

# CHAPTER 3

A Set of Proposals  
for the  
National Budget FY2010-11

### 3.1 THE MACROECONOMIC FRAMEWORK

The upcoming national budget for the FY2010-11 will be underpinned by a number of challenges in the current national and global contexts. This budget will be the first year of the medium-term planning framework under the Sixth Five-Year Plan (FY2011-FY2015) and the 10 year Perspective Plan (FY2011-FY2020). Thus this budget will need to reflect the plan priorities for future development of the Bangladesh economy. Also, the budget will need to take into account the targets set for the medium term by the government in their election manifesto. The challenge in terms of macroeconomic management in the next fiscal year will be to sustain the positive track record of the recent past years, address the emergent negative signals inherited from FY2009-10, and tackle the new challenges confronting the economy. Whilst Bangladesh has been successful in navigating the turbulent times of the global economic crisis, investment continues to remain the Achilles' heel of her economy. The demand-supply gap with regard to electricity and gas is on the rise leading to adverse economy-wide impact. Moreover, inflationary pressure has also started to gain steam in recent times. As the lagged impact of the global economic crisis continues to brew, the national budget for FY2010-11 has to take note of the challenging external environment as well which has undergone important changes in view of policies pursued by Bangladesh's competitors in addressing the crisis.

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In this backdrop of the lagged impact of crisis which could lead to some slowdown in gross domestic product (GDP) growth rate, it appears that the macroeconomic framework of the national budget will need to continue the counter-cyclical fiscal stance of the outgoing year. To this end, the government may have to target enhanced public expenditure package with the possibility of running modestly high deficit in line with FY2009-10. In view of rising commodity prices (including of fuel) in the global market, the upcoming budget will have to accommodate higher subsidy requirement. The financing of the possible high deficit will also come under scrutiny in the context of increasing inflationary pressure.

Table 3.1 on the fiscal structure of the upcoming budget is based on various media reports. It indicates that the fiscal structure of FY2010-11, is not expected to undergo any dramatic change.

- The total public expenditure package of FY2010-11 is expected to experience a moderate increase as a share of GDP (from 16.6 per cent to 17.0 per cent). It is to be noted that the dichotomy between revenue and development expenditure will continue into the upcoming fiscal year.
- The proposed ADP with its increased size will drive the higher expenditure planned for the upcoming fiscal year.
- The aggregate target of revenue collection, if fully realised, will lead to some improvement in the tax-GDP ratio in FY2010-11 (from 11.6 per cent to 12.0 per cent).
- The estimated budget deficit figure for FY2010-11 indicates that it may well remain within the FY2009-10 target of 5 per cent of GDP.

**Table 3.1: Fiscal Structure of Budgets for FY2009-10 and FY2010-11**

(in Crore Tk.)

Item	FY2009-10 <sup>B</sup>	FY2010-11 <sup>P</sup>
GDP at current price	686730.0	777378.0
Revenue Earnings	79461.0	93000.0
as % of GDP	11.6	12.0
Non-ADP Expenditure	83319.0	94000.0
as % of GDP	12.1	12.1
ADP	30500.0	38000.0
as % of GDP	4.4	4.9
Total Budget	113819.0	132000.0
as % of GDP	16.6	17.0
Deficit	34358.0	39000.0
as % of GDP	5.0	5.0

Source: CPD-IRBD database.

Note: B stands for budget; and P stands for projected figures.

Projected GDP for FY2010-11 has been calculated considering inflation rate target of 6.5 per cent plus 6.7 per cent projected real GDP growth. Others are from various media reports.

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- A critical aspect of deficit financing will be the ability to draw on foreign sources (particularly grant component). While it will need to be ensured that domestic borrowing should not crowd out private investment demand, the deficit financing will have to be made in a non-inflationary manner. In this context, the government will be better off to use non-bank borrowing window of domestic financing even though it may mean borrowing at higher interest rates. In view of the need for enhanced borrowing, a review of interest rates on National Savings Bond (NSD) certificates may need to be deferred this year.

Subsequent sections of this chapter will sequentially present recommendations for the budget FY2010-11 in the areas of overall fiscal measures, as well as in specific sectors, including operationalising the public-private partnership (PPP). Specific proposals relating to annual development programme (ADP) implementation, mitigating the lagged impact of the global financial crisis and maintaining the price stability have also been included in this chapter. These recommendations have been prepared by the Centre for Policy Dialogue (CPD) based on its own research, consultations and inputs from various stakeholder groups.

### 3.2 GENERAL FISCAL MEASURES

#### 3.2.1 Income Tax

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*A programme under the NBR should be undertaken to popularise online submission of tax returns. The online tax form should have an in-built tax calculator to facilitate the self-assessment*

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- High income tax mobilisation is a good sign. Renewed effort is required to sustain growth. A target, based on the HIES (Household Income Expenditure Survey) data, is required.
- A programme under the National Board of Revenue (NBR) should be undertaken to popularise online submission of tax returns. The online tax form should have an in-built tax calculator to facilitate the self-assessment.

#### 3.2.2 Value Added Tax (VAT)

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*Government should enforce the use of electronic cash registers for all medium and large enterprises located in division and district-level towns to enhance the collection of VAT*

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- Government should enforce the use of electronic cash registers (ECRs) for all medium and large enterprises located in division and district-level towns to enhance the collection of VAT. A time-bound target towards this should be announced in the forthcoming budget.
- Submission of VAT return within 10 days after expiry of every preceding month after complying with all the requirements is a difficult task. Hence it is suggested to extend the provision of VAT return submission to the next tax period (next month).
- The requirement to submit claims for VAT rebate within the same calendar month does not take into account exceptional circumstances like *hartals*, holidays and days of natural calamities, time spent for collection of VAT *challans*, etc.; and also it is not logistically possible to submit the claim in the same month if goods and services are received towards the end of the month. Hence, it is suggested that the time limit for submission of claims for VAT rebate should be extended to next tax period.

#### 3.2.3 Supplementary and Customs Duty

- In view of the rising production cost, duty on raw materials and intermediate products may be rationalised further and revised downward. Duty on finished products may, however, remain unchanged at 25 per cent.

## 3.2.4 General Export Support Measures

- Emphasis needs to be put on establishing strategic special economic zones with special tax incentives (i.e. lower duty or zero tariffs on import).

## 3.2.5 Special Tax Benefits

- The provision of legalising undisclosed income should not be there in the upcoming budget.

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## 3.2.6 Strengthening Tax Administration

- Evasion of customs duty (CD) could be reduced substantially if data on revenue collection could be passed on to the NBR monitoring cell on a regular basis through online network between the customs points and the NBR. The budget for FY2010-11 should allocate adequate fund to digitise the customs points.
- It needs to be ensured that certification of tax assessment is submitted at the time of trade (or any other) license renewal.
- Due to legal disputes, NBR has not been able to properly expand its manpower capacity since the mid-1980s. It is estimated that there are currently 8,000 vacancies available at different levels in NBR. The upcoming budget must provide allocation for the additional recruitment in the revenue agency.
- Due to lack of presence of tax officials at the peri-urban levels, collection of taxes from these areas has not increased. Decision to establish tax offices at local level has been taken; allocation will be required to implement this decision.
- Developing a modern information technology (IT)-based tax administration will help to reduce corruption and improve transparency and efficiency of tax collection.

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## 3.2.7 Miscellaneous

- Government may consider discontinuing the practice of making mid-term changes of duty through the Statutory Regulatory Orders (SROs), except in special cases such as natural disasters and other emergencies, to enhance predictability in the system.
- The fee for emergency machine-readable passport (MRP) has been fixed at Tk. 6,000 while Tk. 3,000 will be charged for a normal MRP, according to a Home Ministry notification. This 84-page passport will be valid for 5 years only. It is recommended that the government extends the validity period to 10 years.

## 3.3 AGRICULTURE AND RURAL DEVELOPMENT

### 3.3.1 Development of Crop Sector

- In view of the climate change, there is a growing need to change the cropping pattern in the country. Water-efficient high value crops (such as maize, spices, oil seeds, pulses and orchards) should be promoted in the drought-prone northern region of the country through distribution of high quality seeds and saplings at subsidised price, along with provision for agricultural credit at low interest rate. In the southern regions, Boro rice cultivation should be promoted under special projects with provisions for supply of improved salt-tolerant rice seed, surface water irrigation system and support for mechanical tillage. Towards this, appropriate allocations will need to be made.

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*A subsidised insurance programme for crop, livestock and poultry sectors, particularly against natural disasters like hailstorm, floods and cyclones, may be introduced*

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*Special projects, with appropriate allocation of funds under ADP, need to be initiated to encourage domestic production of hybrid seed through special training programmes for farmers, scientists and staffs of private seed company*

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*With a view to encourage domestic production of milk powder, VAT levied on powder milk produced from locally procured liquid milk should be reduced to Tk. 50 per kg from the existing Tk. 100 per kg of milk powder*

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- A subsidised insurance programme for crop, livestock and poultry sectors, particularly against natural disasters like hailstorm, floods and cyclones, may be introduced.
- With a view to create adequate storage facility for grains and cold storage facility for potato, vegetables and fruits by the private sector, particularly for farmers and small traders, the budget should make provisions for incentives (e.g. assured electricity supply, gas connection or captive power supply, tax holiday, duty-free import of machineries). Intensive growing areas (for example, major potato-growing areas like Munshiganj, Rangpur, Joypurhat and Lalmonirhat) should get priority in this regard.
- To minimise the dependency on national grid for electricity in irrigation, solar power-run pumps should be encouraged by the government through providing loan with low interest.
- Existing export subsidy should be continued for export-oriented *hogla, khar*, hand-made commodities made by the by-product of sugarcane, agricultural and agro-processing products, potato, hatching egg and one day-aged chicks.
- Special projects, with appropriate allocation of funds under ADP, need to be initiated to encourage domestic production of hybrid seed through special training programmes for farmers, scientists and staffs of private seed company. In addition, provision of parental materials to the private seed companies at subsidised prices is required.
- To materialise the aspiration of *Digital Bangladesh* in the agriculture sector, toll-free (or low cost) services should be provided through mobile phones by the Agriculture Information System (AIS). Agricultural information centres should be established at the village and union levels through allocation of funds in the upcoming budget.
- Agricultural tractor (HS Code 8701.90.10) is subjected to 10 per cent CD and 3 per cent advance income tax (AIT). On the other hand, road tractor is subjected to 5 per cent CD only. For the agricultural tractors as well, CD should be 5 per cent and AIT should be withdrawn for development of agricultural sector.

### 3.3.2 Fisheries

- Commercial cultivation of pond fish has increased enormously in recent years. However, lack of availability of quality fingerlings is a constant problem. On the other hand, production and availability of quality fingerlings depend on the broodstock (mother fish). Therefore, demand for broodstock may be met through establishment of Broodstock Banks for different types of fish such as ruhi, katla, tilapia, freshwater prawn (*Macrobrachium Rosenbergii*). It is difficult to internalise the benefits from such initiatives by the private sectors. Therefore, special allocations in the budget should be made towards this.

### 3.3.3 Livestock Development

- With a view to encourage domestic production of milk powder, VAT levied on powder milk produced from locally procured liquid milk should be reduced to Tk. 50 per kg from the existing Tk. 100 per kg of milk powder.

### 3.3.4 Agro-based Industries

- Cash incentive for export of potato, tomato, vegetables and fruits should be linked with traceability of the exported commodity. Using the newly

introduced farmer identity number, all exportable agriculture products can be given a unique number that could be used to identify the origin of the exported product and to ensure good agricultural practices which will be helpful for export purpose and compliance with the SPS-TBT (sanitary and phytosanitary-technical barrier to trade) requirements. This would help increase export of agro-products from Bangladesh to the developed countries and increase benefit for the farmers from cash incentive programmes.

- Agro-processing industries may be promoted through waiver of the existing 3 per cent import duty on capital machineries for the sector.

### 3.3.5 Addressing Equitable Regional Development

- Allocation of about Tk. 100 crore can be introduced as special funds for development projects at upazila levels which will be implemented by the upazila parishads and union parishads (UPs). Priority should be given to proposals and projects with access to local funds (from the respective union and upazila parishads).
- Revitalisation of Mongla Port is important for economic development of western region, and also in view of the renewed effort to improve connectivity with India including allowing India the use of Mongla Port. Mongla is currently constrained by underdeveloped highway corridor adjoined by some major ferry services. Direct railway link from Dhaka to Mongla Port through special projects under the ADP will need to be undertaken.
- Government may allocate funds for training and skill development programmes in the backward regions to increase the number of migrant workers from those areas. These programmes may be implemented jointly by the government agencies and non-government organisations (NGOs).
- Investment in infrastructure development projects focusing on development of tourism sector in the lagged and potential regions (such as three hill tracts districts, Sundarban, Kuakata) will be helpful in reducing regional inequality.

### 3.4 INDUSTRIAL SECTOR

- 100 per cent export-oriented industries located in the domestic tariff area may be allowed to enjoy selected facilities as those enjoyed by industries located in the export processing zones (EPZs), provided these industries are able to comply with maintaining factory-level and worker-related rules and regulations properly. These facilities may include duty-free import of office equipments and other machineries.
- Fund allocation for the Ministry of Land for proper zoning of land is important with a view to identify land for industrial, residential, commercial and agricultural usages, especially for the establishment of different specialised zones, such as industrial parks, high-tech parks and private EPZs.
- In view of acute power and gas shortage in industrial units, which leads to rise in production cost, a number of short-term measures may be considered. Government's recent decision to withdraw additional tariff for peak hour usage by the readymade garments (RMG) industries should be allowed for all small and medium enterprises (SMEs); and the decision about withdrawal of renewal fee for captive power plants (CPPs) (Tk. 5 lakh) should be allowed for all SMEs.
- Bangladesh Energy Regulatory Commission (BERC) needs to be convinced to defer implementation of recent decision with regard to raising power tariff for industrial and commercial units as total cost for power generation is going up because of forced use of alternative sources.

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*NBR should develop mechanism to list new capital machineries imported to the country and to declare SROs on a regular basis*

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- NBR, in support of various trade bodies, should develop mechanism to list new capital machineries imported to the country and to declare SROs on a regular basis. This will reduce hassles in case of getting benefit of duty-free import of new machineries.
- A Technology Upgradation Fund may be established (with a proposed allocation of Tk. 300 crore) for major export-oriented industries such as RMG, textiles, leather and jute, in order to facilitate undertaking technological restructuring initiatives and modernisation of plants through installation of new machines and state-of-the-art technologies.

### 3.4.1 Readymade Garments (RMG)

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*In view of slowdown of RMG export in recent months, RMG units other than SMEs may be considered for support in the form of waiver on VAT imposed on electricity and gas charges (80 per cent exemption is currently in place)*

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- The time limit for claiming duty-drawback should be extended to one year in order to reduce hassles involved in the of submission of required documents (stipulated time now is 6 months).
- In order to establish *garments palli* for woven wear sector and *knit village* for knitwear sector, appropriate allocation of funds is required of in the upcoming budget for development of land, utility services such as water, gas, electricity, housing and recreation facilities for workers, and other necessary logistic facilities.
- In view of slowdown of RMG export in recent months, RMG units other than SMEs may be considered for support in the form of waiver on VAT imposed on electricity and gas charges (80 per cent exemption is currently in place).
- To increase the number of technical training centres to train prospective workers for the RMG industry, adequate allocation of fund in the upcoming budget is needed. Management responsibilities of these centres can be vested in Bangladesh Garment Manufacturers and Exporters Association (BGMEA) and Bangladesh Knitwear Manufacturers & Exporters Association (BKMEA), similar to some of the existing ones.
- The Skill Development Fund with an allocation of Tk. 70 crore as proposed in the last budget may be increased to Tk. 100 crore.
- Adequate fund should be allocated for establishment of an institution that is able to cater to high-end segment of the demand curve for the RMG sector, preferably under the PPP. This would help production of high value-added apparel products for such markets as that of Japan.

### 3.4.2 Jute

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*Bangladesh Bank should give necessary guidelines to the commercial banks to reschedule all loans of private sector jute mills in accordance with the directives provided by the Ministry of Finance*

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- Bangladesh Bank should give necessary guidelines to the commercial banks to reschedule all loans of private sector jute mills in accordance with the directives provided by the Ministry of Finance (MoF). As per the Ministry's direction, due loans with interest, disbursed till June 2009 for 5 years, is to be recovered following expiry of a 30 month period at 8 per cent annual rate of interest.
- Complexity faced at import stage relating to identification of appropriate HS (Harmonised Commodity Description and Coding System) code for machineries used in jute mills may be resolved through a separate SRO with information about all types of related capital machineries imported.

### 3.4.3 Pharmaceuticals

- Appropriate storage facilities in the form of temperature-controlled area for life-saving drugs and vaccines should be set up at Bangladeshi airports

catering to international traffic. This is an urgent need for the country's pharmaceutical industries.

### 3.4.4 SMEs and Domestic Market-oriented Industries

- In order to reduce the burden of taxes, domestic market-oriented SMEs could be waived from VAT on imported raw materials.
- The coverage of the Equity Entrepreneurship Fund (EEF) may be expanded beyond agro, agro-processing and IT-related projects to some of the other potential labour-intensive industries such as light engineering, plastic, melamine and electronics.

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### 3.4.5 Tourism

- As a growing industry, tourism demands appropriate budgetary allocation. Government should encourage private sector to invest in developing eco-villages, parks, conservation of historical places, and construction of hotels, rest houses in the areas of growing exposure through providing loan at low interest rate and other incentives. A *Tourism Board* may be set up to develop the promising tourism industry in the country.

### 3.4.6 Capital Market

- Capital gains tax (CGT) could be a potential source for mobilising additional resources, that could be generated from the market through taxing of short-term capital gains. Whilst this needs to be done in a manner that does not disincentivise the capital market and does not add volatility in market behaviour, signals may be transmitted, in a transparent manner, about tax policies to be pursued with respect to capital market in foreseeable future. India, for example, has a tax of 15 per cent on short-term capital gains (for stocks held for less than a year). A differentiated tax slab may be considered for this purpose to protect small investors and the budget for FY2010-11 may transmit some signals about such steps in future.
- The budget should provide indication about offloading of shares of state-owned enterprises (SoEs) as per timeline announced earlier.
- The budget speech of the Finance Minister should put emphasis on restructuring of the Securities and Exchange Commission (SEC) to facilitate long-term development of the capital market.

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### 3.4.7 Industrial Workers

- Budget allocation for the Ministry of Labour and Employment was drastically reduced in FY2009-10 (Tk. 44 crore) compared to the revised budget of the previous year (Tk. 120 crore) constraining various development activities that needed to be pursued by the Ministry. This allocation needs to be substantially increased to help the Ministry pursue such activities as establishment of labour inspection offices in all major cities, and hiring of labour inspectors and logistics to ensure regular and timely visit to the factories.
- Necessary allocation of funds should be ensured in support of various activities, including insurance for workers, envisaged under the *Labour Welfare Foundation Act 2006*.

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*Government may consider supply of diesel and furnace oil for generators at a subsidised rate to industrial units (equivalent to the administrative price less the duty collected on petroleum product at import stage)*

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*Government may consider duty-free import of the power generating items*

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*To encourage captive power users, government may provide loans with low interest rates for setting up CPP units*

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- There are 29 Worker Welfare Centres in existence in the country to provide basic healthcare and treatment facilities. Because of inadequate fund, these centres are, to a large extent, dysfunctional (shortage of medicines and treatment facilities, shortages/absence of doctors and health workers). Necessary funds should be allocated to make these centres appropriately operational.
- Development of workers' housing facilities in major industrial zones through PPP should be considered in the upcoming budget.

### 3.5 ENERGY, INFRASTRUCTURE AND COMMUNICATION

#### 3.5.1 Electricity

In view of the projected power shortages over at least the next couple of years:

- Nearly 40 power plants with an installed capacity of 1,252 MW (mega watts) are more than 20 years old and are operated at low efficiency levels. Immediate allocation should be made for refurbishment of parts, periodical maintenance, repair and reconstruction of these old power plants in a phased manner to ensure higher levels of efficiency in power generation over the next fiscal year. It needs to be mentioned here that at present (8 April 2010) eight power station units with generation capacity of about 550 MW is out of action due to lack of maintenance.
- The government may consider supply of diesel and furnace oil for generators at a subsidised rate (equivalent to the administrative price less the duty collected on petroleum product at import stage) to industrial units which use such generators. Special card system can be arranged for providing diesel and furnace oil at a subsidised rate to the industries producing their own power.
- Cumbersome procedures to import furnace oil by private sector should be streamlined.
- In FY2008-09, total tax incidence (TTI) on import of generators and generator parts ranged between 8.55 per cent to 34.57 per cent (mode 24.0 per cent). In view of the ongoing power crisis, government may consider duty-free import of these items. The government may also consider abolishing the 2.25 per cent advance trade VAT (ATV) on import of generators.
- To encourage captive power users, government may provide loans with low interest rates for setting up CPP units.
- Locally delivered finished goods for independent power producer (IPP) project, or rental power plants (RPPs) could be considered either as deemed export, or zero CD may be allowed for imported raw materials which are used to prepare those finished goods.
- The Joint Communiqué between Bangladesh and India stipulates that Bangladesh will require approximately Tk. 1,000 crore (USD 150 million) to set up 35 km of transmission line within its territory to import 250 MW of electricity from India. The upcoming budget needs to allocate adequate resources if this proposition is to be realised at the earliest.

#### 3.5.2 Gas

- The country's gas reserve is not adequate in view of the rising demand to run various economic activities. At present, proven gas reserve is 6.93 tcf (trillion

cubic feet) and probable reserve is 5.5 tcf. As the current reserve could run out by as early as 2014-2015, budget should allocate adequate funds for exploration of new reserves, and towards confirmation of proven reserves from the existing probable gas reserves.

- A special allocation may be announced in the budget to set up a separate cell tentatively titled *National Resource Research Wing* which should carry out periodic 3D seismic readings of the country's geographic surface in order to aid gas, oil, and coal exploration and to keep tabs on the state of the country's natural reserves.
- Bangladesh is considering to import liquefied natural gas (LNG) to address her gas crisis. Allocation should be made in the budget for the construction of LNG terminals. LNG bullets need minimum 12 m draft to ply. Neither Chittagong nor Mongla Port can support this facility due to having as low as 9 m and 5 m draft. Allocation for floating LNG terminals in deep sea may be considered in view of this.
- It is important to install compressors at different points in the gas transmission pipeline for increasing pressure which could enable supply of adequate gas to the power plants that are now operating at undercapacity due to shortage of gas. Installing compressors should be given priority in this regard.
- In the backdrop of considerable rise in the demand for gas, the budget may propose introducing multi-metering billing system for households as well as factories to reduce misuse of gas resource.

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*Budget should allocate adequate funds for exploration of new reserves, and towards confirmation of proven reserves from the existing probable gas reserves*

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### 3.5.3 Coal

- Priority should be given to finalisation of the National Coal Policy. As was recommended in the Draft Coal Policy, a separate entity titled *Coal Bangla* should be established to deal with coal exploration, transmission and management issues.
- The budget should allocate required funds for rehabilitation of affected people arising from the proposed open-pit mining in the Barapukuria coal mine zone.

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*Budget may propose introducing multi-metering billing system for households as well as factories to reduce misuse of gas resource*

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### 3.5.4 Alternative Sources of Energy

- Projects relating to setting up of wind-based IPPs in the coastal regions should get due priority.
- The budget may allocate resource for establishment of funds and provide special incentives in the form of loan with low interest for large commercial buildings and hospitals so that they could go for own power generation through solar energy.
- The budget may consider providing assistance and support for generation and distribution of localised renewable energy by using bio-mass fuel.
- Special funds may be allocated for techno-feasibility study on establishment of nuclear power plant. Modalities to safely store imported uranium and thorium need to be identified, and studies may be conducted on the techno-economic viability of production at prospective sites.

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*Budget should allocate required funds for rehabilitation of affected people arising from the proposed open-pit mining in the Barapukuria coal mine zone*

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### 3.5.5 Transport, Connectivity and Construction

- The Bangladesh-India Joint Communiqué refers to a number of infrastructural and trade facilitation measures where Bangladesh will need substantial

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*Exploring the possibility of raising funds aimed at developing infrastructure of the country by allowing "sectoral mutual fund" from stock markets and also through PPP initiatives should get positive signals from this budget*

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*Modernising the Benapole Land Port and the ports connecting the North-Eastern states of India with Bangladesh should receive priority to reap the benefits of the recent initiatives taken by the two friendly-neighbours*

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*New allocation in ADP is also required for the project titled Integrated Chittagong Port Modernization Project*

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investment. The budget for FY2010-11 should make adequate provisions towards this.

- Exploring the possibility of raising funds aimed at developing infrastructure of the country by allowing "sectoral mutual fund" from stock markets and also through PPP initiatives should get positive signals from this budget.
- Rail service in the country should receive high priority to ease the pressure on the over-burdened roadways. Commuter trains connecting Dhaka to the neighbouring areas/districts will not only ease traffic congestions of Dhaka city but also create improved living condition as this will induce many people to live in the suburbs.
- Modernising the Benapole Land Port and the ports connecting the North-Eastern states of India with Bangladesh should receive priority to reap the benefits of the recent initiatives taken by the two friendly-neighbours. Allocations should be given to develop required infrastructure to facilitate bilateral trade with India.
- Allocation should be kept for initiating the deep seaport in the Sonadia Island which was targeted to be completed by the year 2015.
- At present, the priorities for the Dhaka-Chittagong Transport Service are: (i) accelerating the works related to the Second Dhaka-Chittagong National Highway, mainly for business purposes; at least one lane should be opened immediately to facilitate business-related transportation; (ii) increase railway transport capacity between the two cities. Necessary budgetary allocation is required in this regard.
- For meeting the increasing demand of trade capacity of the Chittagong Sea Port, it is important to develop inland container depots (ICDs) to support both the port and the expressway to ease the growing pressure. It is also important to deepen and widen the port to facilitate berth of high tonnage vessels at the port. New allocation in ADP is also required for the project titled *Integrated Chittagong Port Modernization Project*.
- Setting up close circuit (CC) cameras at different important traffic locations in the major cities and also renovating the traffic signals/systems are important to improve traffic situation in the major cities. Allocation is needed in this sector from the budget.
- Appropriate allocations in the budget should be kept for *Aila*-affected areas for reconstruction of damaged embankments and rehabilitation of affected people.

### 3.5.6 Information and Communication Technology (ICT)

- In view of the emphasis put on *Digital Bangladesh*, an integrated Software Technology Park at Mohakhali, and six other similar parks in six divisions of the country may be established over the next five years. Towards this, the upcoming budget may consider allocating Tk. 300 crore for the software park in Mohakhali, and Tk. 1,000 crore for others, which could be disbursed over the next five years.
- The basic infrastructure for high-tech park (phase 1) at Kaliakoir should be completed as early as possible. Government should increase ADP allocation on this account and complete the work within the shortest possible time.
- The initiative to connect 100 UPs with fibre-optic cable networks and setting up of "community e-centres" in five selected upzila sadars are welcome steps. However, allocation should be there to gradually include all UPs and upzilas under this network.

- Allocation for ICT Business Promotion Council (IBPC) needs to be raised up to, say, Tk. 100 crore.
- The budget may allocate ADP fund for the establishment of broadband internet-enabled common service centres in rural areas and put in place a scheme for establishing nationwide area network.
- A separate section within the crime branch of police which could be titled *Cyber & Phone Crime Branch* is required to efficiently handle related crimes.
- Implementation of the Right to Information (RTI) is very important and necessary budgetary allocation should be made to facilitate implementation of the RTI Act.

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*Implementation of the Right to Information (RTI) is very important and necessary budgetary allocation should be made to facilitate implementation of the RTI Act*

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## 3.6 SOCIAL SECTOR

### 3.6.1 Social Safety Net

- The government may like to list all hardcore poor families in every union in support of service delivery of various social safety net programmes. Local government, local NGOs, local people and grassroots administration should together identify the eligible households.
- The second phase (March-April 2010) of the *Employment Generation for the Hardcore Poor (EGHP)* programme, which is currently being implemented, is designed to cover all the 64 districts of the country. The programme should focus on the highly poverty-stricken areas rather than the entire country, and widen the beneficiary coverage in those areas using the updated poverty map.
  - Administrative cost allocated for officials (for management and monitoring purpose) is extremely inadequate, which is undermining outcome of the programme. In view of this, administrative cost, especially at upazila level, needs to be increased adequately. Tag Officers are the key players in monitoring the EGHP programme at the field levels, each of whom is responsible for supervising all the projects running in one union. However, this duty is additional to their official service responsibilities and the allowance allocated for them is quite inadequate which is weakening the monitoring system. To improve the implementation efficiency of the programme, allowance for Tag Officers should be increased and need to be proportional to the area they cover.
- The *National Service* has been initiated in Kurigram on a pilot basis covering 9,950 unemployed youth. The targeted coverage under this programme in the next fiscal year is more than 30,000 in this district, which is about 3 times than that of the current coverage. Moreover, besides Kurigram, the programme is planned to be expanded to Gopalganj and Barguna. In this backdrop, it is necessary to ensure adequate fund to keep the programme running.
  - The administrative cost (honourarium for trainers, training centre facilities, logistics, transportation of officials and other related expenditures) for the *National Service* needs to be revised upward. In addition, adequate infrastructural facility for training is also a priority need.
- *Allowances for Destitute Women and Insolvent Disabled* should be increased to Tk. 500 per person from the existing Tk. 300. *Allowance for Poor Lactating Mothers* should also be increased to Tk. 500 per person from Tk. 350. Number of beneficiaries should also be increased.
- The government should dedicate additional funds to expand the existing *Char Livelihood Programme* to cover all remote *char* areas.

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*The programme should focus on the highly poverty-stricken areas rather than the entire country, and widen the beneficiary coverage in those areas using the updated poverty map*

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*The administrative cost (honourarium for trainers, training centre facilities, logistics, transportation of officials and other related expenditures) for the National Service needs to be revised upward*

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*The coverage of the School Feeding Programme needs to be expanded, especially in regions with high intensity of hardcore poverty*

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*The existing Maternal Health Care Voucher Scheme should be continued and expanded to at least 60 upazilas from the existing 45 upazilas. Special attention needs to be given to monga-prone, char and haor areas*

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*Government should introduce separate employment generation scheme for women who are the only earning members of their respective families*

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- Increased social safety net programmes in the disaster-prone areas, specially targeting the weaker and vulnerable sections of the society may be considered.
- Allocation for the government's *School Feeding Programme* was increased to Tk. 34 crore in the budget of FY2009-10 from Tk. 4 crore in the revised budget of FY2008-09. The coverage of the programme needs to be expanded, especially in regions with high intensity of hardcore poverty. For this, allocation needs to be increased in the upcoming budget. Upazila-level poverty map may be useful to ensure appropriate targeting of the programme beneficiaries.

### 3.6.2 Health

- Government measure to appoint new health professionals at the field level is commendable. It will be important to address the supply-side of the problem by introducing special incentives (both monetary and in-kind) for the existing and newly recruited medical practitioners serving in the rural areas. For this, the government should consider allocating targeted fund in the upcoming budget.
- The existing *Maternal Health Care Voucher Scheme* should be continued and expanded to at least 60 upazilas from the existing 45 upazilas. Special attention needs to be given to *monga-prone, char and haor* areas.
- Tax exemption for equipment for disabled people is still limited. Government may consider reducing the duty on import of these items.

### 3.6.3 Education

- Education facilities in most of the public Technical and Vocational Education Training (TVET) institutions are outdated. Government may consider allocating adequate fund to modernise the existing TVET institutions and establish more such institutions with a view to creating skilled manpower for both domestic and international markets.
- In view of the growing demand for nurses in the country, the government may consider allocating fund for new nurse training institutes as well as enhancing facilities in the existing ones.
- Special stipend programme should be introduced for children from low-income families going to public universities. The government may also consider providing interest-free education loan to these students (on merit basis) who will repay the amount within a given timeframe (e.g. 5 years from the date of graduation).

### 3.6.4 Women Empowerment

- Government should introduce separate employment generation scheme for women who are the only earning members of their respective families. The upcoming budget may have specific allocation for such a programme.
- Special training centres can be set up at the upazila level to provide short-term and refresher training for women from poor households on various income-generating activities. These services shall be free for the trainees. Provision of providing travel allowance to the trainees may also be included in the scheme to create wider acceptability of the programme. Government may consider allocating separate fund for such a project in the national budget for FY2010-11.



- The issue of women's repression and the severity of various forms of violence against women pose considerable threat towards the efforts of the government to create a just and tolerant society. While the legal system has to be strengthened, government should allocate separate fund for victims of violence towards medical and legal support.

### 3.7 ENVIRONMENT, CLIMATE CHANGE AND DISASTER MANAGEMENT

#### 3.7.1 Environment

- Government may allocate funds for SMEs to encourage and promote clean production technology for those units which lack adequate funds to do so.
- Different parts of effluent treatment plants (ETPs), whether imported together or separately from different sources, should be considered as an integral part of a whole machine, and these should be provided with duty-free import facility.
- The Polluters Pay Principle is a useful strategy to take actions against polluting and non-compliant industries. A pollution tax or green tax may be levied on all inorganic waste generated by different industries to encourage installation of ETPs.
- Industries may be provided with soft loans for investment in pollution prevention and pollution control equipments. This may be done through support from the EEF.
- Initiatives already taken for cleaning the critically degraded and important rivers should be further intensified through budgetary allocations.
- Open water fisheries resources particularly rivers and canals surrounding the major cities are facing acute water pollution mainly due to release of untreated industrial waste and chemicals. Industrial waste treatment should be mandatory and pollution tax may be considered to impose on violators.

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*Different parts of effluent treatment plants, whether imported together or separately from different sources, should be considered as an integral part of a whole machine, and these should be provided with duty-free import facility*

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*Initiatives already taken for cleaning the critically degraded and important rivers should be further intensified through budgetary allocations*

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#### 3.7.2 Climate Change

- Following the trend of special allocation for climate change-related initiatives in the last two budgets, the coming budget should also keep the momentum by providing: (i) funds for "green financing" and "developing and disseminating green technology;" (ii) special allocation for generating clean energy from "non-conventional sources," keeping in mind the present energy crisis in the country and its immediate demands; and (iii) allocation to start "microinsurance scheme(s)" aiming to ensure crops production and rural livelihoods activities in the most vulnerable areas of the country.
- Upgrade and introduce modern technologies to improve weather forecasting and disseminating such information for the most "exposed groups," within short time. This would enhance coping mechanism to face climate-induced disasters, and reduce damages and casualties. The budget may keep adequate allocation for this.
- Allocation should be made for environmental and disaster-related awareness building, expanding research and capacity building at national level, and also for the vulnerable areas/zones. Under the National Council for Science and Technology (NCST) Fellowship, young graduates may be provided with scholarships to conduct research on climate change issues, particularly microlevel adaptation and impact assessment, under a fund allocated in the budget.

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*Upgrade and introduce modern technologies to improve weather forecasting and disseminating such information for the most "exposed groups," within short time*

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- Carbon-emitting and obsolete transports should be penalised by imposing 'carbon tax' which would discourage them to run on the roads.

### 3.7.3 Disaster Management

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*More allocation should be made for continuing the construction of shelter houses in the coastal districts of the country*

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- In addition to funds for reconstructing embankments affected by the *Aila*, allocation should be made for new embankments at important points to provide safeguards against surges. More allocation should also be made for continuing the construction of shelter houses in the coastal districts of the country.
- More allocations for social afforestation programmes particularly for the coastal and river bank (*char*) areas of the country is needed.
- To safeguard against earthquake, the budget may consider allocating funds to train special volunteers associated with the fire defense service in view of any possible earthquake hazards.

### 3.8 OPERATIONALISING THE PPP

In the budget FY2009-10, PPP component was a new and welcome initiative for Bangladesh. The initiative had generated high expectation. An allocation of Tk. 2,500 crore was made in the budget for FY2009-10 on account of PPP. It was hoped that Tk. 7,000 crore would be invested through PPP projects in that fiscal year. The government has also come up with a Draft PPP Policy. Budget FY2010-11 should emphasise on realisation of the PPP objectives. The Draft PPP Policy and guidelines will need to be finalised in a speedy manner. There is a consensus that the PPP process will need to be geared up in order to get the desired benefit. In order to ensure effective implementation of PPP projects, the following issues need to be addressed in the upcoming budget for FY2010-11:

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*The upcoming budget should provide indications about fiscal incentives for PPP-funded projects*

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- The government has so far earmarked large infrastructural projects under the PPP. Adequate fund allocation should be made in the upcoming budget FY2010-11 to this end. It is reckoned that small PPP projects should not be excluded from PPP financing.
- The upcoming budget should provide indications about fiscal incentives for PPP-funded projects. It is important that the proposed fiscal incentives should be at par with the incentives provided to other foreign direct investment (FDI) and export-oriented investments, and information on this should be given upfront.
- The Draft PPP Policy suggested that a Public-Private Infrastructure Committee (PPICOM) shall be established under the Prime Minister's Secretariat. This is to include 11 members; however, only one representative from the private sector has been included. It is felt that there should be more representatives from the private sector.
- PPP should be encouraged in non-industrial infrastructure development sectors as well. For example, Bangladesh Agricultural Development Corporation (BADDC) may be designated as a facilitating organisation for PPP in the agriculture sector. PPP projects may be developed for production and distribution of hybrid and improved seed, establishment and management of surface water irrigation system, establishment of agro-export processing zones, and establishment of wholesale markets and trading centres.

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*It is felt that there should be more representatives from the private sector in the Public-Private Infrastructure Committee*

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### 3.9 IMPROVEMENT OF ADMINISTRATIVE CAPACITY AND DELIVERY MECHANISM FOR DEVELOPMENT PROGRAMMES

ADP is the major source of public investment in Bangladesh. Public investment in Bangladesh has been seen as a determining factor for overall investment outcome. However, the increased importance of public investment has not been matched by improved quantitative and qualitative delivery or monitoring of the ADP. In recent years both the pace and the quality of implementation of the ADP has come under close scrutiny. The budget should clearly spell out allocation to the carryover projects (the projects that were expected to be completed before 1 July 2010), continuing projects and new projects. A continuing effort to raise the pace of disbursement and quality of implementation appears to be the required strategy for the upcoming budget. The following strategies could be considered in this context.

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*Budget should clearly spell out allocation to the carryover projects, continuing projects and new projects*

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#### 3.9.1 Sectoral Priority

- No one would disagree that investment in energy generation should be prioritised given the critical importance of this particular sector in the economy. Appropriate allocation will need to be made in the budget towards this. Synchronisation of various steps involved is important in this context.
- An incentive-based programme may be undertaken, where divisions or departments with successful completion of projects will be given priority in fund allocation.

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*Matching fund for foreign-aided projects should be made available towards proper implementation of the ADP projects in due time*

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#### 3.9.2 Fund

- Matching fund for foreign-aided projects should be made available towards proper implementation of the ADP projects in due time.
- Over centralisation and bottlenecks in fund release will need to be addressed. A common policy could be that once included in the ADP, the projects should not require further approval by other agencies.

#### 3.9.3 Priorities and Action Plan

- Project-wise action plans should be prepared for timely completion of all the ongoing projects. To start with, the government ought to put emphasis on preparing action plans for top 100 projects selected by the Planning Commission. Power and infrastructural projects should get highest priority while preparing this list. These action plans should be prepared by the respective project authorities and to be approved by the heads of their implementing agencies.
- These action plans should also take into account the current status of implementation, a realistic view on what could be achieved during the remaining period of the project, with available resources and the available implementation capacity.
- The plan should clearly spell out time-bound monitorable actions and identify authorities responsible for implementation. Activities which are not implementable during the tenure of the project and are not of high priority may be dropped, and resource allocated for those may be surrendered or suitably reappropriated.
- The manpower requirements of the projects as per Development Project Proposals (DPP) should be fulfilled; vacant positions should be filled-up

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*Government ought to put emphasis on preparing action plans for top 100 projects selected by the Planning Commission. Power and infrastructural projects should get highest priority while preparing this list*

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*The plan for establishing a Planning and Budget Wing in each ministry, articulated in the budget speech of FY2009-10 needs to be materialised*

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*Result-based monitoring should be an integral part of the IMED activities*

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*Modalities will need to be developed to involve local governments in both design and formulation of projects and monitoring of their implementation*

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immediately, specially the position of the Project Director. Full time Project Director should be made available to all projects, unless DPP has provision for deployment of a part-time Project Director.

- Each action plan should be prepared by the respective project authorities through a process of consultation with all key players involved in implementation of the projects. Enhancing as far as possible the role of the local governments in the implementation of these action plans is also important.
- Implementation of these action plans should be started as early as possible, preferably from the beginning of the next fiscal year.

### 3.9.4 Monitoring Mechanism

- The plan for establishing a *Planning and Budget Wing* in each ministry, articulated in the budget speech of FY2009-10 needs to be materialised.
- Special monitoring mechanism will need to be developed for the power sector. Monitoring the projects under the Ministry of Communication and the Local Government Engineering Department (LGED) should also be prioritised.
- A realistic monitoring mechanism may be designed for overseeing the timely implementation of the above-mentioned action plans. Where feasible, stakeholders outside the project, including the local government bodies, may be appropriately involved in the monitoring process.
- The Implementation Monitoring and Evaluation Division (IMED) should be strengthened further to ensure that implementation is adequately monitored, both in quantitative and qualitative terms.
- Establishment of a result-based monitoring (RBM) and evaluation system, knowledge management, training and research along with further strengthening of human resources is required towards institutional capacity building of the IMED. RBM should be an integral part of the IMED activities. Relevant staff of key line ministries should also be adequately trained in such monitoring.

### 3.9.5 Local Government

- Funds allocated for local governments such as upazila and UP in the ADP may be released upfront, preferably in the first quarter of the fiscal year, for first two quarters at a time, so that these bodies can draw development schemes and start implementing these from the beginning of the financial year. These schemes should be developed through local level planning in consultation with grassroots stakeholders.
- Modalities will need to be developed to involve local governments in both design and formulation of projects and monitoring of their implementation. Dedicated committees may be constituted with participation of government officials, representatives of beneficiaries and experts to monitor the quality of implementation in key result areas, and the maintained timelines, particularly for major projects.

## 3.10 MITIGATING THE LAGGED IMPACT OF GLOBAL FINANCIAL CRISIS

- In the third stimulus package declared on November 2009, the government mentioned a number of incentives. However, due to the cumbersome and lengthy procedures involved, no subsidy has been paid out yet. Precise

documentation guidelines should be provided to the related sectors for speedy disbursement of these funds. This should receive adequate attention in the next budget. These incentives may also be extended in the budget for FY2010-11 in the context of the lagged impact of global financial crisis:

- The facility of the government reimbursement for renewal fee paid by apparels entrepreneurs on use of captive generators may be extended up to 30 June 2010 in view of ongoing power outage.
  - 10 per cent subsidy on the electricity usage for SMEs in RMG sector that do not own captive generators or diesel-run generators may be extended until 30 June 2011.
  - Cash incentives (based on actual export value) for exporters to new markets (markets other than the United States (US), Canada and the European Union (EU)) at the rate of 5 per cent may be continued in the next year (instead of bringing down the rate to 4 per cent).
  - Provide cash incentive of 5 per cent to small and medium-sized RMG units for export performance in FY2010-11. Such incentive should, however, be limited to export value in FY2009-10 plus up to 10 per cent growth.
  - 5 per cent cash incentive for ship-building and crust leather should be continued.
- Leather and footwear registered negative growth during the first half of FY2009-10 when compared to the similar period of FY2008-09. As there are no local manufacturers for components and accessories for footwear and leather goods, question of protecting local manufacturers does not arise. It is recommended that import duty on these products may be reduced to 5 per cent.
  - Shortage of storage facility at the airport is hindering export of frozen foods and vegetable. Funds for an effective and efficient way to deal with this problem may be allocated in the upcoming budget.
  - A programme titled *Shongjog* was initiated during the period FY2007-08 and implemented by Palli Karma-Sahayak Foundation (PKSF) along with other NGOs and donor organisations, to help potential overseas workers from the *monga*-affected area. Since then only 27 workers availed this opportunity, where Tk. 3 lakh was provided as credit to each worker. Given the good recovery record of this credit, the government should reoperationalise this facility and allocate adequate funds to make this opportunity available for more workers. The government may also consider extending this project in specific disaster-prone areas.

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*The facility of the government reimbursement for renewal fee paid by apparels entrepreneurs on use of captive generators may be extended up to 30 June 2010 in view of ongoing power outage*

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*Provide cash incentive of 5 per cent to small and medium-sized RMG units for export performance in FY2010-11. Such incentive should, however, be limited to export value in FY2009-10 plus up to 10 per cent growth*

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### 3.11 PRICE STABILISATION SUPPORT

- Zero-tariff on import of essential food commodities including rice, edible oils (crude and refined), and lentils (proper monitoring to discourage over invoicing needed) should be continued.
- Balancing the often conflicting interests involving producers and consumers should be maintained. Adequate allocation will need to be made to cover the difference between procurement price and the open market sale (OMS) price.
- Higher allocation is needed for greater coverage and higher entitlement under various safety net programmes that deliver in-kind support, such as the Food for Work (FFW), vulnerable group development (VGD), test relief (TR), etc.
- With a view to ensure food security, the procurement targets of grain crops need to be set at higher levels. At the same time, the government may be

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*Higher allocation is needed for greater coverage and higher entitlement under various safety net programmes that deliver in-kind support, such as the FFW, VGD, TR, etc.*

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required to import essential commodities periodically from the global market. Thus, adequate allocation is needed on food import account.

- In view of the recent upward trend in prices of fuel and agricultural inputs (e.g. fertiliser), it is necessary to allocate adequate funds for providing subsidy for these items.
- Appropriate allocations should be kept in the budget in view of ensuring adequate supply of essential items during the Ramadan month (July-August 2010).

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*If FY2009-10 has been the year of preparation, FY2010-11 will be the year of delivery*

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### **3.12 CONCLUDING REMARKS**

The defining feature of the upcoming budget will have to be the enhancement of the ability of the development administration to deliver on the ADP, particularly in the thrust areas such as generation and maintenance of power supply, infrastructure, and supporting accelerated economic growth with macroeconomic stability and control of inflation. Capacity to flexibly respond to any macroeconomic shock will need to be strengthened, and toward this, a sophisticated system of monitoring will need to be developed. If FY2009-10 has been the year of preparation, FY2010-11 will be the year of delivery.