fertiliser and electricity for irrigation. Considering the high price of fertiliser in the international market and low administered price of fertiliser in the domestic market, it seems that the resources would not be sufficient to cater the actual needs. Available information suggests that total subsidy for fertiliser and other activities under the Ministry of Agriculture (MoA) in FY2007-08 would amount to about Tk. 3,740 crore (Tk. 3,408.5 crore for fertiliser, Tk. 75.0 crore for electricity for irrigation and Tk. 250 crore for diesel for irrigation and Tk. 6.5 crore for sugarcane). On the other hand, subsidy on account of BPC and PDB in FY2007-08 would amount to about Tk. 5,760 crore by June 2008.

Increase in Fertiliser Price: The Finance Advisor in his budget speech did not mention anything about increase of fertiliser price. After the declaration of budget for FY2008-09 on 9 June 2008, the government has increased administered price of Urea fertiliser which came into effect on 11 June 2008. The mill-gate price of urea has been refixed at Tk. 10,000 per ton or Tk. 10 per kg, while the new rate will be at Tk. 10,700 per ton or Tk. 10.70 per kg at the level of buffer stocks. The new farm-gate price of urea fertiliser is fixed at Tk. 12 per kg in remote areas and Tk. 11.50 in areas with well developed transport facilities, which was Tk 6.00 per kg. Prior to the increase, the official prices of urea were Tk. 4,800 per ton or Tk. 4.80 per kg and Tk. 5,300 per ton or Tk. 5.30 per kg at the mill-gate and the buffer stock levels respectively. As is known, the government will continue to provide subsidy at the rate of 15 per cent on the sale of other imported non-urea fertilisers - triple super phosphate (TSP), diammonium phosphate (DAP), muriate of potash (MoP) - at farmers levels. It is pertinent to mention here that the price of urea fertiliser was fixed for the last time on June 3 in 1997. In 1997 the per ton price at the factory point was Tk. 4,800 while the production cost was Tk. 4,652. The price at the buffer end was Tk. 5,300 and the import cost was Tk. 8,086.

Price of fertiliser at the international market has increased manifold over the recent past (Figure 2.9). In May 2008, price of per metric ton (MT) of Urea at international market was USD 627.50 (Tk. 43.05 per kg). According to the government estimate, import cost of urea has reached to Tk. 58.0 per kg.

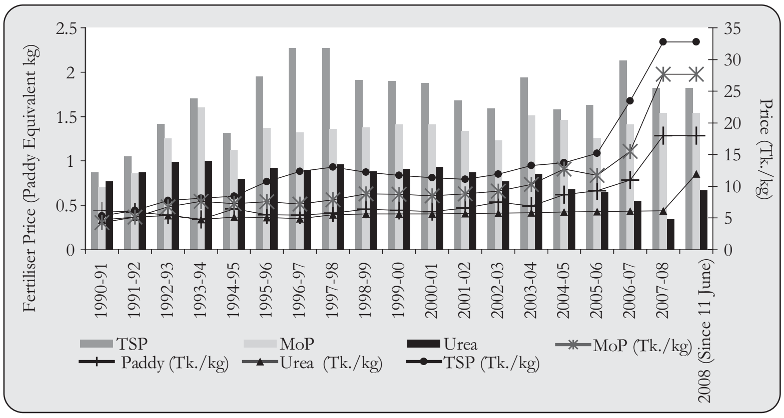
Figure 2.9: International Price of Fertiliser (Urea, DAP, TSP & MoP): July 2005 to May 2008



Source: World Bank Commodity Outlook, various issues.

An analysis of prices of fertiliser and paddy revealed that to buy one kg of urea fertiliser in FY1997-98, farmers were required to sell 0.96 kg of paddy, but they would require to sell 0.67 kg paddy with the new price of urea (Table 2.11 and Figure 2.10). Considering the high and rising price of fertilisers in the international market it was essential to increase the administered price of fertiliser. However, it seems that even after the increase in fertiliser price, supply of adequate quantity of fertilisers may not be ensured. According to the estimates of the government, total demand for urea fertiliser in 2008-09 is 28.50 lakh metric tonnes while demand for TSP is 5.0 lakh tonnes, MoP 4.0 lakh tonnes and DAP 2.0 lakh tonnes. In our view, this is grossly under estimated. Because of high price of agricultural commodities and export restrictions imposed by major exporters of agricultural commodities, particularly foodgrains, Bangladesh must aim for "high yield goal" for agricultural production. The CPD, using recommended fertiliser doses to achieve "high yield goal" by the Bangladesh Agricultural Research Council (BARC) published "Fertilizer Recommendation Guide 2005," has estimated demand to the tune of 35.2 lakh metric tonnes of Urea, 5.9 lakh metric tonnes of TSP, 5.0 lakh metric tonnes of MoP and 3.2 lakh metric tonnes of DAP in FY2008-09. It is felt that the fertiliser demand in FY2008-09 should be revised by taking cognisance of the increased demand so that adequate amount of fertiliser may be made available to the farmers.

Figure 2.10: Trends in Paddy and Fertiliser Price: FY1990-91-FY2007-08



Source: Authors' calculation based on data obtained from Ministry of Agriculture.

Table 2.11: Comparison of Fertiliser Price with that of Paddy: FY1996-97-FY2007-08

Year	Price of Boro Paddy	Price of Fertiliser (Tk./kg)			Per kg Fertliser Price Equivalent to Boro Paddy		
	(Tk./kg)	Urea	TSP	MoP	Urea	TSP	MoP
1990-91	6.16	4.72	5.36	4.28	0.77	0.87	0.70
1991-92	5.94	5.17	6.23	5.13	0.87	1.05	0.86
1992-93	5.44	5.40	7.73	6.79	0.99	1.42	1.25
1993-94	4.76	4.75	8.11	7.63	1.00	1.70	1.60
1994-95	6.45	5.18	8.42	7.24	0.80	1.31	1.12
1995-96	5.50	5.06	10.74	7.55	0.92	1.95	1.37
1996-97	5.44	4.91	12.37	7.21	0.90	2.27	1.32
1997-98	5.76	5.52	13.05	7.86	0.96	2.27	1.36
1998-99	6.38	5.62	12.20	8.83	0.88	1.91	1.38
1999-00	6.18	5.63	11.72	8.72	0.91	1.90	1.41
2000-01	6.03	5.63	11.35	8.51	0.93	1.88	1.41
2001-02	6.60	5.73	11.08	8.82	0.87	1.68	1.34
2002-03	7.50	5.77	11.93	9.23	0.77	1.59	1.23
2003-04	6.86	5.84	13.30	10.33	0.85	1.94	1.51
2004-05	8.68	5.93	13.73	12.70	0.68	1.58	1.46
2005-06	9.30	6.00	15.20	11.70	0.65	1.63	1.26
2006-07	11.00	6.10	23.43	15.50	0.55	2.13	1.41
2007-08	18.00	6.15	32.75	27.65	0.34	1.82	1.54
2008 (11 June onwards)	18.00	12.00	32.75	27.65	0.67	1.82	1.54

Source: Authors' calculation based on data obtained from Ministry of Agriculture.

Special Allocation: Special allocation of Tk. 272.35 crore is proposed in the budget FY2008-09 for agricultural development assistance and rehabilitation. This is a welcome initiation. However, allocation alone would not provide the desired result. A mechanism for spending and implementation would be required. It may be recalled that Tk. 350 crore was allocated for agriculture research in FY2007-08 which remained unused.

Agricultural Credit: Increased target for disbursement of agricultural credit is fixed at Tk. 9,000 crore in FY2008-09 against targeted Tk. 6,351 crore in FY2007-08 and actual disbursement up to April 2008 was Tk. 6,731.35 crore. Some private sector banks are also coming up with initiatives to disburse agricultural credit through a number of NGOs. Experience is showing that agriculture credit disbursement could be a profitable business. If new technologies are encouraged through these credit facilities, this would help adoption of modern technology in agriculture.

Tax Incidence on Agriculture: The budget has waived all duties and taxes on fish feed; duty-free import of equipments, medicines and vaccines have been extended for livestock feed. Minimum taxable income limit for agriculture has also been increased from 1.9 to 2.0 lakh. This limit was further revised for women and senior citizens from 2.00 to 2.15 lakh which is appreciable. These are positive measures.

Tax exemption period has been extended for the farms engaged in fisheries, poultry, cattle breeding, dairy, mushroom cultivation, silk worm production, seed production, marketing of locally produced seeds sector and income generated from cultivation of flowers and plants, etc. for another three years (up to 30 June 2011) which will also have a positive impact on flourishing SMEs. Tax exemption from incomes from multistoried building in rural areas to reduce conversion of agricultural land for other uses is a timely initiative. Continuance of the zero per cent CD for fertiliser, seed and machinery and spares imported for dairy and poultry industries and all duties and taxes on plastic trays used for transportation and maintenance of poultry chicks and nursery trays used for seed growing are proposed to waive. This will be helpful for the affected poultry farmers. Tax on irrigation pumps, diesel engine and tractors is proposed to reduce to 3 per cent from various existing rates (up to 10 per cent). The CPD, in an earlier report, had recommended duty-free import provision for agricultural machineries in the budget.

Concerns: The government has taken a number of initiatives to compensate for the loss caused by bird flu, but extended direct measures are necessary. These would include mandatory vaccination for the day-old chicks and ensure supply of quality chicks to the farmers. Agricultural producers are facing increasing number of natural calamities compared to earlier years. We suggest that the government provide insurance or develop other mechanisms to enable farmers to safeguard against unforeseen losses originating from natural disasters. Without such mechanisms, agricultural production growth prospects will be constrained.

2.5.2 Environment

Environment has traditionally been a neglected area in Bangladesh, particularly in terms of fiscal allocations. However, due to increased international demand for environmental compliance requirements and radical change in the global climate and its subsequent impact on Bangladesh, there has been some improvement in terms of awareness at various levels. The government had withdrawn import duty from effluent treatment plant (ETP) in the budget of FY2007-08 to encourage industries to use ETP. Bangladesh is at risk of being the worst hit victim of climate change in terms of sea level rise, extreme weather and frequent natural disasters. In appreciation of the emerging risks, the government has made an allocation for adaptation of climate change in the budget of FY2008-09.

- The government has created a fund titled "Fund for Climate Change" (FCC) and allocated Tk. 300 crore for this purpose. This will increase climate change adoption and hopefully minimise the damage caused by future natural disasters.

- Given the extent of damage arising from climate change, this fund may not be adequate. However, the initiative is a recognition of the problem and needs to be appreciated. The government can also seek funds from various global initiatives, such as Global Environment Fund (GEF) to adapt and mitigate the damage due to climate change.

- ETP should be made mandatory for the polluting industries. This would not only help keep the environment clean but will also help get broader market access. A fund could be allocated for the SMEs to buy ETP.

- There is no mention of duty-free import of ETP in this year's budget. This should be continued.

2.5.3 Industrial Sector

The performance of the manufacturing sector in FY2007-08 has not been satisfactory; its growth is expected to be rather low (7.4 per cent) which is lower than compared to the past several years (9.7 per cent in FY2006-07, 10.8 per cent in FY2005-06 and 8.2 per cent in FY2004-05). Large, medium and small scale manufacturing industries have started with a very sluggish growth in the first and second quarters of FY2007-08 and gained some momentum only in the latter half of FY2007-08. Slower growth of the manufacturing sector was to a large extent caused by uncertainties originating from institutional reform measures, inadequate infrastructure facilities particularly lack of adequate electricity supply, high inflation and high interest rate for borrowings from the banks. In this backdrop, it was expected that the budget for FY2008-09 would take various fiscal measures and allocate adequate resources to encourage private sectors to invest in existing and new ventures. It is to be noted that an accelerated GDP growth rate through high domestic investment as projected in the PRS-II during 2009-2011 will not be achieved unless adequate investment in the public sector is ensured during this period.

A proper examination of the impact and implication of various budgetary measures would critically hinge on the availability of up to date information on the changing structure of the manufacturing sector including composition of industries, size of the market at domestic and international level, cost and return, raw materials and intermediate products used in different industries and their sources, etc. The existing database, which is the most relevant, is the Census on Manufacturing Industries (CMI) 2001-02, Census on Handloom Industries 2003, Bangladesh Small and Cottage Industries Corporation (BSCIC) 2001, etc. However, these are quite dated. In the absence of a CMI based on recent trends and composition of the industrial sector, analysis of various measures proposed in the budget can at best be only indicative. In this context, it is critically important that adequate funds are allocated for generating up to date data on the industrial sector, including the CMI.

Fiscal Measures

Production and investment by the private sector is directly influenced by various fiscal measures proposed in the budget. In the budget FY2008-09, a number of fiscal measures proposed by the Finance Advisor are likely to encourage private sector to invest in various domestic market and export oriented industries. Important proposals in the budget include: introduction of four-tier tariff structure instead of the existing three, extension of tax holiday facility, reduced income tax facility for SMEs, extension of bonded warehouse facility, reduction of duty on raw materials and intermediate products without reducing the duty on final products, imposition of SD on importing final products, etc. Government has proposed reduction of CD on 15 products and raising it for 19 products; reduction of SD on 20 products; imposition of specific duty on three items and special duty on 11 products. According to an NBR estimate, proposed changes in the duty structure may cause a revenue loss of Tk. 9.55 billion in this fiscal, which will need to be compensated through growth of the manufacturing sector in the medium and long term and generating additional taxes from this growth.

Tariff Structure

A four-tier tariff structure has been proposed in the national budget (25 per cent, 12 per cent, 7 per cent and 3 per cent) which will replace the current three-tier tariff structure (25 per cent, 15 per cent and 10 per cent). The proposed structure will reduce duty on raw materials, intermediate products and specific products, which is likely to have favourable impact on reduction of cost of production. Maintaining a significant difference in the duties between final and intermediate products and raw materials, though running against the gradual liberarisation initiative of the recent past, is likely to have positive impact on domestic import substituting industries.

Tax Holiday

Government has extended tax holiday facility, in a staggered manner, for new industries to be set up between July 2008 and June 2011. The list of beneficiary industries was further extended by including eight new industries, including agro-processing, diamond cutting, steel production using billets, jute, textile related industries, underground and mono rail, telecommunication infrastructure other than mobile phone. However, ship-building industry, IT enabled services (ITES) should have been included in this list. The facility of accelerated depreciation will continue till 30 June 2010. Both initiatives will ensure support for new investors which are being enjoyed by existing industries. Business associations in their post-budget reaction have demanded a 100 per cent tax holiday facility for five years. Impact of the facility for various industries will need to be revisited after June 2011, especially in the context of distortion in the tax structure, level of risk and return for new industries, industry's potentiality in domestic and international market, etc. It is pertinent to note that Sri Lanka has restricted tax holiday facility to a limited number of sectors in order to reduce the distortion in the tax structure and to generate additional resources.

Reduced Rate of Income Tax

Government has set a reduced income tax at a rate of 15 per cent in order to provide support to backward linkage industries of apparels sector such as yarn, yarn dyeing and finishing, apparel making, fabric dyeing and finishing, printing, etc. for the period of July 2008 to June 20011. In view low level of income due to rising cost of production, this initiative would help creation of more investible surplus in the backward linkage textile industries.

Indemnity Bond System

Indemnity bond system in case of import of capital machineries for export oriented industries has been repealed and replaced by a concessionary CD (1 per cent). Manufacturers of apparel sector often found the system cumbersome because of lack of direction in the existing SRO as regards new machineries. Bangladesh Garment Manufacturers and Exporters Association (BGMEA) has proposed for providing discretionary authority to NBR to identify non-listed products imported under this facility. On the other hand, there are allegations of misuse of the indemnity bond facility. Taking all these into cognisance, it appears that proposed system will lessen the hassle in importing capital machineries in the one hand, and will generate revenue for the government, on the other. According to an NBR estimate reported in a daily newspaper, this initiative could ensure additional revenue of about Tk. 700 million in this fiscal year.

PSI System

Government has decided to extend the Pre-shipment Inspection (PSI) system for a limited period with appointment of fresh companies. Though allegations against existing PSIs have necessitated change in the system, because of the limited human resources in the customs department, government has decided to continue with the system for some more time. However, without improving the level of skill and operational efficiency of customs officials, and appropriate computerisation of the system, only increasing the number of personnel will not be enough to generate the required revenue. Government's decision as regards withdrawn PSI for products imported under bonded warehouse facility, equipments for power plants, oil and gas exploration activities, etc. is likely to reduce transaction cost. However, it needs to be recalled that the PSI system itself was introduced in view of the hassle and the abuse faced by importers at the customs point.

ADP Allocation

Public investment, in the form of ADP allocation targeted to development of industrial sector, needs to be examined in the context of focus and target of allocation, extent and nature of allocation in the ADP and disbursement in the revised ADP, actual level of implementation, etc. In the budget FY2008-09, government has allocated a total of Tk. 536 crore for 31 projects for the industrial sector. Compared to the allocation in the original and revised ADP in FY2007-08, this amount is about 56.8 per cent and 103.3 per cent higher. Ten projects, which will be completed by this year, are related to fertiliser production, trade related support programme, and development of Saidpur export processing zone (EPZ), etc. Besides, four new projects have been included, of which three are related to fertiliser production. In view of the increasing demand for fertiliser, completion of these projects will help ease the domestic supply situation. An "Active Pharmaceutical Ingredient (API) Industrial Park," a long demand of the pharmaceutical companies, is being proposed for ADP allocation. However, timely completion of this project is necessary in order to reap the benefit of existing comparative advantage in the global pharmaceutical industry.

An allocation of Tk. 96 crore has been proposed for projects which are not yet approved. This includes projects like development of textile institute, vocational textile institute, textile processing plants, etc. In view of the demand for skilled workers in the textile and apparels sector, these projects should be approved for funding and should be implemented on an urgent basis. In this context, it is important to mention here that a number of projects initiated in previous year's budget targeted to development of textile and supporting readymade garments (RMG) in the post Multi-fibre Arrangement (MFA) were not implemented during July-December 2007 (17.1 per cent and 24.7 per cent of FY2007-08 RADP). The same situation prevailed in case of establishing textile vocational institutes and textile engineering college. Poor implementation of such projects will weaken the initiative of enhancing productivity of capital and labour through upgradation of technology and skill, thereby reducing the competitiveness of manufacturing sector in the international market.

Support for a number of critically important and potential sectors have not been provided under the proposed budget FY2008-09. It can be recalled here that in the budget FY2007-08, government has allocated funds for various projects such as endowment allocation for SME Foundation, trust fund under BSCIC, Entrepreneurs Equity Fund (EEF) for agriculture, welfare fund for RMG workers, fund for training of workers' efficiency, etc. A major thrust for such financial support was to enhance the productivity and efficiency of factors of production including labour and capital. Government should consider establishing "Technology Upgradation Fund" for RMG, textile, jute and for other thrust sectors, which CPD had proposed in its budget proposal. "Cluster Development Fund," "Fund for Research and Development (R&D)," "Fund for Relocation of RMG Factories from the City," etc. should be actively considered for budgetary allocation. "Workers' Livelihood Improvement Fund" is also required for workers, especially in the garment sector. Appropriate modus operandi for utilisation of such funds should be identified. In this context, public-private partnerships should be explored. To effectively implement government's decision to set up ETP at factory level from July 2008, an allocation should be made for helping industries to set up ETPs either centrally or individually by industrial units in different industrial areas. There is nothing existing for the jute sector in the budget. Jute sector will enjoy tax holiday facility according to the budget FY2008-09. Government has decided to continue reduced income tax facility at a rate of 15 per cent for the jute sector up to 2011. There is no mention about the allocation needed for paying the arrears accruable to retrenched workers of the public sector jute mills.

A new programme is going to be introduced to provide support to low-income workers particularly for working mothers of the garment sector, with a monetary support of Tk. 20 crore. In Sri Lanka, government has proposed to grant concessionary loans subject to a maximum of Rs. 15 million in the budget FY2008-09 (at an interest rate of 10 per cent) for garment factories situated outside the Colombo district to support modernisation process. In India, government allocated funds of Rs. 15,000 crore to establish a non-profit corporation for skill development taking support from government, private and public sectors, and bilateral and multilateral sources. Government is also upgrading 238 Industrial Training Institutes (ITIs) for which Rs. 750 crore has been set apart.

5.4 Export Oriented and Import Substituting Industries

The proposed budget of FY2008-09 puts forward a number of initiatives to safeguard the interest of the export oriented industries in the form of tariff restructuring (mainly through liberalisation of tariffs for raw materials and intermediate inputs) and higher rate of tariff on certain items to protect the domestic industries. While the government has put lots of effort in making the current budget industry and business friendly, it has not put adequate emphasis on the thrust sectors which were identified in the Export Policy 2006-2009. Whilst some initiatives were taken to promote the information and communication technology (ICT) and handicraft sector, it has not provided incentives towards development of pharmaceuticals, footwear or light engineering sector. If we look at the FY2007-08 export incentive document (released by the Export Promotion Bureau (EPB) we see that cash incentives were provided to bicycle (15 per cent), jute products (7.5 per cent), light engineering products (10 per cent) among some others; whether these incentives will be continued in FY2008-09 has not been mentioned in the budget.

Whilst the government's initiative to suspend illegal imports of export oriented capital machineries is a welcome gesture (earlier the government allowed import of capital machineries for 100 per cent export oriented industries at zero duty), imposition of 1 per cent duty is a questionable move as it will add to production cost. A number of domestic import substituting activities have been identified for protection and complementing this with SD in some cases (e.g. paints and varnishes, teflon tape, printed books and brochures, table and kitchenware, electrical apparatus, etc.). As regards the case of export subsidy, the government, this year has also allocated Tk. 1,050 crore. The government should have allocated some funds in support of the emerging ship-building industry, which has a large potential in the global market. An allocation of fund for infrastructural development in this sector would have boosted the export performance of this sector.

The introduction of bonded warehouse facility in the proposed budget for enterprises that have 100 per cent export oriented units will enhance competitiveness of Bangladesh's exports and reduce lead time. Like RMG, they can now import inputs without having to pay duties. This should help growth of non-RMG exports and export diversification. Besides, the continuation of tax holiday is a welcome move.

Export Promotion

The proposed budget has not gone for enough to diversify country's export. According to a CPD study, a major emerging concern which had an adverse impact on the balance of trade in FY2007-08 had been Bangladesh's deteriorating terms of trade (ToT). In view of this, the need to diversify exports and markets and the urgency of moving into higher value items through process and product upgradation, and productivity enhancement are becoming increasingly important tasks for Bangladesh. Besides, to develop and strengthen backward linkage textile industry and the country's traditional jute industry, a Technology Upgradation Fund could have played an important role for product and process upgradation. As part of the decision to provide bonded warehouse facilities to all export oriented sectors, the ship industry will also benefit from this initiative. However, government did not declare ship-building industry as a thrust sector in the budget. To contrast, Vietnam government in their budget has declared ship-building industry as a major thrust sector and provided a Tk. 75 crore funds up to 2011. The government could think about declaring tax holiday.

Proposed budget initiative for export thrust sector also registered a mixed scenario. The 231 acre hi-tech park at Kaliakoir will add value both to the ICT and also to the investors. Efforts are underway to attract private and foreign investors to this park. Proposed allocation of Tk. 100 crore as an EEF fund for the information technology (IT) sector is a welcome gesture. The IT sector has been seen as a thrust sector and the low prices of computer accessories and computer related products is contributing to dissemination of the technology in Bangladesh. Given the bumper production of foodgrains, the government could have allocated fresh EEF funds for the agro-processing industries. The proposed tax holiday, with regard to income stemming from exports of handicrafts to remain outside of the purview of taxes from 1 July 2008 to 30 June 2011, is a commendable move by the government. This will hopefully increase investment in this sector.

Tax Holiday is continuing on a selective basis and broadening in other sectors. The continuation of the scheme for newly setup industries to provide 100 per cent tax holiday in the first 2 years (Dhaka and Chittagong) and 3 years (Rajshahi, Khulna, Sylhet, Barisal and 3 Chittagong Hill Tracts (CHT) districts). is a welcome move.

The budget has introduced a new scheme in dealing with duties and complications with the present system of indemnity bonds. According to the proposal, the government will no more continue with the process of bonds and will instead impose a duty of 1 per cent on the import of intermediate machineries and capital machineries for export oriented industries. The other slab for 5 per cent has been reduced to 3 per cent as an added incentive and for raising the competitiveness of the local producers. CD of washing chemicals decreased from 25 per cent to 12 per cent, which will minimise the cost of the RMG exporters.

A number of steps have also been mentioned in the proposed budget to strengthen the institutional capacity to deal with the complexity of the issues of the World Trade Organization (WTO). Finance Advisor in his speech recalled strengthening of the WTO cell in the Ministry of Commerce to facilitate sharing of information relating to international trade and initiating prompt actions accordingly. Tk. 10 crore has been allocated (unapproved) for the modernisation of Bangladesh Standards and Testing Instituition (BSTI) to help procurement of sophisticated equipments and for infrastructure development of laboratories for accreditation. CPD had earlier proposed this budgetary measure. Intellectual property issue will become vital in the coming days and thus the setting up of Bangladesh Integrated Intellectual Property Office (unapproved) will be a positive move.

Import Substitution

In the last fiscal budget, given the global inflation the price of imports had increased significantly. To support the growing demand for foodgrains, capital machineries and raw materials, the government has proposed a revised structure for the tariff slab system. The current budget has proposed a number of changes in the tariff structure - from changing the number of tires to changes in SD structure. If the changes were to be summarised, it can be stated that some of these changes were made to support exporters and some were proposed to protect our domestic industry. Some of these changes are presented in the Table 2.12, and explained in the following sections to have a better understanding as regards the plausible impact these will have on domestic industries and consumers.

In order to promote local ceramic industry, government has proposed supplementary duties on finished marble tiles and granite tiles to be increased from 20 per cent to 60 per cent. The ceramic industry is an upcoming thriving industry for the economy. Local ceramic industries are producing market ready quality tiles. Hence, a duty on the import of finished tiles is likely to have a positive effect on the ceramic industry. To encourage the local producers of plastic and provide them more market security, the budget proposed for protection measures to this industry. Feeding bottles, plastic cups for food packaging and plastics caps and other like products are now manufactured locally. CD have been proposed to increase from 15 per cent to 25 per cent and SD from zero per cent to 20 per cent. Products such as caps and plastic feeding bottles are locally made, and higher tariffs on final goods will raise effective rate of protection for these industries.

Table 2.12: Domestic Industries Protection Measures in the Budget FY2008-09

Industry/ Products	Initiative	Comments
Ceramics industries	- SD increased from 20 to 60 per cent	- Duty on the import of finished tiles will have a positive effect on the local ceramic industry. The number of ceramic producing companies in Bangladesh is approximately 15 and the total exports in FY2006-07 amounted to USD 32.80 million
Plastic industries	- CD of intermediate goods used to make plastic tap and others increased from 10 to 12 per cent - CD of feeding bottles increased from 15 to 25 per cent - SD increased from zero to 20 per cent	- It will encourage the local producers of plastic goods. Plastic is also now exported to others countries. The growing number of plastic industries (about 20) will be protected from outside competition
Electric apparatus industry	- CD increased from 15 to 25 per cent	- The increase in CD for the import of electrical apparatus will be an incentive for the local electrical apparatus producers (electric switch board, socket, plug, etc.)
Stainless steel	- CD increased from 15 to 25 per cent - SD increased from zero to 20 per cent	- The tariff imposed on stainless steel is a protective measure for the local industry - Bangladesh is producing quality kitchenware, this measure will provide protection to this industry
UPS/IPS industries	- CD of lead acid batteries decreased from 25 to 12 per cent	- Due to power crisis, UPS/instant power supply (IPS) becomes important both as a home appliance and office purpose. A number of IPS/UPS producing and assembling industries are now operating in Bangladesh. Proposed duty reduction will encourage local industry and will have positive affects on end price
Furniture industries	- SD on chair to be increased from 20 to 60 per cent	- This measure will provide protection to local industries
Water taps	- CD increased from 15 to 25 per cent	- It will be beneficial for the local tap producers since they will be protected from foreign imports
Urea fertiliser industry	- CD of boric acid reduced from 15 to zero per cent	- Boric acid is an important ingredient for urea production. As the price of the imported urea has gone up, the domestic urea industry needs to be competitive

Source: Adopted from the various documents of budget FY2008-09.

Local stainless steel kitchenware sector has the ability to produce quality kitchenware and needs to be protected from the foreign imports of stainless steel cutlery and other kitchen products. Hence, CD is proposed to increase from 15 per cent to 25 per cent and SD from zero per cent to 20 per cent. Proposed budget has taken protection to safeguard for the interest of small domestic biscuit industry. Proposed withdrawal of VAT at the production stage of hand made biscuits and fabrics produced from artificial fiber and thread using handloom to provide impetus to the small, labour intensive and employment friendly industries will encourage small scale producers, especially women entrepreneurs.

In the interest of the local paper industries, the existing zero per cent duty on pulp and paper waste (being its prime raw materials) has been proposed to continue.

Import duty of maintenance-free lead acid batteries used for assembly of import substituting rechargeable lamps and uninterrupted power supply (UPSs) has been reduced to 12 per cent from the existing 25 per cent.

2.5.5 Development of SMEs

Although development of SMEs bears critical importance for employment and income generation in the country, its development has often been constrained by various budgetary measures, or lack of budgetary measures. In the budget of FY2007-08, the government has allocated an endowment fund of Tk. 100 crore for the *SME Foundation* to provide credit to SMEs through private commercial banks (PCBs). Government has decided to provide more fund to the Foundation in the FY2008-09, an amount of Tk. 100 crore has been allocated to support SMEs. The *SME Refinancing Scheme* of Bangladesh Bank has been allocated Tk. 500 crore, up from Tk. 300 crore last year. Allocation of EEF in the FY2008-09 (Tk. 100 crore) has been targeted to IT related industries; in FY2007-08 EEF allocation was targeted to agro-based industries. However, the EEF covered only about 38.1 per cent of the total cost of the projects, which needs to be increased to provide adequate support to the eligible business activities. Out of 249 EEF projects, 82 projects have received full financial support, while another 145 projects received partial support costs of projects.

To encourage PCBs to provide more financing to the SMEs, government may consider reduction of corporate tax rate for financial institutions that target SMEs (in a proportional manner). SMEs which were damaged during the floods and Sidr in FY2006-07 required adequate financial support. In the budget FY2008-09, a number of projects can be identified which are targeted to enterprises of affected regions such as infrastructure damage rehabilitation project of BSCIC affected by cyclone Sidr in 2007, programme for rehabilitation for handloom owners affected by flood in 2007, etc. However, these are unapproved projects; government should implement those projects with adequate ADP allocation. It is worthwhile to mention that the projects which are being implemented in the FY2007-08 under BSCIC (such as salt industry project, tannery estate project) posted poor performance in terms of implementation during July-December, 2007 period (about 19.5 per cent). Rajshahi Krishi Unnayan Bank (RAKUB)-implemented "Small Enterprise Development Credit Project (SEDCP)" has seen completion of only 57 per cent during the first six months of the FY2007-08. Ensuring implementation of the project by using allocated fund timely and properly should be seen as an urgent task.

Table 2.13: Changes in Total Tax Incidence (TTI) on SME Products

HS Code	Products	TTI (FY2007-08)	TTI (FY2008-09)	% Change
3923.29.91	Articles for the conveyance or packing of goods of plastics, stoppers, lids, caps and other closures of plastics	47.3	134.8	87.5
3923.29.99	Other sacks and bags (incl. cones), excl. ethylene and other plastics, other colour	76.5	134.8	58.3
3923.30.90	Other carboys, bottles, flasks and similar articles of plastics	76.5	134.8	58.3
3924.90.30	Feeding bottles, plastic cup for packing food preparation	35.6	76.5	40.8
3924.90.90	Other household articles and toilet articles of plastics	76.5	134.8	58.3

Source: CPD estimate.

A number of fiscal measures have been proposed in the budget FY2008-09 to support SMEs. The SME sector has been given income tax relief by defining SMEs as entities having annual turnover below Tk. 2.4 million. Along the same lines, export earnings from handicrafts export will enjoy tax holiday from 1 July 2008 to 30 June 2011. The upper limit of investment in capital machinery, in order to enjoy cottage industry benefit (i.e. no VAT), will be increased from Tk. 700,000 to Tk. 1,500,000 and turnover limit will be raised from Tk. 2 million to Tk. 2.4 million. This measure is expected to help growth in the SME sector. VAT is to be withdrawn from the production stage of hand made biscuits, fabrics produced from artificial fibre and thread using handloom. Tax holiday to agro-processing industries has also been proposed. CD and SD on a number of plastic products have been raised, which has increased total tax incidence by about 41 per cent to 88 per cent (Table 2.13). Such initiative will support domestic plastic industries to expand their operation. However, Bangladesh Plastic Goods Manufacturers and Exporters Association (BPGMEA) has demanded cash incentive for exports of plastic goods. CD on electrical apparatus has been increased from 15 per cent to 25 per cent, which will benefit domestic industries. BPGMEA has proposed to lower the import duty on electric generator's spare parts from 10 per cent to 0 per cent. In the context of acute power crisis, government may provide the facility to encourage setting up of generators at industrial units.

The SME Foundation has established the National Women Entrepreneurs' Forum in order to stimulate women's entrepreneurship. It is an appreciable initiative which should be effectively utilised for identification of problems and demand voiced by women entrepreneurs and solving those problems.

In India, as on 31 January 2008, the Credit Guarantee Trust with Small Industries Development Bank of India (SIDBI) had extended guarantees to 89,129 small industrial units for an amount of Rs. 2,479 crore. SIDBI has decided to reduce the guarantee fee from 1.5 per cent to 1 per cent and the annual service fee from 0.75 per cent to 1 per cent for loans up to Rs. 5 lakh. Government of India has established a non-profit corporation for skill development of SMEs with a capital stock of Rs. 15,000 crore contributed by private and public sectors, and bilateral and multilateral sources. In order to upgrade the ITIs the Indian government has allocated an amount of Rs. 750 crore for 300 ITIs in 2008-2009.

Sri Lanka extended tax free period for importers of high tech machinery and equipment to enhance the production capacity of local enterprises, till December 2009. Financial assistance is to be extended at concessionary rates from the National Co-operative Fund, pertaining to project proposals submitted by Co-operative Societies for production purposes in diary, fishery, livestock, textile and small and medium industries.

2.5.6 Development of ICT

Use of ICT in government offices, manufacturing and service sectors, educational institutes, etc. is very limited. It is felt that a strong boost is needed by the government to implement plan of action on establishing e-government. Private sector should take pro-active role to support government's initiatives in terms establishing e-governance at all levels. In the budget for FY2008-09, government has reduced duty from computer accessories from existing 5 per cent to 3 per cent. This in effect will reduce the total tax incidence of computer accessories by about 2 per cent (Table 2.14). Exemption from income tax on computer software development, data processing, data entry and call centres and increase of the rate of normal depreciation on computers from existing 20 per cent to 30 per cent will have a positive effect on overall ICT sector. However, there is a need to extend this to other emerging IT-enabled services (graphics, web-based services, animation, etc. to name a few). Under EEF, government has provided an allocation of Tk. 100 crore for IT related projects. Instead of concentrating only on software related IT projects, the coverage of the EEF support should be extended to other IT-enabled services as well.

The first phase of infrastructural work for the hi-tech park at Kaliakoir, Dhaka will be completed by FY2008-09. It is expected that local and foreign firms will invest in the high-tech park. Government will need to take pro-active measures to attract private and foreign investors to make investment in this park. To attract investors related regulations, particularly in the intellectual property rights areas, will need to be appropriately enforced.

The introduction E-Citizen Services is an appreciable initiative. However, to make it successful a widespread internet facility at domestic level needs to be ensured. The introduction of Integrated Budgeting and

Accounting System (iBAS) is a good initiative of the government which will help develop an integrated budgeting and accounting system ensuring better transparency. However, the budget has not mentioned about lowering of internet charges which will help disseminate internet services for the purposes of business, education and other activities. Indian government has allocated a fund for establishing broadband internet-enabled common service centres in rural areas and a scheme for establishing State Wide Area Networks (SWAN) with central assistance. Bangladesh could consider such initiatives.

Table 2.14: Changes in Total Tax Incidence (TTI) on Computer Accessories

HS code	Description	TTI (FY2007-08)	TTI (FY2008-09)	% Change
3707.10.90	Toner cartridge for computer printer	25.5	23.2	-2.3
8443.32.10	Computer printer	25.5	23.2	-2.3
8443.99.10	Toner cartridge/ Inkjet cartridge	25.5	23.2	-2.3
8471.80.00	Other units of Automatic Data Processing Machines	9.7	7.7	-2.0
8471.30.00	Portable Digital Adp machines, wt<= 10kg, comp. At least CPU, Keyboard & Display	9.7	7.7	-2.0
8471.60.00	Adp Input/ Output units whether/ Not containing storage units in same housing	9.7	7.7	-2.0
8471.70.00	Automatic Data Processing machines Ne	9.7	7.7	-2.0
8504.40.20	UPS/ IPS (capacity up to 2000VA)	25.5	23.2	-2.3
8517.62.30	Modem	25.5	23.2	-2.3
8517.62.40	Ethement Interface card; computer network switch and hub	25.5	23.2	-2.3
8517.62.90	Other reception, transmission app. (excl. modem, telephonic/ telegraphic switch)	25.5	23.2	-2.3
8523.29.12	Computer software	25.5	23.2	-2.3
8523.40.12	Optical recorded media, computer software	25.5	23.2	-2.3
8523.40.91	Other recorded media for computers (excl. magnetic, optical)	25.5	23.2	-2.3
8523.51.10	Flash memory card or similar media to be used with computer	25.5	23.2	-2.3
8528.41.00	Cathode- ray tube monitors of a kind solely or principally used in an automatic	25.5	23.2	-2.3
8528.59.00	Other monitor, excl of a kind solely or principally an automatic data process.	25.5	23.2	-2.3
8538.90.00	Parts of Apparatus of 85.35 to 85.37, Nes	25.5	23.2	-2.3
8544.49.00	Electric conductors, nes, for A voltage> 1000 v	25.5	23.2	-2.3
8544.70.00	Optic Fibre Cables made up of individually sheathed fibres	25.5	23.2	-2.3
9612.10.10	Ribons (computer printers cartrige)	25.5	23.2	-2.3

Source: CPD estimate.

Allocation for ICT under the ADP in FY2008-09 will be Tk. 1,084 crore. For different projects to be implemented under various Ministries, government has made little change in the ADP allocation of FY2007-08 in the RADP for Ministry of Science, Information and Technology (Table 2.15). However, status

Table 2.15: ADP and RADP Allocation for the Ministry of Science, Information and Technology in FY2007-08

Organisation	Original ADP in FY2007-08 (Tk. Crore)	RADP in FY2007-08 (Tk. Crore)	Disbursement during July-December 2007 (Tk. Crore)	Revised as % of Original ADP	Status of Implementation as % of Revised Allocation
Ministry of Science, Information and Technology	11.06	4.95	1.35	44.76	27.27
BSTI	4.58	3.05	0.90	66.59	29.51
Bangladesh Atomic Energy Commission (BAEC)	56.84	61.49	9.97	108.18	16.21
Bangladesh Council of Scientific and Industrial Research (BCSIR)	8.40	14.67	1.72	174.64	11.72
Bangladesh Computer Council (BCC)	19.30	17.78	5.06	92.12	28.46
Planning Division	21.00	21.00	1.25	100.00	5.95
National Museum of Science and Technology (NMST)	4.00	4.00	0.02	100.00	0.50
Grand Total	125.18	126.94	16.83	101.41	13.26

Source: RADP, FY2008-09.

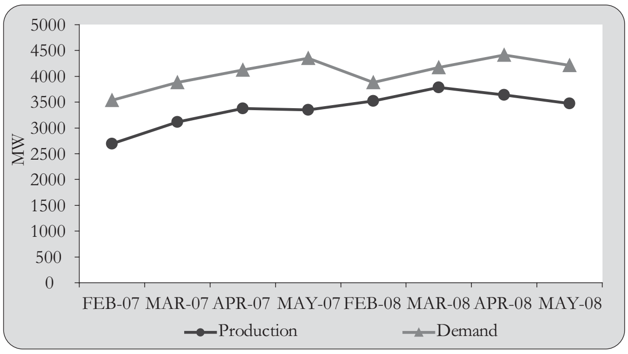
of implementation indicates very poor performance of various projects related with IT. During July-December of 2007, the status of implementation of these projects ranged between 0.5 per cent to 29.5 per cent, indicating a highly unsatisfactory performance. Thus, ADP allocation in this year for IT related projects will need to be implemented in an appropriate manner.

2.5.7 Power and Energy

Power

Inadequate supply of power and energy has been a major bottleneck that has severely constrained investment and business activities in Bangladesh. New industries and economic activities are not coming up due to absence of adequate power supply. The existing ones suffer from frequent outages, leading to damage of equipments, production disruption and cost escalation originating from more costly alternative sources. Currently, there is a large gap between demand and supply (734 MW in May 2008). In spite of some increase in power supply in recent months (8.7 per cent higher in April 2008 compared to April 2007), load shedding has continued to be very high (1049 MW in May 2008). According to the Power System Master Plan Update (published by Power Division in 2006), demand for electricity in base case (considered a GDP growth rate of 5.3 per cent in FY2004-05 and 6 per cent in FY2005-06) for years 2008, 2010 and 2015 would be 5,569 MW, 6,608 MW and 9,786 MW;

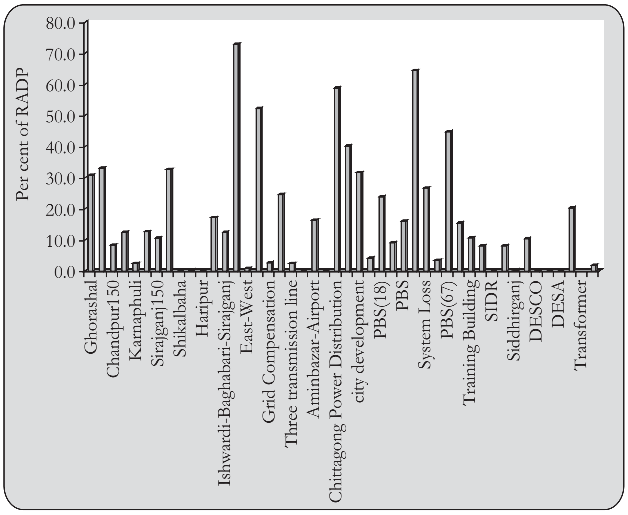
Figure 2.11: Demand-Supply Gap of Electricity



Source: Compiled from data of Ministry of Power and Energy.

in low case (considering a GDP growth of 5.3 per cent in FY2004-05 and 5 per cent for next five years) the corresponding figures would be 5,339 MW, 6,160 MW and 8,501 MW; and in high case (considering a growth rate of 6.5 per cent in FY2004-05 and the rate steadily increased to 9 per cent till 2015) corresponding figures would be 5,904 MW, 7,355 MW and 13,408 MW respectively. Taking the GDP growth rate of FY2007-08 at 6.2 per cent, which is expected to be 6.5 per cent or high in FY2008-09, the demand of power for the coming years should consider a level between projections made in base case and high case. The CTG and future governments will need to do a lot in the coming years to achieve the targets and reaching the demand for electricity.

Figure 2.12: Expenditure on Power Sector Projects



Source: RADP, FY2008-09.

In recent times, a number of power plants could not be in operation due to repair and maintenance works of plants and forced stoppages, and also due to shortage of gas (which caused a loss of 720 MW during April 2008). Because of frequent power outages, industries and businesses are becoming increasingly dependent on captive power in order to ensure uninterrupted power supply to factories and business premises. As a result, various types of power generators, mainly gas based power generators, are being imported at an increasingly larger numbers in recent years.

Government has allocated Tk. 3,502.94 crore for the power sector in FY2008-09 (13.7 per cent of total ADP), which is lower than the last year's original allocation Tk. 3,633.2 crore (13.7 per cent of total ADP), but marginally higher than the revised allocation of Tk. 2,989.03 crore. However, this allocation is lower than the fund opted by power division considering its request for an allocation of Tk. 4,678 crore for its development expenditure in the next fiscal, aiming to generate 10 per cent higher electricity generation and to cut system loss below 20 per cent. According to the Figure 2.12, during July-

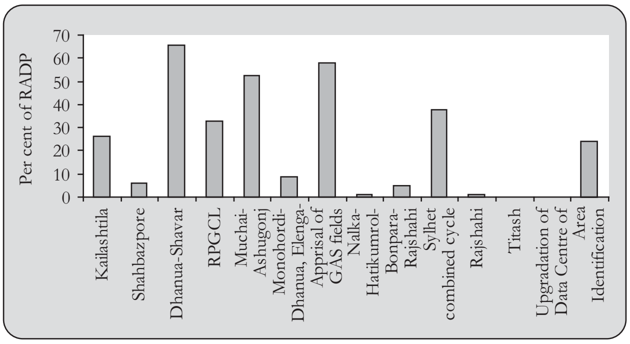
December, 2007 most of the projects under the power sector were found to be implemented at a very low level. A low level of implementation of power sector projects in FY2007-08 along with small allocation for new projects in FY2008-09 indicates a rather less optimistic scenario with regard to the power sector.

New projects which have been included in the budget FY2008-09 are mainly related to transmission efficiency improvement, rehabilitation and expansion of power distribution system in urban areas, rehabilitation of Khulna 110 MW and 60 MW power station, and rehabilitation of destroyed distribution system under Rural Electrification Board (REB) due to Sidr etc. However, these projects have not been approved and have no allocation against them. Completion of these projects, if adequate fund is allocated and implemented properly, will contribute to increased generation of electricity. Government has emphasised on strong role of the private sector in power generation. Based on stages of implementation of various projects under public and private sector, the government is projecting an additional electricity generation of 696 MW by the end of next fiscal. In view of slow pace of implementation of various ongoing projects (only one of the projects with the capacity of 80 MW has been completed so far), it is not evident how much fresh electricity will be added by the end of the next fiscal. In view of acute power shortage experienced at present times and further more in the coming years, government should take initiative for establishment of atomic power plant taking technical and financial support from the International Atomic Energy Association (IAEA) and other development partners. Use of alternative sources of electricity such as solar power plants need to be encouraged both at public and private sector levels.

Energy

Production of gas has not increased significantly in recent years - its growth rate was 7.6 per cent in 2006, which fell to 6.3 per cent in 2007. During 2008 gas production was 11,008 mmcm till February of FY2007-08, which was 61.1 per cent of the target set for FY2007-08 (18,025 mmcm). In view of increasing use of gas in industrial and business activities in recent years (29.2 per cent of total gas consumption for of industry and captive power till February FY2007-08 against 16.9 per cent in FY2002-03), more gas will be required to meet the growing demand. However, because of limited supply of gas, in recent times government has put measures to check on the usage of gas, especially in industrial units.

Figure 2.13: Expenditure on Energy Sector Projects



Source: RADP, FY2008-09.

In the budget FY2008-09, energy sector has received an allocation of Tk. 807.23 crore (3.15 per cent of total ADP) which is higher than that in FY2007-08 (Tk. 729.47 crore) and the revised ADP allocation (Tk. 459.02 crore). The higher allocation for energy sector is attributed to the inclusion of some new projects such as development of gas pipe line in Ashuganj and Elenga, building the exploration and production capacity of Bangladesh Petroleum Exploration & Production Company (BAPEX), development of Semutang gas field, development of Sundalpur oil/gas exploration site, Srikail oil/gas exploration field, etc. Government is planning to provide Tk. 3,200 crore to BAPEX to strengthen its exploration programme over the next seven years. This plan should be implemented properly and fund should be utilised efficiently. The state of implementation of gas sector related projects is mixed: some projects have been implemented at a rate of more than 40 per cent during July-December 2007, while others have been implemented at a rate of less than 10 per cent (Figure 2.13). Government should take necessary measures to set up coal-based power plants by using the coal reserves of the country. To this end, the National Coal Policy should be finalised on an urgent basis. Government decision with regard to reduction of CD on coal from 15 per cent to 7 per cent could be justified to the extent that availability of local coal has been limited because of lack of policy.

2.5.8 Capital Market

In the budget for FY2008-09, government has reduced corporate tax rate for companies listed for public trading from 30 per cent to 27.5 per cent, for non-listed publicly traded companies from 40 per cent to 37.5 per cent and keeping 45 per cent for other corporate companies. It is not clear to what extent non-listed companies will be encouraged to be listed in the capital market in order to take the benefit of 10 per cent low tax for enlistment. To encourage non-listed companies in the capital market, Securities and Exchange Commission (SEC) should identify systemic concerns of the capital market and take appropriate corrective action. It appears that announcement for introduction of "Book Building" system in the capital market in the budget FY2008-09 may induce private companies into stock market who have strong financial fundamentals. The government decision to off-load shares of 9 state-owned enterprises (SoEs) in the power sector, 10 SoEs in the industries sector and 2 public sector led telecommunication industries, is a timely decision to give more choice and competition for the investors in the stock market. In this process two SoEs namely Jamuna Oil Company Ltd. and Meghna Oil Company Ltd. have already off-loaded their shares in the capital market and the shares of Titas Gas Transmission and Distribution Company Ltd. are in the process of being off-loaded. In order to make necessary correction of the capital market some institutional measures need to be taken, one such measure would be introduction of "derivative" in the capital market.

The announcement of withdrawal of tax exemption on interest income accrued from zero coupon bonds may adversely affect businesses of non-bank financial institutions. Bangladesh Leasing and Finance Companies Association has requested the government to continue the tax exemption on interest income accrued from zero coupon bonds.

2.5.9 Transport and Communication

Budget allocation for transport sector in FY2008-09 was Tk. 3,450.39 crore, which was 4.4 per cent and 35.3 per cent higher compared to original ADP 2008 and RADP 2008. It is felt that following two floods and Sidr in FY2006-07 caused severe damage to infrastructure, ADP allocation for this sector should have been much higher in the budget FY2008-09. It is rather unexpected that allocation for roads in FY2008-09 decreased by 9.1 per cent to Tk. 2,206.69 crore compared to the original ADP of FY2007-08, though it is 12.5 per cent higher compared to the RADP of FY2007-08.

It is important to note that 1,421 km of roads were damaged due to cyclone Sidr and 26,306.26 km of roads were damaged due to the floods in 2007. In view of the substantial damage to roads and bridges, CPD had proposed to government to increase the budgetary allocation for road repairs. It is not understandable why RADP allocation for roads was reduced by 19.2 per cent. Out of the eight proposed new projects, one is directed towards Sidr affected areas. Another new road project that is unallocated and unapproved is the reconstruction and rehabilitation of the roads and highways affected by cyclone Sidr.

The allocation for railway, shipping and civil aviation rose by 42 per cent to Tk. 1,243.70 crore in FY2008-09 compared to ADP 2008. Bangladesh Biman Corporation has been converted into a public limited company and Biman has taken initiative to purchase eight aircrafts from Boeing at a high cost. In view of making Biman economically viable, a number of reforms have been initiated in recent times including strengthening of the management, rationalisation of size of employees, strengthening the operational practice, competitive pricing, etc. These should be pursued further. In budget FY2008-09, specific duty on aircraft engine, parts and spares has been decreased from 10 per cent to 3 per cent. This is likely to have positive impact on public and private sector airliners enabling them to import engines and other parts at lower cost.

Allocation made to Bangladesh Land Port Authority (BLPA) for development and extension of infrastructure at Benapole Land Port in ADP FY2007-08 was Tk. 3.31 crore (RADP remained the same), only 6.34 per cent of which was implemented in July-August 2007. Government of Bangladesh (GoB) has decided to develop and operate 12 land ports out of 13 except Benapole on a Build, Operate and Transfer (BOT) basis. BGMEA demanded that government should involve private sector more under the BOT system. It was suggested in the CPD proposal that the government should speed up the process of finalising the formalities to initiate the preliminary work for constructing "Padma Bridge." The GoB has approved the Padma Bridge construction project at a cost of Tk. 10,162 crore; the design phase is currently underway.

Allocation made to Chittagong Port Authority (CPA) for Chittagong Port Trade Facilitation Project in ADP

FY2007-08 was Tk. 96 crore, which was reduced by 11.4 per cent in the RADP. However, only 4.75 per cent of RADP allocation was implemented in July-December 2007. Allocation made to Mongla Port Authority (MPA) in ADP FY2007-08 was Tk. 9.0 crore; interestingly RADP was reduced by 99.2 per cent to Tk. 0.07 crore. However, there is no status report of the projects, namely dredging at the outer bar in the Pussar Channel and collection of cargo handling machineries for Mongla Port. CPD proposed that the government should prepare a modernisation, expansion and development plan for Mongla Sea Port. Government could place the plan for necessary funding under WTO's "Aid for Trade" (AfT) programme. ADP 2009 did make a provision for modernisation of Mongla Port through its navigational aids to Mongla port project. In the ADP, the list of projects that will probably be completed in FY2008-09 include port efficiency improvement plan by the CPA. New Mooring Container Terminal (NCT) has also been constructed and arrangement has been made to operate this terminal entirely through private management. Although capacity of Chittagong Port after the extension would be sufficient to meet the demand for some more years, however in order to meet the extended demand in the future further expansion will be needed. In this context, the idea of a deep sea port at Sonadia in Cox's Bazar has been mooted. The second phase of technical and financial feasibility study for constructing a deep sea port is in progress and needs to be completed in a speedy manner to arrive at decisions as regard techno-economic feasibility of such an initiative.

2.5.10 Real Estate and Housing Sector

Government has allocated a total of Tk. 2,218.7 crore (8.7 per cent of the ADP) for the physical planning, water supply and housing sector in FY2008-09 which is 39 per cent higher than the allocation of the previous year. A number of projects has been initiated by the government for housing of limited income people in different regions (Dhaka, Chittagong and Pabna), which will be completed by the next fiscal year. However, such initiatives should be extended for low-income people, especially for garments workers in the city. During FY2007-08 1,000 flats have been handed over to the shelterless slum dwellers and low-income families and 5,000 flats are to be handed over to the underprivileged by December 2008. These initiatives need to be continued in the future. Sri Lanka has allocated Rs. 100 million to complete housing construction activities and Rs. 100 million to develop housing facilities of shanty dwellers in ten selected districts. Pakistan government, under a low cost housing scheme will construct about 37,000 houses for the low paid employees in this fiscal year. India has increased the amount of subsidy from Rs. 25,000 to Rs. 35,000 for per unit housing in plain areas and Rs. 27,000 to Rs. 38,500 in hill areas.

In order to reduce the cost of raw materials used for housing, government has withdrawn 15 per cent VAT on importation of MS bar and rod, which will positively contribute to real estate sector. A specific SD at Tk. 1,500 per MT has been imposed in the budget FY2008-09 on raw materials for steel products used in the construction sector to stabilise our domestic market. According to Dhaka Chamber of Commerce (DCCI) reduction of import tax on MS Rod would encourage the import of fine rod rather than scrap. Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) has sought revision of duty structure for importing finished steel bars as same as import of finished rods and steel raw materials. CPD proposed that the current import duty on clinker which is Tk. 350 per ton should be reduced to Tk. 200 per ton, in order to generate competitiveness in the domestic cement industry. According to the budget FY2008-09, income generated from constructions of multistoried buildings outside the City Corporations, Cantonment Board, Municipalities of district headquarters, Municipal areas under Dhaka district has been exempted from tax for the next 10 years which might encourage the developers. Without having a proper guideline it would hamper the objectivity of the initiative.

Government should decrease high transfer registration cost to reduce propensity to evade tax and protect the current revenue intake under this head. For developing the secondary housing market, government may reduce the registration fee that charged on transfer of second-hand homes (e.g. 50 per cent of the tax charged for registration of a new apartment). Government could also think about rationalising the minimum value of flats and buildings for tax purposes reflecting current market prices and locational variations. Government may consider raising the limit for house building loan at reduced rate by enhancing individual's monthly income limit from Tk. 30,000 to Tk. 50,000.

2.5.11 Local Government and Regional Development

In Local Government, ADP allocation for FY2008-09 is Tk. 3,523.02 which is 13.76 per cent of the total ADP allocation. In FY2008-09, government has allocated 923.9 crore taka (3.6 per cent of the total ADP) in ADP for the development of local government, CHT and development of special region which is a good plan for strengthening local government. For poverty reduction and reducing regional disparity, special allocation has been made for 276 upazilas of 39 poverty stricken districts. Local institutions have received 60 per cent of the total development assistance for this purpose. To ensure balanced regional development, lagging regions received higher allocation in the ADP. Special development assistance in poverty stricken 28 districts allocation is increased from Tk. 20.6 crore in FY2007-08 to Tk. 40 crore in FY2008-09. However, implementation plans and modalities are yet to be developed. Special allocation of development projects targeting the backward regions is necessary but raising the efficacy of implementation is important. CPD research on regional inequality revealed that two-third of the total inter-region inequality is due to intra-region inequality. Proportion of landless households had a significant negative effect on income inequality at the district level. As such, government needs to take appropriate actions so that less endowed people can have greater access to new productive assets such as solar dryer, power tiller, power pump, harvester, thresher, etc. The budget has also provided longer tax holiday and greater depreciation for investment in lagged regions such as in Rajshahi, Khulna, Sylhet and Barisal divisions and three CHT districts to set up industries.

2.6 SOCIAL SECTORS AND SAFETY NET PROGRAMMES

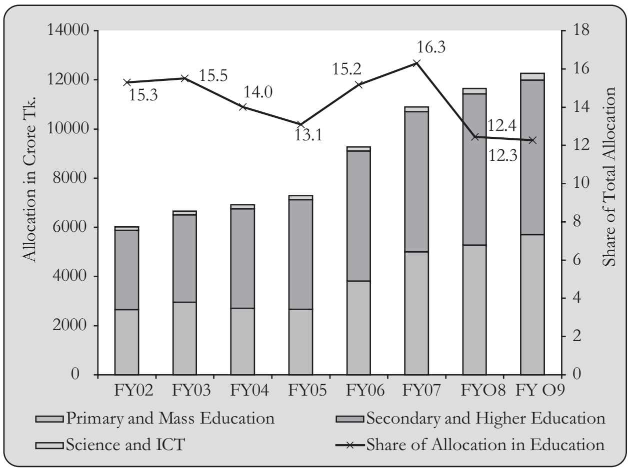
Towards sustainable economic growth and overall social development, human resource development is an important precondition. In this connection, budget FY2008-09 has given importance to the two major inputs of human resource development: health and education. In the budget of FY2008-09 an allocation of Tk. 21,112 crore has been made for human resource development, which is 21.1 per cent of the total budget. Of this 12.26 per cent has been allocated for education and 5.9 per cent for health sectors.

2.6.1 Education and Technology

In FY2008-09, a total of Tk. 12,259 crore has been allocated for education and technology (revenue: Tk. 8,764 crore, development: Tk. 3,495 crore) which is 12.3 per cent of the total budget. Allocation in FY2008-09 is 0.89 per cent lower than FY2007-08 budget and 4.94 per cent higher than revised budget of FY2007-08 (Figure 2.14). The budget mainly focused on improving the quality of education. Proposal has been made to allocate another Tk. 15 crore as educational research grant in FY2008-09 even though Tk. 10 crore allocated in FY2007-08 remains unutilised. This calls for effective modalities for implementation.

The budget announced to continue the 6-year Second Primary Education Development Programme (PEDP-II) as part of which 55 lakh primary students are receiving annual stipends. Total outlay for this programme is Tk. 1,800 crore.

Figure 2.14: Total Revenue and Development Allocation in Education Sector



Source: Budget documents.

A new "Stipend Programme for Poor Male Students" has been proposed in the budget, to be implemented in 121 upazilas. This has been done with a view to increase the rate of enrolment of male students in secondary education level. This is a pragmatic initiative which will benefit the marginalised families. Another new programme is proposed to bridge the gap between quality of education of urban and rural areas. 63 schools are primarily selected to be converted into Model High Schools. This is definitely a very good initiative, but proper training of teachers, particularly for English and Science subjects, will be required.

The budget proposed to reduce tariff on computer and computer accessories from 5 per cent to 3 per cent. This is a very good initiative to enhance computer literacy among students.

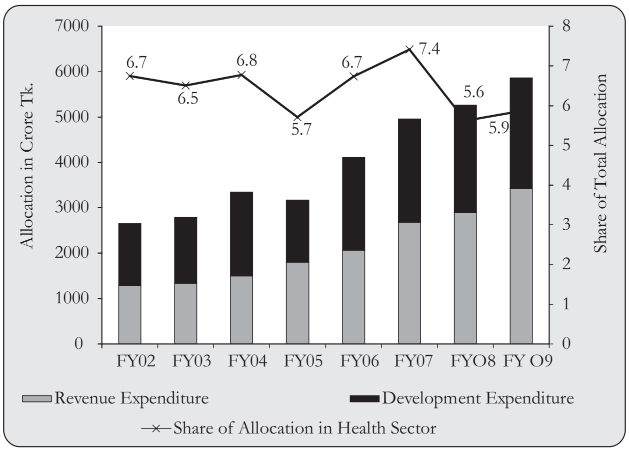
The budget has imposed 25 per cent VAT on children's picture, drawing or colouring books imported from other countries. This measure needs to be revisited as it amounts to taxing knowledge.

Concerns: There is no proposal in the budget for any specific programmes to train low or semi-skilled labours for overseas employment. The budget has recognised that remittance sent by Bangladeshi workers living abroad is very important for the economy of Bangladesh. But it failed to propose any measure which will increase their skill and capability to earn and remit more.

2.6.2 Health

Allocation for the health and family planning is Tk. 5,862 crore (revenue: Tk. 3,423 crore and development: Tk. 2,439 crore) which is 5.9 per cent of total budget in FY2008-09 (Figure 2.15). Allocation for health and family planning in FY2008-99 is 6.69 per cent higher than budget in FY2007-08 and 10.25 per cent higher than revised budget in FY2007-08. Total utilisation of the budget for health sector was only 52 per cent in FY2007-08 (July-April), which is very low considering the size of the programme. In view of this, special measures should be taken to ensure effective implementation of the budgetary allocation for heath sector.

Figure 2.15: Total Revenue and Development Allocation in Health Sector



Source: Budget documents.

The budget proposed "Maternity Allowance for the Poor Lactating Mothers" in urban areas with an allocation of Tk. 20 crore. A similar programme for rural areas was introduced in FY2007-08 with an allocation of Tk. 17 crore. Until April 2008, Tk. 16.2 crore was distributed to 45 thousand expecting mothers of 3 thousand unions.

To ensure quality health services and increase the involvement of private sector, implementation of a programme is underway to outsource the management of 342 community clinics and 132 Union Health and Family Welfare Centres (UHFWCs) and hospitals to the private sectors. This may help to improve quality of health but accessibility for the poor remains a concern.

CD is proposed to be reduced to 7 per cent from 25 per cent for Inhaler actuator and withdrawn on drugs used for Thalassemia. A proposal has been made to impose SD of 60 per cent on the raw materials for manufacturing of cigarettes and 20 per cent on the papers used in producing, packaging materials of cigarettes. Scented tobacco (jarda) and burnt tobacco (gul) are proposed to bring under the purview of VAT. These are some very good steps for the sake of public health.

2.6.3 Women Development

Gender sensitivity was highlighted as a major point of concern in this year's budget. Some commendable efforts have been made to infuse gender sensitivity in the budget by way of increasing allocation for women development programmes both in rural and urban areas. It has been mentioned in the budget that a monitoring committee titled "Women in Development" will start to work along with the National Action Plan for women development. Tables 2.16 and 2.17 highlight some of the measures proposed in the budget.

- The government has taken measures such as recruiting around a 60 per cent female teaching staff

Table 2.16: Programmes under Gender Equity and Empowerment

Measures	FY2007- 08	FY2008 -09	% Increase	Implications
Gender Equity Expenditure	23.5 per cent of total budget	26.3 per cent	12	To increase gender sensitivity
Allowance for Widowed, Deserted and Destitute Women	Tk. 217.8 Cr (70.3 per cent of total budget) Tk. 220/ month, Target: 8,25,000 women	Tk. 270 Cr, Tk. 250/ month, Target: 9,000,00 women	24	This falls short of the anticipated rise to keep up with inflationary pressures
Maternity Allowance for Poor Lactating Mothers	Tk. 17 Cr, Target: 45,000 with Tk. 300/month	Tk. 21.6 Cr, Target: 60,000	27	No change in the monthly allowance has been announced. This is however a positive step forward

Source: Budget speech of the Finance Advisor of Bangladesh, FY2008-09.

for primary schools, and ensuring the security of Bangladeshi women working overseas.

- Gender equality expenditure has increased from 23.5 per cent to 26.3 per cent of the total budget. The budget for FY2008-09 has proposed to raise the number of target beneficiaries for Allowances Programme for Widowed, Deserted and Destitute Women to 9,000,00 and the allowance has been increased from Tk. 220 per month per person to Tk. 250. Even though the increase in the number of beneficiaries is positive, this allowance should have been increased to keep up with inflationary pressures.

- The target beneficiaries for Maternity Allowance for Poor Lactating Mothers have been increased to 60,000 from 45,000, and the allocation of funds for the programme has increased from Tk. 17 crore to Tk. 21.6 crore.

Table 2.17: New Measures under Budget FY2008-09

Measures	FY 2008-09 Allocation	Implications
Allowance for Poor Lactating Mothers in Urban Areas	Tk. 20 Crore	This will ensure coverage of women in urban areas and act as an incentive for women to come into the labour force
Rural Employment and Road Maintenance Programme (RERMP)	Tk. 943 Crore	This will generate 50,000 jobs annually in 4,962 unions
Allowance for women in 8 northern districts	Tk. 400/month per person	This is good initiative in view of inflationary pressure
National Women's Entrepreneurs' Programme	Tk. 100 Crore	This will encourage women-run businesses to take more risks

Source: Budget Speech of the Finance Advisor of Bangladesh, FY2008-09.

- The government had noted that these programmes concentrated more heavily on rural female populations. In order to address gender issues in urban areas as well, the government has proposed 4 new programmes for the next fiscal year. An amount of Tk. 20 crore has been allotted for Allowance for Poor Lactating Mothers in Urban Areas.

- There will be an Allowance for Women in 8 Northern Districts at Tk. 400 per month. For Rural Employment and Road Maintenance Programme (RERMP) Tk. 943 crore has been granted. This will generate about 50,000 jobs annually in 4,926 unions.

- The National Women's Entrepreneurs' Programme will receive Tk. 100 crore so as to attract more female entrepreneurs to start their own businesses and take more risks.

- The income tax limit for women has also been raised to Tk. 1,65,000.

2.6.4 Social Safety Net

The total outlay for social safety net in FY2008-09 is proposed as Tk. 16,932 crore which is 2.8 per cent of the GDP, against Tk. 11,467 crore (or 2.1 per cent of GDP) in the revised budget of FY2008-09. Number of beneficiaries from social safety net programmes would be increased from 366.90 lakh in FY2007-08 to 534.89 lakh in FY2008-09. Thus, allocation for social safety net will be increased by 48 per cent and number of beneficiaries from such programmes will be increased by 45.8 per cent. It is planned that through these programmes employment creation would be 257.14 lakh person-months in FY2008-09, compared to 235.75 lakh person-months in FY2007-08 (that is, 9.0 per cent increase in employment generation). Social safety net programmes are designed for social protection and empowerment purposes. Four types of programme will be implemented in FY2008-09. These are: (1) Cash

Table 2.18: Social Safety Net Budget FY2008-09 (Social Protection and Social Empowerment)

Programmes	Number of Programmes	Coverage in Lakh			Budget Allocation (Crore Tk.)		
		FY2007-08	FY2008-09	Increase (%)	Revised Budget (FY2007-08)	Proposed Budget (FY2008-09)	Increase (%)
I. Cash Transfer Programmes							
Cash Transfer (Allowances) Programme							
Social Protection	15	44.43	48.49	9.14	4312.26	4871.95	13.00
Social Empowerment	2	0.24	0.24	0.00	6.80	7.80	15.00
Cash Transfer (Special) Programme							
Social Protection	1	3.70	0.00	(-)100.00	100.00	0.00	(-)100.00
Social Empowerment	2	44.34	137.18	209.38	231.00	282.35	22.00
II. Food Security Programmes							
Social Protection	7				4717.00	6868.05	46.00
III. Microcredit Programmes and Funds							
Microcredit Programmes							
Social Empowerment	10	70.13	76.75	9.44	380.66	346.37	(-)9.01
Miscellaneous Funds							
Social Empowerment	11	14.62	20.65	41.00	254.25	319.50	26.00
New Funds							
Social Protection	3				0.00	2320.00	-
IV. Development Sector Programmes							
Running Development Sector Programmes							
Social Empowerment	13	103.81	105.30	1.44	1465.42	1706.45	16.45
New Development Sector Programmes							
Social Empowerment	2	0.00	50.40	-	0.00	209.20	-
TOTAL					**11467.39**	**16931.67**	**48.00**

Source: Ministry of Finance (MoF).

Transfer Programmes, (2) Food Security Programmes, (3) Microcredit Programmes and Special Funds, and (4) Development Sector Programmes.

Cash Transfer Programmes: Two types of cash transfer programmes are in operation: allowances and special programmes. Total allocation under cash transfer programmes is increased from Tk. 4,650.06 crore in FY2007-08 to Tk. 5,162.10 crore in FY2008-09 (i.e. 11.01 per cent higher allocation). Number of beneficiaries under the cash transfer programme has been increased from 89.01 lakh in FY2007-08 to 185.91 lakh in FY2008-09 (108.80 per cent increase). A total of 15 allowance programmes are there (old age allowance; allowance for the widowed, deserted and destitute women; allowances for the financially insolvent disabled; maternity allowance programme for the poor lactating mothers; honorarium for insolvent freedom fighters; honorarium for injured freedom fighters; grants for residents in government orphanages and other institutions; capitation grants for orphan students in non-government orphanages; block allocation for disaster management; gratuitous relief (cash); general relief activities; non-Bengali rehabilitation; allowances for distressed cultural personalities/activists; allowances for beneficiaries in CHT area; and pension for retired government employees or their families). These will be implemented for social protection, and two programmes (stipend for disabled students; and grants for the schools for the disabled) will be implemented for social empowerment of the physically challenged. Under the cash transfer (special) programmes, cash for work will be implemented for social protection and housing support and agricultural rehabilitation will be implemented for social empowerment.

Monthly allowance for old age, allowance for the widowed, deserted and destitute women and allowance for the financially insolvent disabled have been increased from Tk. 220 to Tk. 250 per person. Honorarium for insolvent freedom fighters rate has been raised from Tk. 600 to Tk. 720 per person per month. Grants for residents in government orphanages and other institutions have been increased from Tk. 1,200 to Tk. 1,500 on a monthly basis. Capitation grants for orphan students in non-government orphanages has been increased from Tk. 600 to Tk. 700 per month. Monthly stipend for disabled students has been increased from Tk. 200 to Tk. 300 for disabled studying in the primary level, from Tk. 300 to Tk. 450 for secondary level, from Tk. 400 to Tk. 600 for higher secondary level, and from Tk. 600 to Tk 1,000 for university level. Tk. 300 per month is provided to the beneficiaries of the "maternity allowance for the poor lactating mother" programme. A new protection scheme for the poor lactating mothers in urban areas will be started in FY2008-09 with an allocation of Tk. 20 crore targeting 40 lakh urban low-income lactating mothers. This is a praiseworthy initiative.

Food Security Programmes: Seven food security programmes (Subsidy for OMS; Vulnerable Group Development (VGD); Vulnerable Group Feeding (VGF); Test Relief (TR): Food; Gratuitous Relief (GR): Food; Food Assistance in CHT area; and FFW) will be implemented to achieve social protection. Total allocation for food security programmes has been increased from Tk. 4,717 crore in FY2007-08 to Tk. 6,868.05 crore in FY2008-09 (46 per cent increase in allocation).

The budget has plans to procure 32 lakh metric tonnes of foodsgrains which include internal procurement and import of foodgrains, including food aid. The budget also declared 30 lakh metric tonnes of foods will be distributed through OMS at a concessional price, FFW, VGF, VGD, TR and GR programmes. CPD also suggested for such measures.

Microcredit Programmes and Special Funds: For the purpose of social empowerment, 10 microcredit programmes (Fund through PKSF; Special Fund for Employment Generation for Hard-core Poor in Sidr Area (PKSF); Social Development Foundation; NGO Foundation; Microcredit for Women Self-employment; Fund for Development of Fisheries and Livestock Sector; Freedom Fighters' Self-employment Support; Microcredit for Self-employment of Youth; Microcredit in Social Sector Service; and microcredit by BRDB will be implemented). 11 special funds (Fund for the Welfare of Acid Burnt and Disables; Fund for Garment Workers Training and Support; Fund for Assistance to the Small Farmer and Poultry Farms; Employment Generation for Hard-core poor; Support to Small Entrepreneurship; Mitigation of Risk of Natural Disaster (pre and post); Housing Loan for Homeless; Swanirvar Training Program; Jatio Pratibandhi Unnayan Foundation (JPUF); Shamaj Kallyan Parishad; Special Fund for Training and Reemployment for the Retired or Dismissed Employees/ Workers) will be implemented to achieve social empowerment. To provide social protection, three new funds (100-Days Employment Guarantee Scheme; Fund for Climate Change; and Allowances for Urban Low-Income Lactating Mothers) are proposed with a total outlay of Tk. 2,320 crore. On the other hand, allocation under existing microcredit programmes has been increased from Tk. 634.91 crore in FY2007-08 to Tk. 665.87 crore in FY2008-09 (4.8 per cent increase). Number of beneficiaries has been increased from 84.75 lakh in FY2007-08 to 97.40 lakh in FY2008-09 (14.93 per cent higher).

The budget for FY2008-09 has proposed a new programme titled "100 Days Employment Guarantee Scheme" with an allocation of Tk. 2,000 crore to generate employment for 20 crore man-days for the ultra-poor and the rural middle and lower middle class communities. It aims to create 100 days assured job, particularly during mid-October to mid-January and also during mid-March to mid-May with a daily remuneration of Tk. 100 per person. Total number of targeted beneficiaries is 20 lakh unemployed poor. This is the largest social safety net programme undertaken in Bangladesh. CPD has been recommending for such a programme for the last three years. Effective implementation of this programme would require involvement of local government which is currently weak in Bangladesh. Another concern is that Tk. 100 per day remuneration could prove to be low; this will need to match prevailing daily wage. India has been implementing a similar programme throughout the country since February 2006. Bangladesh may learn from the experience of India. Indian experience is provided in detail in Box 2.2.

Development Sector Programmes: 13 development sector programmes (11 on-going and two new) will be implemented for social empowerment. On-going development programmes implemented as part of social safety net are: Stipend for Primary Students; School Feeding Program; Stipend for Drop-out Students; Stipend for Secondary and Higher Secondary/Female Student; Stipend for Poor Boys in Secondary School; Maternal Health Voucher Scheme; Rural Employment Opportunities for Protection of Public Property; Community Nutrition Programme; Char Livelihood; Shouhardo Program; Accommodation (Poverty Alleviation and Rehabilitation) Project. Two new programmes are: Rural Employment and Rural Maintenance Programme; and VGD-Ultra Poor (8 districts in Monga area). Total allocation for safety net programmes implemented as part of development sector programmes has been increased from Tk. 1,465.42 crore in FY2007-08 to Tk. 1,915.65 crore in FY2008-09 (31 per cent higher).

Concerns and Suggestions

A current CPD study indicates that an additional 8.5 per cent people (2.5 million families) could have fallen below the poverty line in recent times (between 2005 and 2008), because of high inflation, particularly of rise in rice prices. The study added that population below the poverty level of income experienced an income erosion of 36.7 per cent during January 2007 to March 2008. Considering the realities, the Finance Advisor has come up with a larger social safety net programme, and initiated special programmes of employment creation for poor and low-income group. We do hope that these programmes will be effectively implemented.

Though the government extended its safety net programmes which is expected to help the poor and vulnerable and mitigate the food deprivation of people below the hard core poverty line, further attention is requested to be given in the per capita allowance of such programmes. It is to be noted that, PRS-II (draft) also suggests a floor to the minimum level of allowance at Tk. 400 in each of the allowance programmes. Allocations in proposed budget fall short of this. No new programme is offered for RMG workers. The government may reconsider the CPD proposal put forward earlier pertaining to setting up a Contributory Provident Fund (CPF) for RMG workers (with 50:50 contributions by the factory owners and the government). CPD has also given some additional specific proposals for physically and mentally challenged children and their family. Even though the PRS-II (draft) comes up with initiatives for elder women with no children, the proposed budget does not provide with any such programmes. Government may think again over those proposals as many of organisations and individuals demand more attention to this section of the people.

Box 2.2: India's National Rural Employment Guarantee Act (NREGA): Lessons for Bangladesh

Legal Basis: National Rural Employment Guarantee Act (NREGA) was passed by the Indian Government on 25 August 2005. The NREGA ensures a legal guarantee for 100 days of employment in every fiscal year to adult members of any rural household willing to do unskilled manual work at the statutory minimum wage. The Act guarantees unskilled manual employment, but also addresses the special need of physically challenged individuals and women. Initially only the households living under poverty line were targeted, but later on the word "poor household" was replaced by "household" for guaranteeing jobs in every household for one person.

Coverage, Eligibility and Achievements of the Programme: The scheme started with 200 districts in 2 February 2006 and now (2008) runs in all the 596 districts in FY2008-09. All adult members of a rural household can apply for employment even if any person is already employed/engaged for few months in a year, he/she has right to demand employment

(Box 2.2 contd.)

(Box 2.2 contd.)

as unskilled manual worker under this scheme. Women will get priority and one-third beneficiaries under the programme are to be women.

The adult members of every household need to submit their names, age, sex and address to the Gram Panchayat for registration and this registration will be valid for 5 years and is open for the whole year. Gram Panchayat does the verification of details submitted by household for registration. The applicant receives a job card in return. Within 15 days of submitting the application, employment is provided to the individual. If employment is not provided, then the applicant would be entitled to receive unemployment allowance. Work will be provided within 5 kilometres of the applicant's residence else a travel allowance has to be paid.

Employment provided to households	3.39 Crore
Person-days (in Crore)	
Total	143.68
Scheduled castes (SCs)	39.42 (27.44%)
Scheduled tribes (STs)	42.06 (29.27%)
Women	61.09 (42.52%)
Others	62.2 (43.29%)
Total works taken up	17.92 Lakhs
Works completed	8.24 Lakhs
Works in progress	9.69 Lakhs

The workers receive the statutory minimum wage applicable to agricultural workers in the state, unless the central government "overrides" this by notifying a different wage rate. If the central government decides, it may notify a wage rate, which will not be less than Rs. 60/- per day. Wages can be paid as daily wages or piece rates as both are permitted under the Act. If wages are paid on a piece rate basis, the schedule of rates has to be such that a person working for 7 hours would normally earn the minimum wage.

Implementing Institutions: Gram Panchayats (half of Employment Guarantee Scheme (EGS) works), other Panchayati Raj Institutions (PRIs), Line departments (Public Works Department (PWD), Forest Department), non-government organisations (NGOs) are the implementing agencies but no private contractors are allowed. Only productive works like minor irrigation, water conservation, drought proofing, desilting of tanks, flood control, land development, rural roads, etc. are permitted under the scheme.

Limitations and Problems Faced by India: Implementation of NREGA faced some problems. These are as follows: (1) Only 3.2 per cent of the registered households could avail of 100 days of employment and average employment provided under the scheme was just 18 days (2) Low skilled workers tend to move away from agricultural sector since it involved uncertainty in production; (3) Agricultural wage is going upward in some areas; (4) Even if workers are offered a higher wage, they prefer guaranteed employment because little work brings more money as there is lack of supervision. Lack of monitoring also gives rise to shirking/moral hazard/free riding problem; (5) During rainy season, it is not possible to continue ongoing projects. The programme is accused of providing untimely employment, not when it is needed the most, not in efficient projects; (6) Leakages, over payment, under payment, delayed payment without compensation, false registration, fund diversion, problem of effective targeting, etc. are causing this programme to run inefficiently; and (7) Deficient financial management and tracking system, inadequate and delayed planning of works, absence of authenticated books for records, lack of adequate administrative and technical manpower (Rediff.com (22 August 2005); Indian Express (7-10 January 2008); Down to Earth (19 April 2006, 5 July 2006)).

Measures Taken to Overcome the Limitations: To ensure transparency and accountability "Transparency and Accountability Rules" (Draft) has been formulated. It emphasises on pro-active disclosure at the worksite, Gram Panchayat office, block office, district, state and national level. Master roll, management information system (MIS) reports are available on the website of the NREGA (http://nrega.nic.in/).

2.7 CONCLUDING REMARKS

It is envisaged that the budget FY2008-09 will be implemented by two successive governments, the CTG, to be followed by a democratically elected government. It will be the responsibility of the CTG to ensure that initiatives envisaged in the present budget get off to a good start from the very beginning. CTG will need to give topmost priority to such areas as ensuring food security through a good Aman harvest, effective implementation of large scale safety net programmes, implementation of the various incentives provided in the budget, maintaining an investment friendly environment and ensuring quality and on time implementation of the ADP. It will be critically important that the CTG is able to maintain the required macroeconomic stability as the country moves towards election at the end of 2008. Implementation of the budgetary proposals will need to be monitored and put under scrutiny on a continuing basis so that necessary mid-course corrections may be undertaken in view of emerging developments, both in the domestic economy and in the global front. CTG will need to make every effort so that democratic transition takes place in an environment of economic growth and social coherence.