

ANNEX 3

Dialogue Report on Implementation Challenges for Budget FY2009-10

THE DIALOGUE

The Centre for Policy Dialogue (CPD) organised a dialogue on *Delivering on Budget FY2009-10: A Set of Implementation Issues*, as a follow up to the analysis of the national budget carried out in June 2009. The dialogue was held on 12 August 2009, at the CIRDAP Auditorium. The objective of the dialogue was to help the government to benefit from policy suggestions and comments from the civil society stakeholders in achieving the targets set by the government in the national budget for FY2009-10. The paper presented at the dialogue was co-authored by *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD, and *Mr Md Ashiq Iqbal* and *Mr Towfiqul Islam Khan*, both Senior Research Associates, CPD.

The dialogue was chaired and moderated by *Professor Rehman Sobhan*, Chairman, CPD. *Mr AMA Muhith, MP*, Hon'ble Minister for Finance, Government of Bangladesh, was present at the dialogue as the Chief Guest. *Dr AB Mirza Azizul Islam*, Former Caretaker Government Advisor, was present as the Special Guest, while *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD, presented the keynote paper at the dialogue.

Professor Sobhan welcomed all dialogue participants and observed that the topic of the dialogue related to one of the most important challenges facing the budget - its implementation. Terming the national budget of FY2009-10 as an ambitious one, he opined that the issues of attaining the budget targets, and particularly the implementation of annual development programme (ADP) will not be easy to achieve. Expressing his optimism with regard to the ability of the democratically elected government to address the attendant challenges, he informed the distinguished audience that CPD has attempted to focus on some of the major implementation-related issues which will need to be addressed by the authorities to achieve the targets set out in the budget. He hoped that that government would be benefited from the discussions during the dialogue and the valuable insights of the participants. Following this, he invited *Dr Bhattacharya* to deliver the keynote presentation on behalf of his team.

After the keynote presentation, the floor was opened for discussion by participants who included senior government officials and policymakers, economists, academics, civil society members, politicians, bureaucrats, business leaders and representatives of development agencies. This report offers a succinct resume of the presentation, alongside the exchange of views among the participants (a complete list of participants is included at the end of this report).

KEYNOTE PRESENTATION

Dr Bhattacharya registered his deep appreciation towards the Chair, and thanked the Hon'ble Minister and other distinguished participants for attending this dialogue. Referring to the earlier introduction made by the Chairman of CPD, *Dr Bhattacharya* informed the audience that the present dialogue was a continuum of CPD's activities in monitoring the state of the economy, which as a matter of fact, was kick-started through the budget analysis of the CPD.

Introduction

The keynote presenter affirmed that the purpose of the dialogue was to facilitate the government's ongoing efforts to raise efficacy of various measures of the government in the context of budget implementation, and more fundamentally, to draw information and provide analyses in order to make the overall implementation process more effective. Recalling the point made by the Finance Minister during his budget presentation, that implementation of the budget as the most important challenge of the budgetary process, *Dr Bhattacharya* stated that the CPD has decided to play its role to complement the government's efforts of initiating and monitoring the budget implementation process. He reiterated the fact that the dialogue presented an opportunity for stakeholders from the civil society to share their views on the budget implementation process in the presence of the Hon'ble Minister.

In his presentation, *Dr Bhattacharya* categorised key aspects of the budget implementation process such as the breakdown of targets for domestic resource mobilisation, deficit financing, efficacy of public expenditure, and public-private partnership (PPP).

Growth Prospect and Budget Implementation

Dr Bhattacharya underlined the fact that although the initial gross domestic product (GDP) growth target was set at 5.5 per cent for FY2009-10, it was later revised to range between 5.5 to 6.0 per cent. Monetary policy statement (MPS) of the Bangladesh Bank came up with an upward revision of GDP growth. In this regard, *Dr Bhattacharya* expected a growth rate around 6.0 per cent for the ongoing fiscal year. However, he raised doubts on the targeted growth of the agricultural sector due to the sector's high achievement in the last two fiscals. Pointing to the historical trend of growth of the services and industrial sector, he argued that the achievement of growth targets in the FY2009-10 will depend mostly on the performance of the modern

sector. *Dr Bhattacharya* strongly felt that greater attention should be given to ensure good performance of the manufacturing sector. The second issue concerned the low level of investment target set in the Medium Term Macroeconomic Framework (MTMF) to achieve the targeted growth. He added that to achieve a 6.0 per cent growth, with the same level of investment, incremental capital-output ratio (ICOR) requires a significant improvement, in the absence of capital productivity growth, investment rate had to improve. Also, he called for a renewed effort to be taken in FY2009-10 to improve both the quantitative and the qualitative aspects of the ADP, which will help stimulate and crowd in private sector investment.

Resource Mobilisation

Dr Bhattacharya informed that the authors of the keynote paper have carried out an econometric analysis to better understand the effects of the major determinants of total revenue in Bangladesh, considering the importance of domestic resource mobilisation. From the regression analysis it was found that per capita GDP growth, a proxy for overall GDP growth, has a positive and significant impact on tax revenue collection. Based on the findings, he concluded that for revenue growth, the most influential factor remained GDP growth, whilst for the latter the level of investment counted as the most important determinant. Hence, to augment the revenue growth, investment flows had to be accelerated. The second finding was the influence of public sector investment on the generation of tax revenue. This is crucial to ensure successful implementation of ADP. Although no significant relationship was found among the share of modern sector in the GDP and collection of tax revenue, institutional reforms, e.g. introduction of value added tax (VAT) and large taxpayer's unit (LTU), which were captured by using dummy variables, revealed to entail significant impact on revenue generation.

Domestic Resource Mobilisation

Regarding the set revenue growth target of 15.7 per cent for FY2009-10, *Dr Bhattacharya* expressed doubt about the possibility of such achievement, unless the administrative reforms are successfully carried out. Referring to the commendable success achieved by the National Board of Revenue (NBR) in mobilising income tax in recent years, he stressed that to attain the revenue targets set by the government, the NBR components would have to contribute almost 79 per cent of the incremental revenue generation. Hence, the attainment of revenue targets to a large extent depends on the resource mobilisation success of the NBR. He added that even if the target is achieved, tax-GDP ratio

of Bangladesh will reach 9.3 per cent, remaining well below the level maintained by most of her neighbouring countries, e.g. Sri Lanka or Pakistan. However, to energise the effort of income tax collection, he recommended the following:

- 1) Expansion of the existing tax net since currently only 7.5 lakh taxpayers out of 22 lakh tax identification number (TIN)-holders actually submit tax refunds.
- 2) The new tax survey announced by the government to bring in at least 4 lakh new taxpayers within the current year (FY2009-10) needs to be supplemented with strict monitoring to prevent tax evasion.
- 3) Discontinuation of the tax refund provision for government employees from the current year will also have some positive impact since at present, 1.5 lakh out of the 7.5 taxpayers are government employees.
- 4) Expansion of the LTU should be given due priority.

Recognising the positive relationship between reduction of corporate tax rate and its subsequent impact on revenue generation, particularly for the financial institutes, and respective sectoral growth in the long and medium-term, *Dr Bhattacharya* cautioned that the immediate opportunity cost would be the loss in government revenue. Based on the proposed tax rate cut for the corporations, in an analysis done by the CPD, it was estimated that the loss in total revenue will be around Tk. 550 crore. The keynote speaker opined that effectiveness of the government's effort to stimulate investments in the country will have positive implications for revenue prospects, particularly for FY2009-10.

In his presentation, *Dr Bhattacharya* also addressed the issue of VAT collection. He urged he concerned authorities to focus on the collection of VAT from domestic sources, since as a result of the global meltdown, VAT collection at import stage has witnessed a sharp decline. He welcomed the government's decision regarding the proposed duty structures which should favour the domestic industries. He estimated that if the new duty structure is applied on the import structure of FY2007-08, the additional revenue generation would increase by 5.65 per cent in FY2007-08, without any growth in imports. However, he cautioned that although the favourable duty structure should help to increase import-related duties, this will also depend on the growth of imports and movement of prices in the international market.

On the issue of legalising undisclosed income, *Dr Bhattacharya* expressed concerns on the following three aspects of the scheme:

- 1) No differentiation has been made between legally earned and illegally earned income.

- 2) The penalty of 10 per cent is lower than the minimum rate of 15 per cent for regular taxpayers, not to speak of the highest rate of 25 per cent.
- 3) Effective tax rate would be lower than 1 per cent when invested in apartments/houses.

Dr Bhattacharya suspected that the provision of legalising the undisclosed income may not contribute much either by way of attracting investments in the *Thrust Sectors* or through higher revenue mobilisation. He then proceeded to underline some administrative issues that required immediate attention from the government, including:

- 1) *Manpower*: Due to legal disputes, NBR has not been able to expand its manpower capacity since the mid-1980s.
- 2) *Expansion of NBR*: To tap the unrealised revenue potentials in the peri-urban and rural areas, particularly to the upazila level, extending the NBR network is essential.
- 3) *Simplification and updating of income tax laws*: Last major amendments were made in 1984 (Income Tax Ordinance 1984). It needs to reflect the current greater reliance on domestic resources.
- 4) *Shedding off intermediaries*: Promote use of "self-assessment," and bring the taxpayers in personal contact with revenue administration without the help of intermediaries.
- 5) *Audit and monitoring*: Particularly to tackle "under invoicing," special attention to monitor the real estate sector in light of the "black money-whitening" provision.
- 6) *Modernisation*: Developing a modern information technology (IT)-based tax administration, modernising customs facilities at the major ports and entry points, using National ID database in expanding the tax net, feasibility of allowing tax return submissions online.

Foreign Resource Mobilisation

On the issue of foreign financing, *Dr Bhattacharya* mentioned that for FY2009-10, gross foreign assistance was targeted at about 40 per cent of the total deficit, and if achieved, it would be the highest inflow in Bangladesh's history. An overwhelming share (72 per cent) of the incremental foreign financing for FY2009-10 is supposed to come as loans, while only 28 per cent as grants.

Dr Bhattacharya informed the participants that requests had been sent to multilateral and bilateral donors to fund various large-scale projects and to support budgetary deficits. In response, the World Bank and the Asian Development Bank (ADB) have decided to increase

assistance to Bangladesh by 20 per cent and 33 per cent respectively. He raised concerns regarding the high interest on borrowing (USD 500 million of ADB loan at "LIBOR Plus" rate, USD 4.7 billion from China with suppliers' credit component). *Dr Bhattacharya* suggested that the government's efforts to receive more foreign aid in the form of grants needs to be augmented, particularly to sustain debt servicing liability (DSL). In this regard, he suggested the government to tap the new modes and sources of financing which have come up due to the impact of global financial crisis.

Selected Expenditure Issues

Implementation of the New Pay-scale

The keynote speaker expected the fiscal cost of implementing the proposed new pay-scale to amount to Tk. 3,500 crore in FY2009-10. Apart from resource availability issue, the other important concerns related to the possible inflationary impact of the decision and its management. In this connection, he expressed concern for the middle income salaried people working outside the government sector if the new pay scale is not endorsed by the private sector. He also urged the government to implement the recommendations of the Public Administration Reform Committee (1996) in order to revamp the administration.

Interest Payments and Debt Situation

Dr Bhattacharya mentioned that total public debt (domestic and foreign) as per cent of GDP has been on a declining trend since FY1993-94, and amounted to 43.2 per cent in FY2008-09, mainly due to falling foreign debt (27.2 per cent of GDP in FY2007-08, and 24.4 per cent in FY2008-09). DSL as per cent of foreign exchange earnings declined from 10.7 per cent in FY1999-00 to 5.5 per cent in FY2007-08 whereas outstanding domestic debt as per cent of GDP increased from 7.8 per cent in FY1993-94 to 18.8 per cent in FY2008-09. He added that although total interest payment has been increasing, foreign interest payment was set to fall in FY2009-10. According to the keynote speaker, budget deficit as a percentage of GDP has been on the rise in recent times and consequently, the debt situation is poised to become onerous in the immediate term. Further, he anticipated share of commercial loans as a proportion of foreign financing to increase in the near future.

Subsidy Payments

According to *Dr Bhattacharya*, budgetary targets and actual expenditure of subsidy demands have varied significantly across years. In FY2007-08 actual subsidy

requirement was 94.5 per cent higher than the original allocation. He mentioned that in FY2008-09, although Tk. 13,641 crore was allocated for subsidy payments, information was not available on actual expenditure. *Dr Bhattacharya* hypothesised that actual subsidy payments in FY2009-10 may be considerably lower due to falling prices of food, fuel and fertiliser. He stressed on building mechanisms to make the budgetary process transparent and to monitor fiscal outcomes. He asserted that information on subsidy allocations and their disbursements should be made public on a regular basis.

Contingent Liabilities

Dr Bhattacharya underlined the difficulty in availing up-to-date data on government's expenditure relating to contingent costs. This has made it complex and cumbersome to assess the balance sheet of the government. He pointed to the issue of oil subsidy, and expressed concern about the possibility of increase in oil price which might become burdensome for the government once again. He affirmed that the government's total contingent liabilities, whatever the amount, needed to be publicly disseminated for the purpose of fiscal transparency. This would also facilitate the process of carrying out objective assessments with regard to the state of public finance.

Annual Development Programme

Drawing attention of the participants on the falling trend of targeted and actual ADP expenditure, *Dr Bhattacharya* felt that public investment has remained inadequate in fulfilling the country's needs. He observed that poor implementation of ADP was a consequence of three factors reinforcing each other:

- 1) Resource constraints.
- 2) Unrealistic targeting.
- 3) Lack of implementation capacity.

Dr Bhattacharya referred to the findings by the Implementation Monitoring and Evaluation Division (IMED) regarding the obstacles preventing successful implementation of the ADP. He mentioned that upstream barriers have now become more important in explaining the low implementation of the ADP. The keynote speaker provided a number of recommendations to overcome this situation. Some of these are as follows:

- 1) Project-wise action plans should be prepared, with special emphasis on procurement, early release of funds and monitoring of progress.

- 2) Full-time and competent project directors should be appointed and successful ones should be fast-tracked.
- 3) Over centralisation and bottlenecks in fund release will need to be addressed promptly and approved funds should be disbursed as early as possible.
- 4) Inclusion of projects should be demand-driven, and investment in the energy sector should be accorded the highest priority.
- 5) Procurement policies should be further simplified and problems related to land acquisition should be addressed adequately.
- 6) Role of local government organisations should be enhanced to improve the synergy in project formulation, implementation and monitoring stages.
- 7) Result-based monitoring (RBM) should be developed to facilitate both quantitative and qualitative evaluation.

Introduction of Public-Private Partnership (PPP) in the Budgetary Framework

Dr Bhattacharya felt that although the PPP component is a new initiative in the budget for Bangladesh, PPP led projects operating in building infrastructure, particularly in power generation through independent power producers (IPP) has already been there for sometime now. In this regard, amongst a number of concerns, he considered establishing a partnership framework both in terms of institutional set up and legal entities as a key challenge in FY2009-10. He also opined that the financial aspects of a PPP project (investment and output) should be the focus of negotiation.

Financing of Budget Deficit

In case of debt financing issue, the keynote presenter refuted the possibility of a crowding out effect on the private sector investment since a major part of the debt is expected to be financed through foreign sources. Citing a few findings of modern literatures pertaining to an acceptable size of budget deficit, he mentioned that the targeted budget deficit for Bangladesh was satisfactorily low. However, he was doubtful about the external composition of financing the fiscal deficit, which would require an inflow of about USD 2.6 billion.

Concluding Remarks

Before proceeding with the conclusion, *Dr Bhattacharya* put forward three different possible scenarios of the budgetary outcomes for FY2009-10, i.e. high case, business as usual and low case scenario. Following this, he outlined a number of recommendations which he felt

needed to be immediately considered for implementation:

- 1) A functioning and able development administration not haunted by any collusion of political and economic interest groups.
- 2) Motivated leadership and guidance by the Finance and the Planning Ministries.
- 3) Ensuring adequate capacity of the line ministries to design, implement, manage and monitor their respective projects and programmes. At the same time, the line ministries should not be held back by overbearing centralised (often informal) decision making practices.
- 4) Ensuring participation of the local governments in the budget process in order to enable them to function as an extension of design and implementation mechanisms.
- 5) Ensuring competitive environment for the private sector, particularly in case of public procurements.
- 6) Facilitating non-government organisation (NGO) partnership with proper accountability and transparency in the outreach and service delivery process.
- 7) An informed monitoring mechanism backed by real-time data. In this connection, introduction of quarterly reporting on the state of the economy to the national parliament will greatly bridge the prevailing information gap.
- 8) Implementation of the reform agenda mentioned in the budget.

Expressing his optimism about getting more information on ADP from the ministries, *Dr Bhattacharya* concluded by underlining that an effective and successful implementation of the budget remained contingent on the overall state of developmental governance of the country.

OPEN FLOOR DISCUSSION

Resource Mobilisation

Mr Abdul Mazid, the immediate past Chairman of NBR, mentioned the causality between investment and revenue generation. He opined that for the sake of revenue generation, the ADP should be fully implemented. He expressed reservation about the realisation of revenue target with decline of import volume. He urged the government to strengthen revenue collection efforts, and more importantly, resolving the problems in the recruitment process of NBR.

Mr Siddiqur Rahman Choudhury, Chairman, Agrani Bank agreed with the paper's position on the issue of external

resource mobilisation, particularly the apprehensions pertaining to high borrowing costs.

Deficit Financing and Crowding Out Effect

Referring to the relationship between implementation challenges and investment climate, *Ms Ferdaus Ara Begum*, Additional Secretary, Dhaka Chamber of Commerce and Industry (DCCI), called for improving the investment environment for the private sector. In this regard she expressed concern about the possibility of a crowding-out effect due to heavy government borrowing from the banking sector.

Challenges of Implementation

According to *Mr Choudhury*, the most significant challenge of the current budget was not revenue generation but implementation of the ADP. He highlighted a few major constraints of effective implementation such as lack of ownership, procurement policies, centralised decision making and absence of an effective monitoring mechanism.

Immediate attention should be focused on issues such as early procurement decisions and full-time availability of the project directors for existing projects. However, for future implementation, factors such as identification and planning of appropriate projects, participation of local government in designing projects, analysis of costs and budget of projects, appropriate recruitment procedure, decentralisation of decision making, effective management of foreign-aided projects, accountability and transparency, would require proper attention from the government, he noted.

Mr Amir Ali Khan Majlish, Former Division Chief, Planning Commission, commented that low ADP implementation is inherently inevitable, as the approval process of the Executive Committee of the National Economic Council (ECNEC) does not take procedural uncertainties into account. Without a thorough quality check mechanism the implementation process would remain weak, he added.

Dr A Atiq Rahman, Executive Director, Bangladesh Centre for Advanced Studies (BCAS) opined that, the foremost problem for an effective execution of the budget is the lack of implementation capacity of the delivery administration. He urged the government for early release of funds and utilisation of resources to its full.

Ms Sharmin Neelormi, Associate Professor, Department of Economics, Jahangirnagar University appreciated the government's decision for including new fund schemes in

the national budget for climate change and disabled welfare. She stressed that to expand the social safety net more effectively, government implementing agencies should play greater role.

Dr Barsha Khattri, Economic Advisor, United Nations Development Programme (UNDP), commented that localisation of fund disbursement power is essential for reaching the benefits to the remote areas of the country.

Dr M Amanullah, MP and Former State Minister for Health and Family Welfare, agreed with *Mr Rahman* in terms of ADP implementation monitoring mechanism, saying that such a condition is not supportive for attaining any long-term tangible outcome.

Dr Amanullah was of the opinion that each Ministry should have a risk management strategy in place to monitor their state of budget implementation. This view was also raised by *Dr Syed Akhtar Mahmood*, Senior Programme Manager, International Finance Corporation-Bangladesh Investment Climate Fund (IFC-BICF).

Public-Private Partnership

Mr Manzur Ahmed, Advisor, Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), argued that PPP should have sectoral level allocation with boarder areas of funding. He also demanded that the subsidy for the advancement of different sectors given by the government should come in the form of interest, rather than in cash.

On this issue *Dr Mahmood* stated that on a PPP venture, expectations of all the involved parties should have prior clarification. The private sector should have provision to put their own clauses. He stressed upon developing an effective monitoring mechanism to ensure that all pre-agreed conditions are met. He also mentioned that at the earlier stages, the success of PPP schemes would majorly lie upon the public sector.

Climate Change

Dr Rahman appreciated the government's efforts for making an attempt to mitigate the threat of climate change, although he questioned the efficiency of fund utilisation, especially to reach the benefits at the periphery. He recommended the government to set up a fund under climate change to tackle the attendant problems.

Ms Neelormi commented that the allocation of Tk. 300 crore in the previous year's national budget to deal with the threat of climate change has not been made use of. She requested the government to provide

details with regard to the country's preparation to combat climate change.

Energy and Power

Addressing the issue of energy shortage, *Mr Ahmed* mentioned that the real challenge for the government would be to meet the energy demand as performance in the manufacturing sector will be determined by the availability of energy. He urged for a concerted effort with the primary objective to increase energy supply. *Ms Begum* also expressed concerns regarding the challenges of generating surplus energy to meet the additional demand of about 5,000 MW by 2013.

Employment Generation

Ms Begum criticised that there are no solid plan of actions by the government to implement the budgetary proposals for generating new employment opportunities.

RESPONSE FROM THE SECRETARY, FINANCE DIVISION, MINISTRY OF FINANCE

Thanking the Chair and the keynote presenter, *Dr Mohammad Tareque*, the Finance Secretary underlined the importance of extensive research activities on fiscal issues. He then proceeded on to briefly discuss some issues relevant to addressing the problems associated with budget implementation.

Budget and Revenue Issues

The Finance Secretary termed "budget" as not only a political document with economic implications, but more fundamentally, a proxy to estimate the social commitment of a government. He remarked that the country should make bold strives to achieve a growth rate of 7 per cent per annum. In this connection, according to the Secretary, the main risks in the way of resource generation in near future for the country relate not to the internal issues, rather the external ones, particularly the adverse impacts of global recession. He observed that the growth of the economy will depend mainly on the country's performance in terms of exports and remittance earnings, in coming days.

Investment

As the government has already received commitment of a large sum in the form of budgetary support, *Dr Tareque* refuted the concerns of private sector about the possibility of crowding out effect arising for the government's borrowing from the domestic banking sector. Acknowledging the importance of power sector

for the economy, he mentioned that currently the public sector alone cannot solve the problem. He hoped that the government would focus on formulating policies so that the private sector can also take part in the generation and distribution of power.

Subsidy and Transfer Issues

Regarding the ambiguity about figures of subsidy and transfer payments mentioned in the budget document, *Dr Tareque* urged the government to examine the capital expenditure part of the revenue budget. This would help to clarify these expenditures. The government does not pay subsidy to the entities which are commercially viable, he stated, rather it provides financial assistance in terms of either equity or loans.

Public-Private Partnership

Regarding PPP, the Finance Secretary informed that a Working Group formed by the Ministry of Finance (MoF) has studied the different models in practice in different countries. Also, the MoF is planning to hold a national level workshop on the PPP issue to discuss it in more detail. He opined that the financing requirements and implementation methodology for PPP projects would vary with the nature of respective sector, posing a key challenge for project execution.

Annual Development Programme

Responding to the issue of ADP implementation, the Secretary affirmed that the government is planning to integrate the budget with a more comprehensive goal. He exemplified that without paying the salaries of the teachers, building more schools would be a meaningless investment. He termed the dichotomy between revenue budget and development budget as rather unnecessary.

Medium Term Budgetary Framework (MTBF)

The Finance Secretary noted that the purpose of MTBF was to monitor the function of allocated resources in achieving their targeted aims. He informed the participants that at present, MTBF includes 20 ministries, and the government was planning to bring in 13 more in the next fiscal. In response to a query by the Chair, he noted that the MTBF experience so far has been rather mixed. The implementation of MTBF depends on whether the process is owned by the line ministries, the conceptual underpinnings are understood by them, and whether motivated leadership was there to guide the process. *Dr Tareque* added that to start a new process for carrying out such activities, MTBF's success will crucially hinge on the time factor.

In conclusion, the Finance Secretary noted that the MoF is planning to organise monthly meetings to review the entire budget rather than only the ADP. This was particularly necessary, as not all ministries contain equal or significant share of ADP in their total respective budgets.

REMARKS BY THE SPECIAL GUEST

Dr ABM Mirza Azizul Islam, Former Advisor to the Caretaker Government thanked the Chair and commended the authors for a comprehensive presentation. *Dr Islam* felt that there were three aspects, from the perspective of which the challenges of implementation should be looked at. These were:

- 1) Quantitative dimension - amounts actually spent.
- 2) Qualitative dimension - quality of achievements of the projects for which the budgeted amounts are spent.
- 3) Whether the targeted beneficiaries actually receives the intended benefits.

Revenue Issues

In his remarks, *Dr Islam* mentioned that in case of overall revenue generation between FY2001-02 to FY2006-07, Bangladesh's revenue to GDP ratio was around 10 per cent. In FY2007-08, the country crossed this mark and achieved a ratio of 11.3 per cent of GDP. He added that to achieve a ratio of 11.6 per cent in FY2009-10, it will require significant improvement over the last fiscal year's achievement.

Dr Islam viewed the revenue measures in the budget as heavily weighted in favour of either reduction of rates, e.g. import duty on raw materials, corporate tax rate on financial institutions, or erosion of tax bases like VAT on small and medium enterprises (SMEs), which were not likely to be compensated by the tax on import of luxury goods or other finished goods. Hence, he expressed reservation regarding the possibility of attainment of the targets set out in FY2009-10; he, however, understood the need for some of the related measures. Understanding the importance of incentives for the success of any initiatives, *Dr Islam* welcomed calls to broaden the coverage of VAT and to raise the efficiency of the tax administration.

Budget Implementation

Referring to the ADP implementation of Tk. 19,646 crore in FY2008-09, *Dr Islam* opined that it would be rather difficult to achieve the full implementation of Tk. 30,500 crore envisaged for the ADP in FY2009-10.

Citing from his personal experience, the former Finance Advisor affirmed that the blame of poor implementation invariably falls on the Finance and Planning Ministry, which is not always justifiable. He insisted that personnel down the line in the implementation process should assume more responsibility to get the tasks completed.

Dr Islam also mentioned the excessive delay in procurement process, and requested the government to carefully scrutinise the responsibility of respective parties. He also suggested that in the future, bidders should be reprimanded if they fail to fulfill their contractual obligations.

The former Finance Advisor spelt out three factors responsible for low pace of implementation of the ADP. Firstly, faulty preparation of project paper, which follows by the second factor, the revision process of the paper through the hierarchy of the Planning Commission. Thirdly, the delay in land acquisition for the lack of advance preparation by the concern ministries.

Dr Islam also argued that the level of revenue generation and ADP implementation are unrelated. He agreed with the CPD view that in Bangladesh it is more difficult to spend resources than to earn those.

Regarding the concern of crowding out effect due to government borrowing from the domestic banking sector, he was of the opinion that Bangladesh's experience contradicted the theoretical argument. The credit growth for both the public and private sectors move in the same direction here, over time. *Dr Islam* drew attention to the potential problem emanating from the demand side, since the banking system was flushed with huge surplus liquidity which remained to be tapped.

The low level of investment in Bangladesh might be related to the current economic crisis and also due to volatility in the law and order situation inside the country, *Dr Islam* observed. However, the issue of power supply has become a major concern which needs to be addressed on an urgent basis if investment climate was to be improved.

Dr Islam added that carry over of incomplete projects continued to remain a major problem from the perspective of successful implementation of ADP. This has also made the actual size of the ADP much larger. This is because the concerned authorities or ministries are more inclined to come up with new projects rather than to complete the old ones. In this regard, he particularly expressed concerns about FY2009-10 proposal, where the size of ADP in the new budget is 50 per cent higher than the previous year, which is not acceptable given the

government's limited capacity for revenue generation. Also, due to resource constraints the screening process has become opaque, as more and more projects are included in the ADP, which in effect, complicates the execution process, and burden it with backlog.

Continuation of Government's Policy

The immediate past Finance Advisor expressed his disapproval on the decision of discontinuing the employment guarantee scheme. He said it was not explained by the present government on what ground the scheme was accused of containing policy weaknesses. He noted that the guidelines for this programme were finalised through consultation with major stakeholders; he further pointed out to positive evaluation of this programme by different ministries including the Ministry of Food and Disaster Management (MoFDM). *Dr Islam* hoped that the newly launched programme, *Employment Generation for the Hardcore Poor*, would be able to address the policy failures in the earlier programme to ensure its successful implementation.

Dr Islam expressed concerns regarding the issue of targeted beneficiaries. Referring to the *One Home-One Farm* programme, he cautioned against serious flaws in the identification process of targeted beneficiaries; similar issue might rise during the *National Service Programme*, he noted.

Dr Islam recommended that focus should be put at the grassroots levels during the implementation phase. He remarked that administrator of a project is often the most influential person in the locality, and steps should be taken to improve their efficiency. He stressed the need for the recruitment process to be more transparent in order to improve the quality of service of the public administration.

ADDRESS BY THE CHIEF GUEST

Mr AMA Muhith, MP, the Hon'ble Finance Minister thanked the CPD for organising the dialogue which he felt was a timely one. He registered appreciation of the insights shared by the distinguished participants. He thanked the authors in particular for their efforts in analysing a number of critical issues related to budget implementation. *Mr Muhith* felt that a number of issues raised by the keynote speaker were critically important from the perspective of implementing the ADP. He particularly noted the importance of foreign resource mobilisation and the PPP initiative. Sharing his plans in terms of budget implementation, the Minister informed that the MoF had carried out extensive discussions on

implementation procedures of budget and PPP with some of the relevant ministries. They have already started formulating strategies with 20 ministries. Of these, 10 ministries receive about 80 per cent of the budgetary allocation. Performance of these ministries will be monitored closely. According to the Finance Minister, the most important issue regarding PPP would be funding of the projects. He particularly mentioned about the issue of land acquisition which is critically important for implementation of projects. He, however, expressed concern regarding finalisation of the Second Poverty Reduction Strategy Paper (PRSP-II), and its coherence in the context of the sixth five-year plan (FYP) which was being prepared.

Regarding the issue of incentive package as part of which the government has planned to provide support to 13 export-oriented industries affected by the global financial crisis, he affirmed that the MoF is planning to have some immediate discussion with the central bank and the taskforce (formed by the government) to formulate some deliverable targets. The Minister also informed the audience that the government was planning for some hard term borrowing to tackle the unfavourable balance of payments (BOP) situation and assured that this will not lead to difficulties in the future.

The Minister noted that the most significant concerns for the economy at present were dearth of investment flow, uncertainty regarding the global economic crisis, and the shortage of energy and power supply.

The Minister pointed out that the backlog of project implementation was almost over, and he was planning to overhaul some of the project approval and implementation procedures to correct the existing snags.

Mr Muhith also added that the government was planning "Six Monthly Reviews" of the economy, along with evaluation of budget implementation rate. He remarked that this would be different from the usual reviews as provisions have been made for reallocating resources to better suit the needs of projects, if and when necessary.

The Hon'ble Minister concluded by stating that the impact of the global economic crisis would be reviewed periodically, so that the transmission channels are monitored effectively and corrective steps could be taken in a speedy manner.

CONCLUDING REMARKS BY THE CHAIR

In his concluding remarks *Professor Rehman Sobhan* underlined that for monitoring the implementation process of important projects, media could play an important bridging role. He called for putting in a system where the best performing ministries and members of parliament (MPs) are rewarded. Such assessments would be based on the project executions status under their respective ministries or constituencies.

Professor Sobhan thanked all the participants for taking active part in the discussions. He gave special thanks to the keynote speaker for his contribution to this interactive discussion which introduced much creative thinking into policy debates and provoked serious discussion. *Professor Sobhan* registered his deep appreciation to the Hon'ble Minister for taking time off from his busy schedule in order to be present at the dialogue. Finally, he concluded the session by expressing hope that the issues discussed and recommendations put forward in the course of the dialogue will improve budget implementation process in Bangladesh both in terms of volume of work done and the quality of work put in.

ANNEX 3

List of Participants

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ANNEX 3

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