CHAPTER 2

Analysis of the National Budget for FY2009-10

2.1 INTRODUCTION

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

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

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

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

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

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

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

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

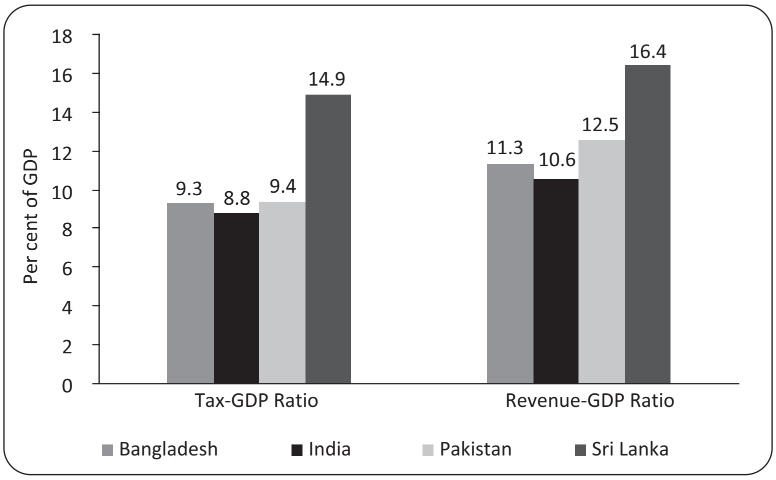
2.2 PUBLIC FINANCE

2.2.1 Revenue Earnings

Benchmark Performance of FY2008-09

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

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



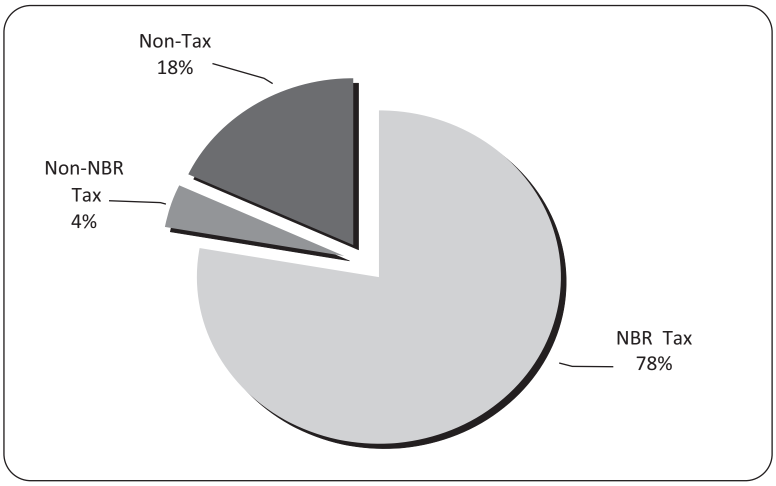
Source: Budget documents and economic reviews of the respective countries.
Note: Revised budget estimates for FY2008-09. Actual FY2008-09 figure for India.

Revenue Targets for FY2009-10

Overall Revenue Mobilisation Targets

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

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



Source: Budget documents FY2009-10.

Incremental Contribution of Sources

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

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

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

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

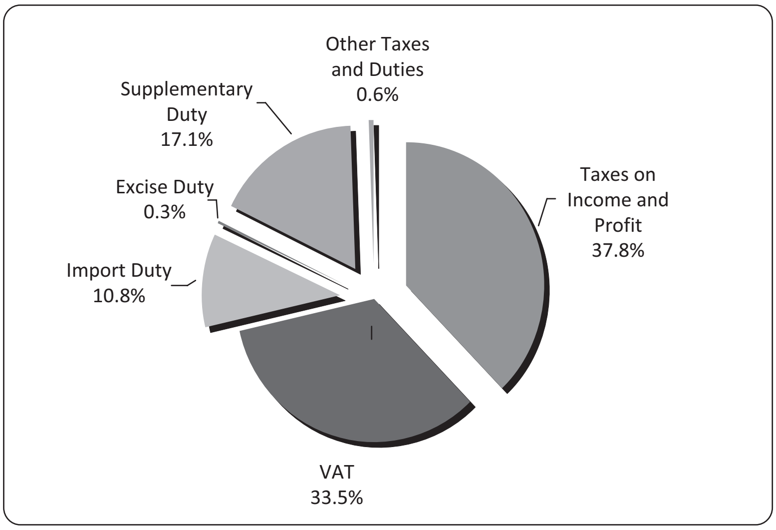
Table 2.1: Revenue Growth Trend over the Last Two Decades *(in Per cent)*

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

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

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

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



Source: Budget documents FY2009- 10.

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

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

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

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

2.2.2 Public Expenditure

Development projects continued to remain severely under-implemented

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

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

Table 2.2: Sectoral Allocation of Public Expenditure

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

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

Overview of Sectoral Allocation

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

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

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

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

Revenue Expenditure

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

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

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

Table 2.3: Revenue Expenditure Targets for FY2009-10

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

Source: Budget documents FY2009-10.

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

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

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

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

Source: Budget documents FY2009-10.

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

Annual Development Programme (ADP)

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

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

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

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

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

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

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

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

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

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

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

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

Source: Implementation Monitoring and Evaluation Division (IMED).

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

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

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

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

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

Action plans should be prepared by the respective project authorities

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

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

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

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

Perhaps the adoption of the higher deficit is well justified

2.2.3 Budget Deficit and Financing

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

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

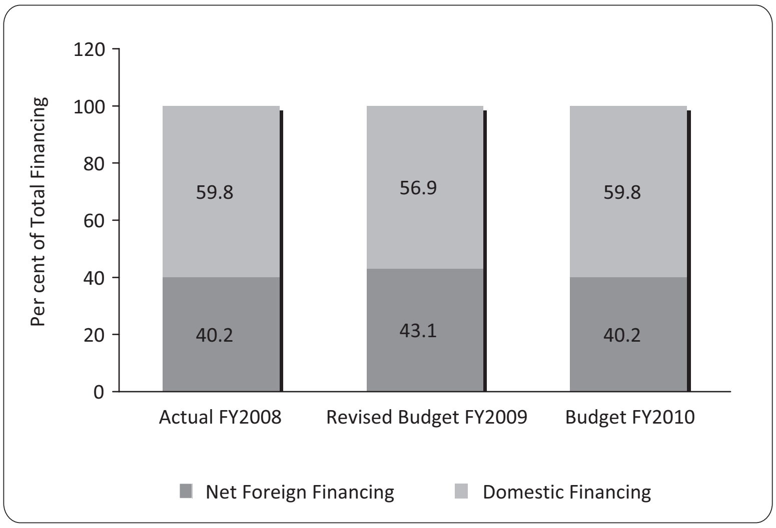
Financing Source	Revised Budget FY2009		Budget FY2010	
	Amount (Crore Tk.)	% Growth over FY08	Amount (Crore Tk.)	% Growth over FY09 (revised)
Domestic Financing	14198	10.5	20555	44.8
Non-Bank Borrowing	3500	38.6	3800	8.6
Bank Borrowing	10698	3.6	16755	56.6
Net Foreign Financing	10762	24.6	13803	28.3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

Source: Budget documents FY2009-10.

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

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

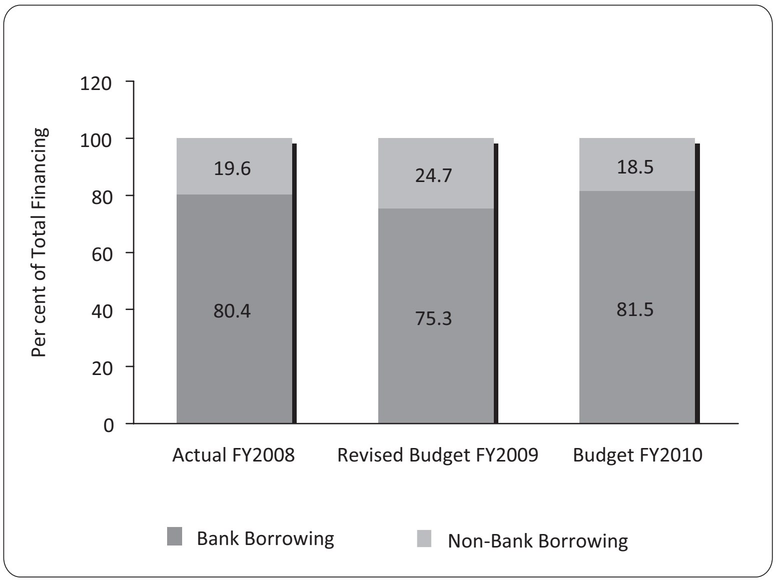
Figure 2.4: Sources of Deficit Financing



Source: Budget documents FY2009-10.

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

Figure 2.5: Sources of Domestic Financing



Source: Budget documents FY2009-10.

2.3 OVERVIEW OF FISCAL MEASURES

2.3.1 Tax and Duty Measures

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

Direct Tax

Income Tax

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

Table 2.7: Income Tax Slabs

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

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

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

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

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

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

Money Whitening Scheme

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

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

Corporate Taxes and Investment Issues

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

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

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

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

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

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

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

Sectoral Fiscal Measures

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

Change in Tariff Structure and its Impact on Revenue Earnings

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

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

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

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

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

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

Table 2.8: Simulation with Proposed Changes in Tariff Structure

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

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

Agriculture

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

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

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

Industry

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

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

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

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

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

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

Information and Communication Technology (ICT)

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

Power and Energy

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

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

2.4 PUBLIC-PRIVATE PARTNERSHIP

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

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

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

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

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

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

Allocations

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

Sectors Identified for PPP

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

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

Implementation Challenges for PPP

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

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

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

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

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

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

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

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

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

What should be the tax incentives for PPP initiatives?

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

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

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

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

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

Can PPP projects be donor funded?

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

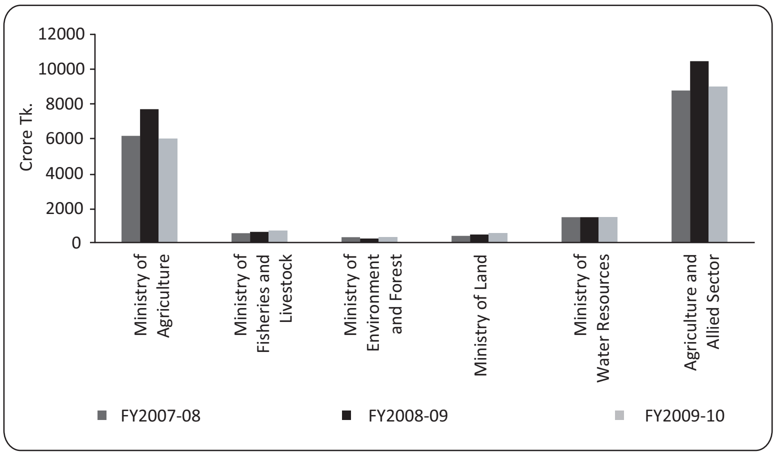
2.5 SECTORAL MEASURES

2.5.1 Agriculture

Allocation for Agriculture and Allied Sectors

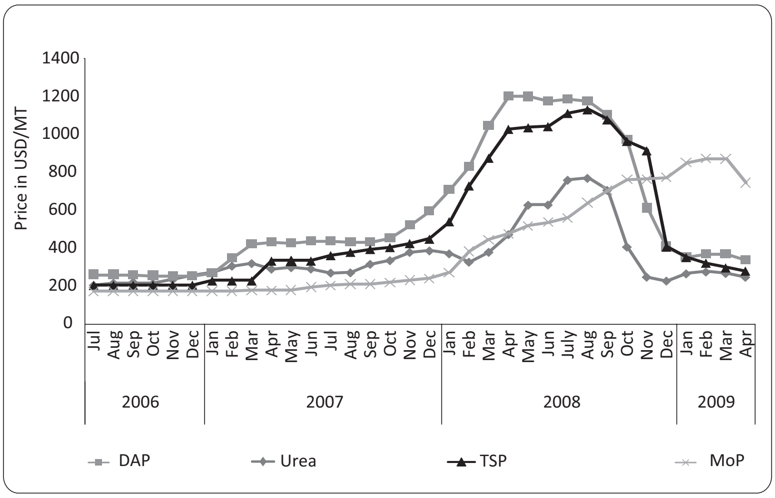
Proposed allocation for the Ministry of Agriculture (MoA) in FY2009-10 (Tk. 5,965 crore) is 22.0 per cent lower than the allocation in the revised budget of FY2008-09 (Tk. 7,643 crore) and 9.2 per cent lower than proposed budget of FY2008-09 (Tk. 6,566 crore). When compared to the revised budget of FY2007-08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

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



Source: Budget document.

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



Source: Commodity Market Review, World Bank.

Subsidy for Fertiliser

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

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

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

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

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

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

Proposed allocation for irrigation and drainage projects is a welcome initiative

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

Fund for Seed Production

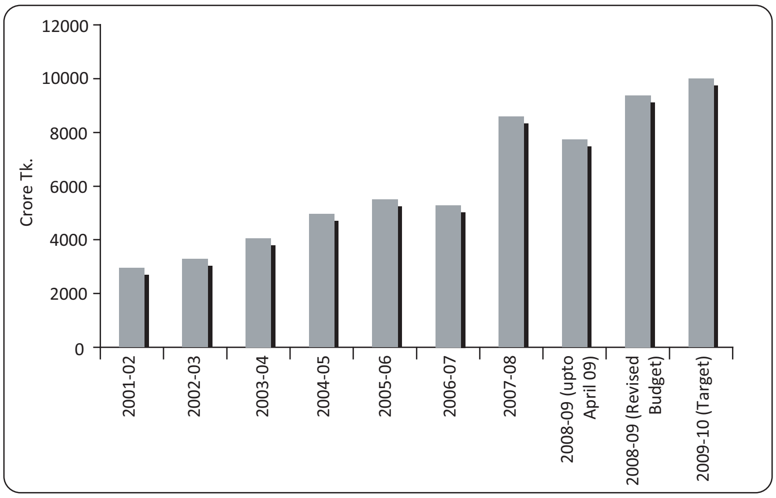
Proposed budget has allocated Tk. 280 crore for production of high-yielding variety (HYV) seeds, which will be implemented by Bangladesh Agricultural Development Corporation (BADC) and Department of Agricultural Extension (DAE). Seed storage capacity will be increased from 40,000 MT to 100,000 MT. CPD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

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

Agricultural Research

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

Figure 2.8: Trend of Agricultural Credit Disbursement



Source: Budget documents.

Agriculture Credit

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

Foodgrain Procurement

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

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

Initiatives to Establish Godowns

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

Livestock and Fisheries

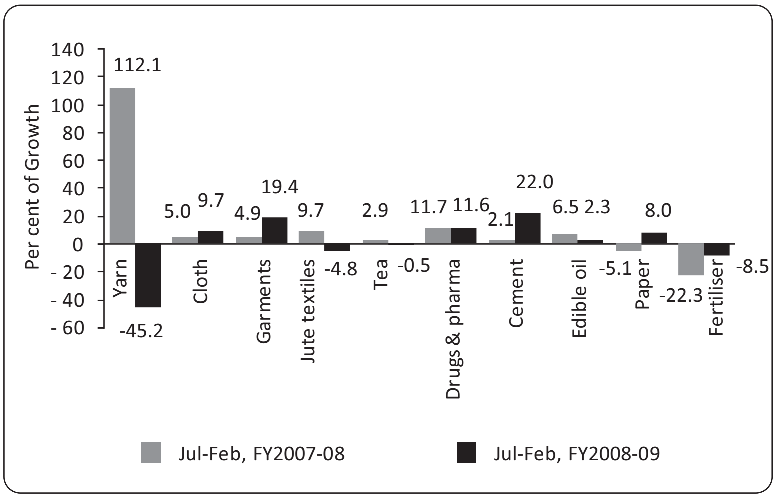
For the development of poultry and livestock the government is continuing its programmes on production and supply of vaccine for cattle and poultry, and supply of pullet and duckling at reduced price. Moreover, the government has planned to establish farms for lambs and buffaloes, and to provide incentives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

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

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

2.5.2 Industry

Figure 2.9: Changes in Production of Selected Industries



Source: Bangladesh Bureau of Statistics (BBS).

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

Support to Domestic Industries

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

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

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

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

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

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

Stimulus Package

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

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

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

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

Source: Finance Division.

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

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

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

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

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

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

2.5.3 Small and Medium Enterprise (SME) Development

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

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

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

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

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

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

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

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

Cottage Industries

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

Table 2.10: VAT Exemption for Cottage Industries

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

Source: CPD compilation from budget documents.

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

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

2.5.4 Service-related Industries

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

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

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

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

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

2.5.5 Development of Capital Market

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

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

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

[15] Government had changed its position later on; as a result VAT on manpower exports have been withdrawn in the Finance Bill approved on 30 June 2009.
[16] A part of the shares of Grameenphone have now been offloaded.

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

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

Source: DSE (2008).

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

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

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

2.5.6 Support to State-owned Enterprises

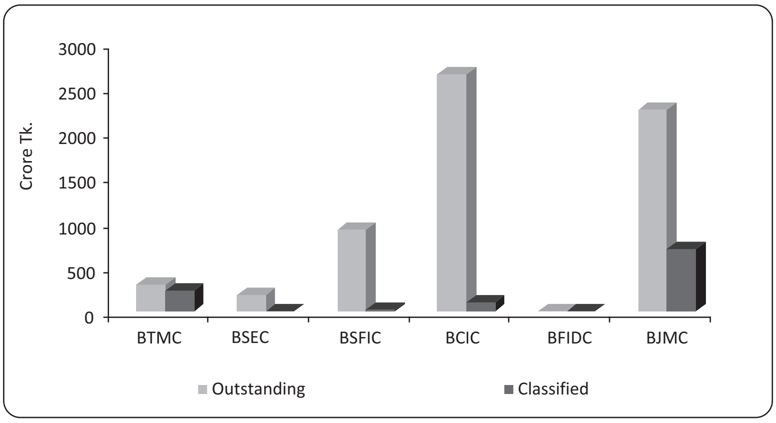
With the view to restructuring SoEs, the budget for FY2009-10, in principle, followed major guidelines mentioned in the Draft Industrial Policy 2009. According to the budget document, government will not pursue divestment/privatisation of any SoE in FY2009-10 without ensuring alternative jobs for displaced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

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

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

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

Figure 2.10: Overall Outstanding and Classified Loan of Selected SoEs



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

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

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2.5.7 Real Estate and Housing

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

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

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

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

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

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

2.5.8 Physical Infrastructure

Information and Communication Technology (ICT)

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

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

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

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

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

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

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

2.5.9 Power and Energy

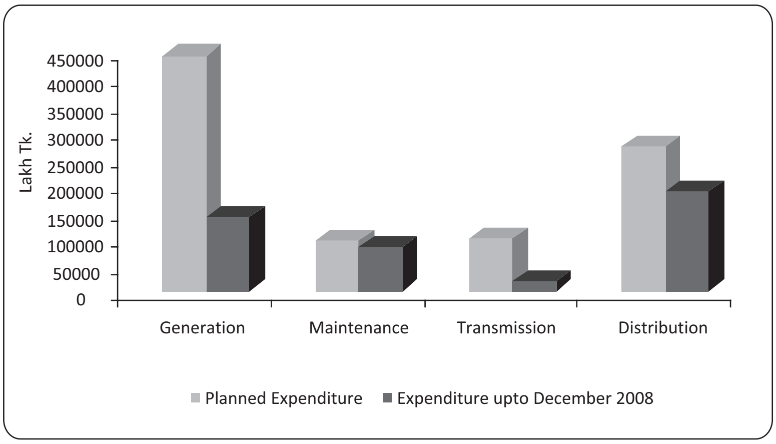
A number of issues were mentioned in the budget including retargeting of electricity generation (4,160 mega watt (MW) by 2013), emphasis on PPP, enhancing private sector electricity generation through IPP and greater use of renewable energy sources such as solar power, and import of coal. Figure 2.11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

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

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

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

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



Source: Annual Development Programme, GoB, 2009.

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

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

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

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

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

Source: Annual Development Programme, GoB, 2009.

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

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

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

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

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

Gas

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

2.5.10 Social Infrastructure

Climate Change and Environment

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

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

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

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Health

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

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

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

Education

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

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

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

Gender

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

Table 2.13: Programmes under Gender Equity and Empowerment

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

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

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

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

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

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

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

2.6 LOCAL GOVERNMENT AND REGIONAL DEVELOPMENT

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

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

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

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

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

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

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

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

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

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

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

2.7 SOCIAL SAFETY NET

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

Some of the proposed new programmes include:

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

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

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

Employment Generation

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

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

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

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

Table 2.15: State Sponsored Employment Opportunities Prioritising Women

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

Source: FY2009-10 budget document.

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

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

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

2.8 REFORM AGENDA

2.8.1 Institutional and Policy Reform

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

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

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

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

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

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

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

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

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

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

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

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

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

2.9 CHALLENGES FOR IMPLEMENTATION

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

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

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

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

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

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

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

Maintaining Complementarity of Macroeconomic Framework, Fiscal Policy and Monetary Policy

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

The growth-investment nexus remains perplexing

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

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

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

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

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

Strengthening Capacity of the Line Ministries

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

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

Building Fiscal and Financial Partnerships

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

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

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

Strengthening Competitive Market Behaviour with Appropriate Checks and Balances

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

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

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

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

Pursuing Institutional Reforms

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

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