# CHAPTER 2

## Analysis of National Budget FY2010-11

## 2.1 INTRODUCTION

The Grand Alliance government led by the Awami League presented the national budget for FY2010-11 and the revised budget for FY2009-10 on 10 June 2010. The budget was placed in the backdrop of the lagged impacts of the global economic crisis with its adverse impacts on tradable sectors of the economy, export and import performance of the country. Macroeconomic difficulties were compounded by severe shortage of power and the lack of required infrastructure. Thus the budget for FY2010-11 reflected the concerns of the government in view of the emergent situation, and the need to set the new priorities to overcome the negative impacts. In keeping with its tradition of putting the budgetary framework and proposals under close scrutiny, the Centre for Policy Dialogue (CPD) organised a series of events to project civil society perspective on the various aspects of the FY2010-11 budget.

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CPD presented its immediate reactions on budget for FY2010-11 on 11 June 2010, the day after the announcement of the budget by the Finance Minister, at a well-attended media briefing. On 19 June 2010, CPD also organised a national dialogue with the participation of the Hon'ble Finance Minister, high level policymakers, members of the national parliament (MPs), leaders of political parties, representatives from the private sector, non-government organisations (NGOs), and civil society, academics and other stakeholders. Following CPD's presentation that covered an in-depth analysis of the various budgetary proposals and the fiscal stance taken by the government, participants shared their views on both the CPD analysis and also various aspects and measures proposed in the budget. Again on 24 June 2010, CPD, in association with the Bangladesh Economic Association (BEA), Chittagong Chapter organised another dialogue in Chittagong, in the presence of the Hon'ble Minister for Industries, to elicit the perception of civil society stakeholders in the Port City of Chittagong. The proceedings of both these dialogues are included as Annexes 1 and 2 of this volume.

*Inflationary pressure in the economy gathered some momentum due to developments in the global arena and also for supply-side factors*

FY2010-11 was benchmarked by commendable revenue mobilisation by the National Board of Revenue (NBR) and restrained expenditure (fiscal deficit being 4.5 per cent of gross domestic product (GDP) which contributed to maintaining fiscal stability during the preceding fiscal year. Lower trade deficit and robust remittance inflow kept the balance of payment (BOP) at a comfortable situation. This, coupled with a stable exchange rate, contributed to increasing foreign exchange reserve as the FY2009-10 got to the finishing line. GDP growth rate for FY2009-10 was revised upward to 6.0 per cent in the budget for FY2010-11 in view of higher-than-expected performance of some key indicators. Export growth was sluggish during FY2009-10, though the sector showed some indications of having recovered somewhat from the consequences of the global market depression in the wake of the global financial crisis. However, inflationary pressure in the economy gathered some momentum due to developments in the global arena and also for supply-side factors.

*In order to meet the objectives set in the Sixth Five-Year Plan and the 10-year Perspective, Plan, efforts towards mitigating the impact of the global financial crisis are needed to be continued in FY2010-11*

In its analysis of the budget for FY2010-11, CPD observed that FY2010-11 would be the last year of the Poverty Reduction Strategy (PRS) of the government and that the government had decided to revive the earlier tradition of preparing five-year plans which were to be integral parts of a medium-term perspective plan. Thus, FY2010-11 was to be the first year of the Sixth Five-Year Plan (2011-15) and the first year of the 10-year Perspective Plan (2011-2021). In order to meet the objectives set in these strategies and plans, efforts towards mitigating the impact of the global financial crisis are needed to be continued in FY2010-11. Hence the stimulus package earlier undertaken by the government will need to be continued with additional allocations. The proposed budget has to take into consideration fiscal policies and reform agendas put forward in the budget for FY2009-10. CPD observed that the long-awaited Unified Budget and District Budget are yet to be formulated. Though policy guidelines for the newly introduced public-private partnership (PPP) has been finalised, personnel and logistical arrangements for the functioning of the PPP Office are yet to be finalised.

*The proposed budget for FY2010-11 has to take into consideration fiscal policies and reform agendas put forward in the budget*

CPD identified a number of challenges for FY2010-11 in its pre-budget interim report on macroeconomic performance of Bangladesh (CPD 2010). These were: first, ensuring marked improvement of the policy implementation and delivery capacity through prudent fiscal management; second, ability to pursue a coherent policy to achieve a stable growth of the economy; third, achieving food and energy security; fourth, reducing poverty and income inequality through employment generation and strengthening of social safety net programmes; fifth, balancing the conflicting interests between producers and consumers in case of determining the price of foodgrain, and between exporters and consumers through proper exchange rate management; sixth, achieving short-term priorities with focus on medium to long-term objectives; seventh, improving the economic governance significantly to achieve the stated objectives; eighth, stimulating regional economic cooperation through follow-up actions with respect to planned activities.

## 2.2 PUBLIC FINANCE

### 2.2.1 Revenue Earnings

*The revenue-GDP ratio and the tax-GDP ratio will need to be increased to 11.9 per cent and 9.8 per cent respectively in FY2010-11*

**Overview**

The government has set the target of mobilising Tk. 92,847 crore as revenue in FY2010-11 which is Tk. 13,363 crore or 16.8 per cent higher than the revised target figure for FY2009-10. This implies that the revenue-GDP ratio and the tax-GDP ratio will need to be increased to 11.9 per cent and 9.8 per cent respectively in FY2010-11 from the previous year's revised matched figures of 11.5 per cent and 9.3 per cent respectively.

**NBR Components**

The new target of revenue earnings set for FY2010-11 suggests that within the total additional revenue to be collected, NBR is expected to take the lead role by contributing 86.7 per cent of the incremental amount, followed by non-tax sources (9.6 per cent), and non-NBR tax (3.7 per cent) (Figure 2.1). With a larger incremental share, the share of NBR in total revenue is set to increase to 78.2 per cent for FY2010-11 from 76.7 per cent in FY2009-10 (revised). Overall, the NBR growth target for FY2010-11 has been set at higher levels, at 19.0 per cent, over the revised budget figure of FY2009-10, which was 16.1 per cent.

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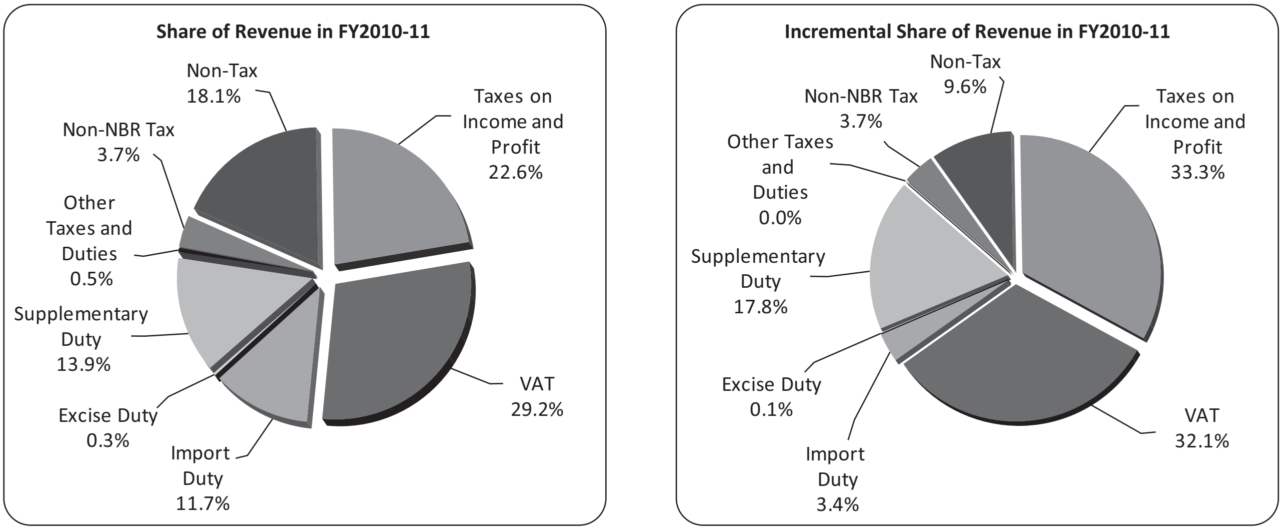
The projected share of NBR tax component in the revenue growth is planned to bank on strengthened mobilisation efforts for income tax, value added tax (VAT) and supplementary duties (SD), as there is apprehension about slow recovery of imports and the resultant lower levels of collection of customs duties (CD). These targets for FY2010-11 have been set with reference to their recent performance as it was found that contributions from these sources were significant in FY2009-10.[1]

[1] At the end of FY2009-10, actual growth in income tax, VAT and SD turned out to be 23.3 per cent, 19.1 per cent and 25.8 per cent respectively.

**Figure 2.1: Projected Share and Incremental Contribution of Sources in Revenue Growth: FY2010-11**




**Source:** Estimated from MoF (2010) data.

The growth targets set for these three sources (26.8 per cent for income tax, 18.9 per cent for VAT, and 22.7 per cent for SD) are in line with their last year's performances.[2] The target for CD in FY2010-11 is somewhat conservative (4.4 per cent) as the import payments have gone up in recent months.[3] During the initial months of FY2010-11 revenue mobilisation through CD may be somewhat lower due to the lagged impact of global financial crisis. However, revenue collection is expected to rise with the rising commodity prices in international markets and increased import demand in the later months of the fiscal year. Considering a number of new initiatives including opening up of new sources such as capital gains tax (CGT) and expanding tax net for VAT and advance income tax (AIT), the NBR should be able to meet its targets.

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**Non-NBR Components**

It is projected in the revised budget of FY2009-10 that collection through other two components of revenues (non-NBR tax and non-tax) will improve during the last quarter of FY2009-10. The trends of first three quarters, however, indicate that currently the revenue collection by non-NBR and non-tax components are lower than what was projected (perhaps by about 3 per cent). This shortfall will mean that higher growth rates (26 per cent) will be required compared to what has been projected in the budget of FY2010-11 (9.6 per cent) to reach the target. The likely deficit originating from non-NBR revenue sources may once again undermine the overall revenue collection effort in FY2010-11.

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## 2.2.2 Public Expenditure

The budget for FY2010-11 proposed an expenditure target of Tk. 132,170 crore which is 19.6 per cent or Tk. 21,647 crore higher than the revised budget for

[2]The growth targets for these three components of NBR tax revenue will be lower since the achieved results were better than what was expected.

[3]The final figure for revenue collected from import duties in FY2009-10 implies that the growth rate target for FY2010-11 will be much higher, at about 14.4 per cent.

FY2009-10 (Table 2.1). This indicates a faster expenditure growth target than for revenue mobilisation estimation of 16.8 per cent. The envisaged public expenditure, 16.8 per cent of GDP in FY2010-11, is marginally higher than that of FY2009-10 (16 per cent in the revised budget). The higher growth rate of public expenditure accounted for significant increase in the annual development programme (ADP). In the total expenditure, the share of ADP and non-ADP expenditures accounted for 29.1 per cent and 70.9 per cent respectively in FY2010-11 compared to 25.8 per cent and 74.2 per cent respectively in FY2009-10.

**Table 2.1: Sector-wise Distribution of Total Expenditure**

| Sector | Share in FY2010 (RB) | Share in FY2011 (B) | Change in FY2011 (B) over FY2010 (RB) | |
|---|---|---|---|---|
| | % | % | Crore Tk. | % |
| Fuel and Energy | 3.4 | 4.6 | 2328.0 | 61.5 |
| Public Service | 12.3 | 14.2 | 5215.0 | 38.4 |
| Industrial and Economic Services | 0.8 | 0.9 | 315.0 | 34.8 |
| Recreation, Culture and Religious Affairs | 1.1 | 1.2 | 373.0 | 31.7 |
| Transport and Communication | 6.2 | 6.7 | 1993.0 | 29.1 |
| Social Security and Welfare | 7.3 | 7.3 | 1604.0 | 19.9 |
| Health | 6.2 | 6.2 | 1296.0 | 19.0 |
| Local Government and Rural Development (LGRD) | 8.3 | 8.2 | 1730.0 | 18.9 |
| Defence Services | 7.1 | 6.9 | 1300.0 | 16.5 |
| Education and Technology | 14.6 | 13.9 | 2206.0 | 13.6 |
| Agriculture | 9.7 | 8.6 | 646.0 | 6.0 |
| Housing | 1.1 | 1.0 | 23.0 | 1.8 |
| Public Order and Safety | 6.1 | 5.2 | 122.0 | 1.8 |
| Interest Payments | 13.3 | 11.1 | 63.0 | 0.4 |
| Total Expenditure | 100.0 | 100.0 | 21647.0 | 19.6 |

**Source:** Estimated from MoF (2010) data.

**Note:** B denotes Budget, and RB denotes Revised Budget throughout the Chapter.

### Sectoral Allocation

A sector-wise analysis of total expenditure (development and non-development) reveals that the highest growth in terms of resource allocation has taken place in the Fuel and Energy sector (61.5 per cent), followed by Public Service sector (38.4 per cent) over the respective revised allocations of FY2009-10. Higher allocation for Fuel and Energy sector may have originated from large-scale development expenditure planned for the Power Division coupled with the consequent higher subsidy requirement. Expenditures on Industrial and Economic Services sector, Recreation, Culture and Religious Affairs sector, and Transport and Communication sector are also projected to post significant growth of 34.8 per cent, 31.7 per cent and 29.1 per cent respectively. However, allocation for Interest Payments may need to be revised upward from the projected growth of only 0.4 per cent (Table 2.1).

**Table 2.2: Economic Classification of Revenue Expenditure**

*(in Per cent)*

| Indicator | Share in FY2010 (RB) | Share in FY2011 (B) | Change in FY2011 (B) over FY2010 (RB) |
|---|---|---|---|
| Pay and Allowances | 23.82 | 25.98 | 19.52 |
| Goods and Services | 13.54 | 13.28 | 7.43 |
| Interest Payments | 20.47 | 18.76 | 0.43 |
| Domestic | 18.52 | 16.92 | 0.12 |
| Foreign | 1.94 | 1.83 | 3.38 |
| Subsidies and Current Transfers | 39.03 | 37.99 | 6.66 |
| Block Allocation | 0.84 | 1.88 | 146.32 |
| Deduction | -1.68 | -1.95 | 27.14 |
| Recoveries | -1.68 | -1.95 | 27.14 |
| Acquisition of Assets and Works | 3.98 | 4.07 | 11.89 |
| Total Augmented Non-Development Revenue Expenditure | 100.00 | 100.00 | 9.58 |

**Source:** Estimated from MoF (2010) data.

### Revenue Expenditure

Revenue expenditure (augmented) has been set at Tk. 78,420 crore[4] in FY2010-11 with a 9.6 per cent growth over the revised target of FY2009-10 (Table 2.2). This is Tk. 6,858 crore higher than the previous fiscal year. Pay and Allowances head absorbed about half (Tk. 3,327 crore) of the incremental share in revenue expenditure (48.51 per cent). This is perhaps a

[4]This includes recovery of Tk. 1,532 crore from various sources. Deduction of this figure would lead to the revised expenditure upward figure of Tk. 79,952 crore.

reflection of the earlier government pledge of full implementation of the new pay-scale announced in the FY2008-09 budget. This, however, expected to be a one-shot increase. The other notable incremental shares are contributed by Subsidies and Current Transfers (27.1 per cent), and Block Allocation (12.8 per cent). The share of these three major heads (including Pay and Allowances, Subsidies and Current Transfers, and Interest Payments) in total augmented revenue expenditure will however reduce to 82.7 per cent in FY2010-11 from the 83.3 per cent in FY2009-10. The substantial increase in Block Allocation (compared to the revised budget of previous year) is normal and expected to be slashed down once the revised budget has been prepared. Apart from these shifts, there are no other major changes in the share of allocations for various sectors as part of the revenue expenditure plan.

*There are no unexpected major changes in the share of allocations for various sectors as part of the revenue expenditure plan*

Allocation for Domestic Interest Payments experienced a decelerated growth by 0.12 per cent in FY2010-11 compared to the growth of 20.6 per cent in the last fiscal (FY2009-10), while Foreign Payments has risen steadily. Downward revision of interest rate on National Savings Bond (NSD) certificates and the proposed tax on income from these savings instruments are expected to slack the growth of savings certificates. The lower projection of the growth of Interest Payments from domestic sources may have been induced by the aforesaid policy change on NSD certificates.

**Annual Development Programme (ADP)**

The ADP for FY2010-11 has been targeted at Tk. 38,500 crore (4.9 per cent of the projected GDP). The new ADP will be 26.2 per cent higher than the original ADP of FY2009-10 and 35.1 per cent higher than the revised ADP (RADP) of FY2009-10. According to a CPD estimate, a realistic assumption for actual ADP expenditure in FY2009-10 would be around Tk. 25,650 crore. Thus the new ADP could be 50.1 per cent higher than the projected ADP expenditure, which is impressive by any measure. Project aid component of the new ADP is targeted at 40 per cent (which was 42.1 per cent in the original ADP of FY2009-10), while the local currency share will be 60 per cent (57.9 per cent in ADP of FY2009-10). The five priority sectors in the ADP for FY2010-11 accounts for 62.4 per cent of the total allocation (Table 2.3).

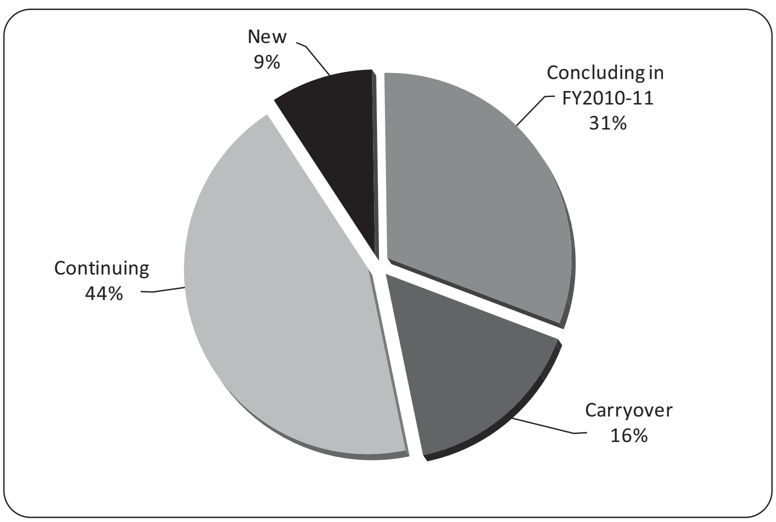
**Table 2.3: Sectoral Allocation for Top Five Sectors in ADP for FY2010-11**

| Sector | Share in FY2010 (ADP) | Share in FY2010 (RADP) | Share in FY2011 | Growth over FY2010 RADP |
|---|---|---|---|---|
| Transport | 15.3 | 13.6 | 14.3 | 42.1 |
| Education and Religious Affairs | 13.6 | 15.4 | 13.5 | 17.8 |
| Power | 11.7 | 9.3 | 13.0 | 89.4 |
| Rural Development and Institutions | 11.9 | 14.0 | 11.4 | 11.3 |
| Health, Nutrition, Population and Family Welfare | 10.6 | 10.5 | 10.2 | 31.5 |

**Source:** Estimated from Planning Commission (2010) data.

In all, there are 910 projects in the ADP for FY2010-11. Among these, 148 are carried over from the previous periods, 432 are to be completed in FY2010-11, and 330 (including 94 new projects) are scheduled to be continued beyond FY2010-11. An overall analysis of all the 910 projects included in the ADP shows that projects with 47 per cent of the total allocation

**Figure 2.2: Structure of ADP in FY2010-11**




**Source:** Estimated from Planning Commission (2010) data.

should be completed by FY2010-11, while only 9.4 per cent of the total allocation is for the new projects (Figure 2.2). Thus, the opportunity for including new projects in the development programme for FY2011-12 is rather high.

An examination of the five priority sectors in the ADP shows that, similar to the overall structure, a high proportion of the ADP allocation is either for carried over projects from previous periods, or are earmarked for projects to be completed in FY2010-11 (Table 2.4). Notably, the Power and Education sectors have carryover projects which account for 29.1 per cent and 33.0 per cent of total allocations respectively. It is important to note that, without the carryover projects, the ADP for FY2010-11 would have been Tk. 32,841 crore or 85.6 per cent of the total allocation. It may be noted here that both the physical and social infrastructure sectors are lagging behind in terms of implementations of projects. In order to improve the implementation rate and resource utilisation, additional efforts should be put on sectors with relatively high proportion of carried over projects and projects to be completed in FY2010-11 (e.g. Health sector projects). The number of unapproved projects under ADP without allocation is significantly high in the FY2010-11 budget (797); some of these are expected to be approved gradually in the course of FY2010-11. Sequencing and prioritisation must be ensured in approving such projects.

**Table 2.4: Status of Projects in the Priority Sectors**

*(in Per cent)*

| Project Status | Rural Development | Power | Transportation | Education | Health |
|---|---|---|---|---|---|
| Carried over | 11.4 | 29.1 | 9.2 | 33.0 | 1.3 |
| Concluding in FY2010-11 | 38.1 | 19.2 | 23.3 | 7.8 | 74.4 |
| Continuing | 38.0 | 29.2 | 60.6 | 58.6 | 19.1 |
| New | 12.5 | 22.4 | 6.9 | 0.6 | 5.2 |

**Source:** Estimated from Planning Commission (2010) data.

Although 13 new ministries (raising the total to 33) have been brought under the Medium Term Budgetary Framework (MTBF), this loses its significance in view of the fact that, as of April of FY2009-10, the 20 Ministries under the MTBF had an average implementation rate of 56 per cent, lower than the overall average implementation rate of 59 per cent. This is also for the first time a number of projects (23 projects) under the PPP initiative, have been included in the ADP without any allocation. These projects are expected to be approved according to the PPP guidelines.

*The government may put emphasis on preparing action plans for the top 100 projects selected by the Planning Commission*

The government has taken a number of measures to improve the pace of implementation of the ADP in FY2009-10 including the amendments made to the Public Procurement Act (PPA) and the Public Procurement Rules (PPR). In order to increase the rate of implementation and to improve the efficacy of projects, the government may consider the following reform measures related to the ADP. Firstly, pursuing the critical path method (CPM) for monitoring project implementation mentioned in the budget for FY2009-10; result-based monitoring (RBM) system needs to be applied to monitor the amount of ADP allocation spent and the quality of output. The budget mentions about this. Secondly, the government may put emphasis on preparing action plans for the top 100 projects selected by the Planning Commission. In this context, power and infrastructure projects should receive highest priority. Thirdly, the plan for establishing a Planning and Budget Wing in each ministry mentioned in last year's budget speech should be implemented, at least in the top five ministries. Fourthly, emphasis needs to be put on projects that are to be completed by next year and those that are carried over from previous years. The Hon'ble Finance Minister has recently presented two interim reports on macroeconomic performance (in January and June, 2010) to the parliament. Detailed reviews of progress of ADP projects at the time of such reviews may help the monitoring of the implementation process. The importance of ADP implementation in FY2010-11 is high not only because of the crowding in of private investment, but also from the perspective of reducing the gap between the 'required demand' and the 'realised supply' for public investment in Bangladesh.

### 2.2.3 Budget Deficit and Financing

The revised budget for FY2009-10 projects an overall deficit (excluding grants) of Tk. 31,039 crore (4.5 per cent of GDP) for the fiscal year. With the possibility of the ADP not attaining its revised target, the final budget deficit figure for FY2009-10 is likely to be lower than the revised targets. For FY2010-11, once again, a larger deficit of Tk. 39,323 crore has been projected which is expected to be within 5.0 per cent of the GDP (Table 2.5). However, in view of the objective set out in the budget to take advantage of the anticipated global economic recovery and increased demand for investment in infrastructure, adoption of moderately higher deficit in FY2010-11 appears to be a justified policy choice. This is also needed to guard against any apprehension about the inflationary pressure.

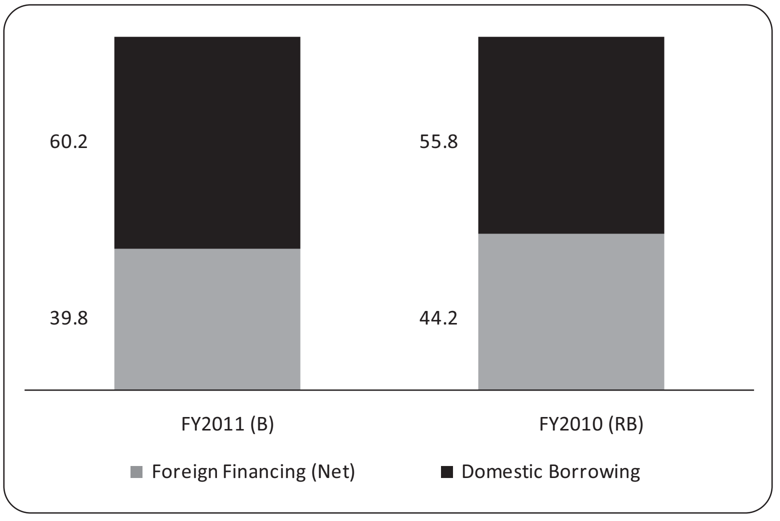
**Table 2.5: Fiscal Framework in Budget FY2010-11**

| Description | FY2010 (RB) | | FY2011 (B) | | Growth |
|---|---|---|---|---|---|
| | Crore Tk. | % of GDP FY2010 (B) | Crore Tk. | % of GDP FY2011 (B) | FY11 (B) over FY10 (RB) |
| Revenue Collection | 79484.0 | 11.5 | 92847.0 | 11.9 | 16.8 |
| Total Expenditure | 110523.0 | 16.0 | 132170.0 | 16.9 | 19.6 |
| ADP | 28500.0 | 4.1 | 38500.0 | 4.9 | 35.1 |
| Non-ADP | 82023.0 | 11.9 | 93670.0 | 12.0 | 14.2 |
| Overall Deficit (excluding Grants) | 31039.0 | 4.5 | 39323.0 | 5.0 | 26.7 |
| **Financing** | | | | | |
| Foreign Grants | 3742.0 | 0.5 | 4809.0 | 0.6 | 28.5 |
| Foreign Loan (Net) | 9972.0 | 1.4 | 10834.0 | 1.4 | 8.6 |
| Foreign Loan | 14492.0 | 2.1 | 15968.0 | 2.0 | 10.2 |
| Amortisation | 4520.0 | 0.7 | 5134.0 | 0.7 | 13.6 |
| Domestic Borrowing | 17325.0 | 2.5 | 23680.0 | 3.0 | 36.7 |
| Bank Borrowing (Net) | 8661.0 | 1.3 | 15680.0 | 2.0 | 81.0 |
| Non-bank Borrowing (Net) | 8664.0 | 1.3 | 8000.0 | 1.0 | -7.7 |
| Total Aid Requirement (Net) | 13714.0 | 2.0 | 15643.0 | 2.0 | 14.1 |
| Total Aid requirement (Net, bln USD) | 2.0 | - | 2.3 | - | 15.2 |
| Total Aid requirement (Gross) | 18234.0 | 2.6 | 20777.0 | 2.7 | 13.9 |
| Total Aid requirement (Gross, bln USD) | 2.6 | - | 3.0 | - | 15.1 |
| GDP | 690571.0 | | 780290.0 | | |

**Source:** Estimated from MoF (2010) data.

With regard to financing of the deficit projected for the budget of FY2010-11, it may be noted that about 60.2 per cent of the total deficit (Tk. 23,680 crore) is earmarked to be financed through domestic borrowing (from bank and non-bank sources). The remainder 39.8 per cent (Tk. 15,643 crore) is supposed to come from foreign sources that includes loans and grants (Figure 2.3).

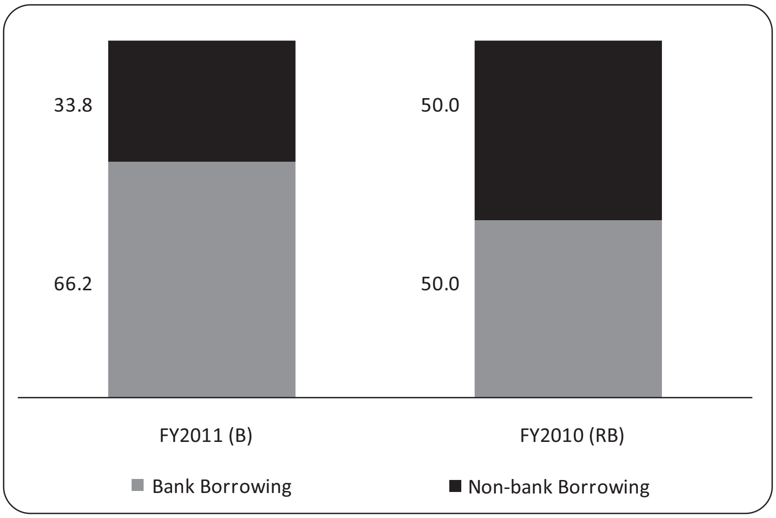
**Figure 2.3: Sources of Deficit Financing**




**Source:** Estimated from MoF (2010) data.

Of the domestic sources (Tk. 23,680 crore) Tk. 15,680 crore will be sourced through borrowing from the banking system (about 66.2 per cent) in FY2010-11 (Figure 2.4). The rest (Tk. 8,000 crore or 33.8 per cent of total domestic financing) will be mobilised from non-banking sources, which is mostly comprised of sales of NSD certificates. It

**Figure 2.4: Sources of Domestic Financing**




**Source:** Estimated from MoF (2010) data.

may be mentioned here that the share of banking and non-banking finance was equal (50 per cent each) in the revised budget for FY2009-10. This is indicative of the government's conscious effort to reduce non-bank borrowing. This may help contain the high expenditure on account of interest payment on NSD certificates.[5] However, crowding out impact on private borrowing from banks and inflationary trends should be monitored very closely.

Gross projected aid required from foreign sources is set at Tk. 20,777 crore in FY2010-11, which is about USD 3.0 billion. Net foreign financing, required for FY2010-11, will be Tk. 15,643 crore (about USD 2.3 billion) which is about 14.1 per cent more than the revised budget of FY2009-10 (Table 2.5). Utilisation of these resources will be highly challenging for the government and much will depend on the pace of ADP implementation of foreign-aided projects.

## 2.3 OVERVIEW OF FISCAL MEASURES

The budeget for FY2010-11 focuses on expansion of tax net. Thus efforts towards revenue generation from domestic sources will need to be further strengthened. Various new moves have been initiated in the budget towards broadening of the tax net of both income tax and VAT. Several measures have also been mentioned to expedite reforms in the tax administration in the next fiscal year.

*Utilisation of resources will depend on the pace of ADP implementation of foreign-aided projects*

### 2.3.1 Tax and Duty Measures

**Income Tax: Personal**

The level of tax-free income and all tax slabs remain unchanged in the budget for the last three consecutive years. Given the increase in annual inflation rates, income tax deserves a revisit since purchasing power of people with low and of fixed income erodes with inflationary pressure. This is also justified on the ground that social protection measures are not strong in Bangladesh compared to developed countries where threshold level tax-free income are lower when compared with average income levels.

*Various new moves have been initiated in the budget towards broadening of the tax net of both income tax and VAT*

**Income Tax: Corporate**

No change has been proposed in the budget with regard to the corporate tax structure and incentives. Tax holiday for industries engaged in manufacturing solar panel, energy saving bulb has been proposed with a view to reducing energy consumption. Assistance to schools and colleges under Monthly Pay Order (MPO), for improving the quality of computer and English education, and on donations

[5]To materialise this policy, the government later slashed the interest rates for most of its NSD savings instruments. Discontinuation of tax exemption for earnings from NSD certificates may also reduce government's borrowing from non-banking sources.

made to conduct camping for voluntary sterilisation will be considered as corporate social responsibility (CSR) activity, and will be eligible for tax rebate.

**Income Tax: Special Benefits**

For capital gains in the share market, tax will be imposed on companies (10 per cent), sponsor shareholders or directors of a listed company (5 per cent), and premium value of shares of companies (3 per cent). This will likely to help expand the tax collection effort of the government since a large section of the people engaged in the agricultural and rural economy is out of the tax net. The exclusion of individual income from the capital market tax net at this stage may have been a good decision in view of its likely adverse impact on those investors in the capital market. However, individual income from capital market should be brought under tax net in the near future in view of the need for cooling down the overheated market. The present move to impose tax on a few types of income of the share market would prepare the individual investor to face such imposition on their incomes in future.

*Individual income from the capital market tax net at this stage may have been a good decision in view of its likely adverse impact on those investors in the capital market*

Investment has been allowed for purchase of Bangladesh Infrastructure Finance Fund (BIFF) bonds, up to June 2012 by paying tax at a rate of 10 per cent. This has in reality created an opportunity for legalisation of undisclosed money since no question will be asked regarding the source of the investible capital. There should be clarity as to what will be the investment opportunity for those who have already paid tax at the existing rate and are willing to invest in BIFF bonds.

**Value Added Tax (VAT)**

*Some of the VAT measures will have negative impact on consumers*

New VAT measures proposed in the budget are expected to encourage development of a number of sectors. For example, enhancement of annual turnover threshold to Tk. 60 lakh from the existing Tk. 40 lakh to enjoy turnover rate of 4 per cent will hopefully encourage the small and medium enterprise (SME) business. VAT exemption on waste paper at import stage will help keep the newsprint prices low. Tax-free import of all types of medical equipments and wheelchairs for sick and paralysed travellers is a noble gesture in the budget.

However, some of the VAT measures will have negative impact on consumers. Increasing VAT rate from truncated to actual (15 per cent) on services provided by

**Table 2.6: Changes in Some Tax Measures**

| Item | Duty/Tax | FY2009-10 (%) | FY2010-11 (%) | Change | Implication |
|---|---|---|---|---|---|
| Milk powder | Import duty<br>Regulatory duty | 12<br>5 | 5<br>0 | Decreased | Expected to reduce price of milk |
| Air conditioner parts imported by VAT registered industries | SD | 45 | 20 | Decreased | Expected to be cheaper |
| Television parts imported by commercial firms | SD | 0 | 20 | Increased | Protection of local industry |
| Parts for energy saving lamps imported by VAT registered industries | CD | 0 | 0 | Unchanged | Encourage VAT registered industries |
| Parts for energy saving lamps imported by commercial firms | CD | 0 | 12 | Increased | Will create pressure to be VAT registered |
| Energy saving light with blast and fittings | SD | 60 | 0 | Decreased | Expected to reduce energy consumption |

*(Table 2.6 contd.)*

*(Table 2.6 contd.)*

| Item | Duty/Tax | FY2009-10 (%) | FY2010-11 (%) | Change | Implication |
|---|---|---|---|---|---|
| Solar operated storage waterheater | CD | 25 | 12 | Decreased | Will encourage to use solar power |
| Paper/paper backed aluminium foil | SD | 20 | 30 | Increased | Protect local industry |
| Surface coloured paper/paper board | SD | 20 | 30 | Increased | Protect local industry |
| Import of completely built-up (CBU) diesel, petrol and CNG buses having 40 seats | | | 15 | Imposition | Will support local industry |
| Both CBU and completely knocked down (CKD) motorcycle | | 20 | 30 | Increased | Encourage growth of local industry |
| Raw tobacco | Export tax | 0 | 10 | New imposition | Will discourage cultivation of tobacco |
| Cars from 1001 cc to 1500cc<br>Cars from 1501cc to 1650cc<br>All other cars above 1651 cc | SD<br>SD<br>SD | 30<br>100<br>100 and above | 45<br>45<br>100 and above | Increased<br>Decreased<br>Unchanged | Cars with 1501 to 1650cc will be less costly while that of 1001 to 1500cc will be more costly |
| Manufacturers of refrigerator, freezer, motorcycle | VAT | | 0 | Withdrawal for 4 years | Protection of local industry |
| Microbus with cylinder capacity up to 1800 cc | SD | 20 | 30 | Increased | Discourage smaller vehicles to reduce traffic jam |
| CKD motorcar jeep, station wagon (excluding three wheeler) | SD | 30 | 45 | Increased | Protect local industry |

**Source:** Budget document of FY2010-11, Ministry of Finance (MoF).

dockyard, advertising agency, printing press, courier service, consultancy and supervisory firms, audit and accounting firm are likely to increase company's cost of doing business to a considerable extent. The proposal to impose VAT at the rate of 4.5 per cent on private universities and English medium schools is likely to raise the cost of education since this tax burden will ultimately be shifted to the guardians of students. Table 2.6 presents some of the changes proposed in the budget for FY2010-11 with their possible impact.

### 2.3.2 Impact of Changes in Tariff Slab

*According to CPD estimates, if the import value of FY2008-09 is taken as the base value and FY2010-11 tariff structure is applied on this, the government revenue earnings will increase by about Tk. 4,540.6 crore (19.8 per cent) compared to FY2009-10 (which include CD, SD, regulatory duty and VAT)*

Changes proposed in the budget will have an impact on import duty earnings for a number of products. According to CPD estimates, if the import value of FY2008-09 is taken as the base value and FY2010-11 tariff structure is applied on this (import value), the government revenue earnings will increase by about Tk. 4,540.6 crore (19.8 per cent) compared to FY2009-10 (which include CD, SD, regulatory duty and VAT). This additional revenue collection is subject to the achievement of import growth as projected, and that the composition of import structure remains the same as in FY2008-09.

### 2.3.3 Measures to Improve Tax Administration

A number of measures have been announced in the budget to enhance the tax net and raise revenues both through the income tax and VAT. Some of these include: e-filing of income tax returns albeit on a limited basis; instalment of tax calculator software on the website of NBR; restructuring of manpower and strengthening of logistics in the income tax department; motivational programme for income taxpayers and VAT payers; introduction of 2-page income tax return form; introduction of tax card for highest taxpayers; initiation of e-VAT software; reforms in the judiciary process for easy settlement of VAT-related cases; massive reforms in VAT administration including setting up of more VAT offices and recruit officials, setting up of VAT offices in each upazila with four staff including one inspector and one data entry operator. All these are positive initiatives which will hopefully help marshal additional tax revenues in FY2010-11. However, implementation of these will require transparency, accountability, efficiency and motivation at all levels of the administration.

## 2.4 PUBLIC-PRIVATE PARTNERSHIP (PPP)

*A number of measures were taken by the government to realise the PPP agenda on the ground*

The PPP initiative has been conceived in the budget of FY2010-11 as a key mechanism to stimulate investment and to mobilise the comparative advantages of public and private sectors with regard to mobilisation of resources and finance accumulated knowledge, experience and access to technology. This was considered to be important if Bangladesh was to achieve a GDP growth of 8 per cent by FY2013-14. In FY2009-10, the government was not able to make any discernible progress in using the allocated amount of Tk. 2,500 crore. As a consequence, it was not possible to attain the target of generating Tk. 7,000 crore investment for PPP programmes from the private sector. Rather, Tk. 500 crore was slashed from the allocation in the RADP. The PPP's share in budget FY2010-11 is 2.2 per cent (similar to the previous budget). Later on, a number of measures were taken by the government to realise the PPP agenda on the ground. These include: inclusion of 23 PPP projects in the ADP; provision for infrastructure depreciation allowance for PPP projects; establishment of the BIFF by September 2010; setting up an office for the PPP; and designing of a PPP Book to help develop a medium-term framework for the PPP programme of action. Some of these will need further follow-up actions.

*The budget FY2010-11 stipulates that bonds are to be issued after the BIFF is constituted and this will be available for investment till FY2011-12, subject to payment of taxes at 10 per cent*

It needs to be recalled here that Bangladesh has received good credit rating following the review by *Standard and Poor (S&P)* and *Moody*. The BIFF would hopefully benefit from this. The budget FY2010-11 stipulates that bonds under this fund are to be issued after the BIFF is constituted and this will be available for investment till FY2011-12, subject to payment of taxes at 10 per cent. The PPP Office is perceived to be a bridge between private and public actors, and it is expected to play a pivotal role in the context of harmonising the dichotomy between public and private interests. This Office could consider establishing a website containing all the relevant (forms and agreements) and up-to-date information concerning PPP projects, in accordance with sectoral programmes.

*It is anticipated that the new PSP3 will engineer a comprehensive framework with regard to administration, regular monitoring and sound accountability to ensure financial sustainability and transparency*

In order to kick-off the PPP agenda, the government will need to finalise the PSP3 speedily where measures will need to be adopted to maintain financial transparency relating to both ADP and non-ADP related PPP projects. This is imperative from the perspective of reducing the scope for leakages and ensuring fiscal legitimacy. It is anticipated that the new PSP3 will engineer a comprehensive framework with regard to administration, regular monitoring and sound accountability to ensure financial sustainability and transparency. Transparency modalities as regards profit-sharing, allocation of risks, responsibilities, mode of operation in terms of ownership structure (Build-Own-Operate (BOO); Build-Operate-Transfer (BOT); Build-Own-Operate-Transfer (BOOT)) should be incorporated in the envisaged PSP3 to reduce uncertainty and facilitate project implementation.

It is assumed that once the PSP3 comes into effect, the ongoing PPP projects under Infrastructure Development Company Limited (IDCOL) will be automatically put under its command. However, there are a number of ambiguities with regard to conceptual and institutional framework which will need to be accommodated within the new PPP policy. With an initial capital of Tk. 1,600 crore from the PPP allocation of Tk. 3,000 crore (the government had earlier proposed to provide this equity fund to IDCOL), the BIFF can be expected to either replace IDCOL and take over its mandate or get integrated in order to deploy the latter's experience and knowledge in funding PPP projects. Also, the relative role of IDCOL and its subsidiaries, Investment Promotion and Financing Facility (IPFF) and Infrastructure Investment Facilitation Centre (IIFC), will need to be clarified when the PSP3 is implemented.

*In the medium-term, from the social equity and justice perspectives, the government could think of developing a legal framework to legitimise the PPP agenda*

Finally, in the medium-term, from the social equity and justice perspectives, the government could think of developing a legal framework to legitimise the PPP agenda where lessons can be drawn from Mauritius, which has both a PPP Act laying out the principles guiding public-private relations and also a comprehensive document dictating the PPP programmes of action. This would help to provide both the parties with necessary legal coverage and protect their interests in times of political instability.

## 2.5 SECTORAL MEASURES

### 2.5.1 Agriculture

*Concrete targets for seed delivery, subsidy for fertiliser and other inputs, and agricultural credit have been mentioned in the current budget document*

The national budget for FY2010-11 has taken some concrete steps towards strengthening ongoing agricultural development programmes and introduced some new programmes for agriculture and allied sectors (crops, livestock, fisheries, forestry, land and water resources). Concrete targets for seed delivery, subsidy for fertiliser and other inputs, and agricultural credit have been mentioned in the document. It has also proposed actions for expansion of surface water irrigation, establishment of new storage facilities for foodgrains, improvement in marketing of agricultural goods, and introduction of agricultural insurance for farmers.

**Allocation for Agriculture and Allied Sectors**

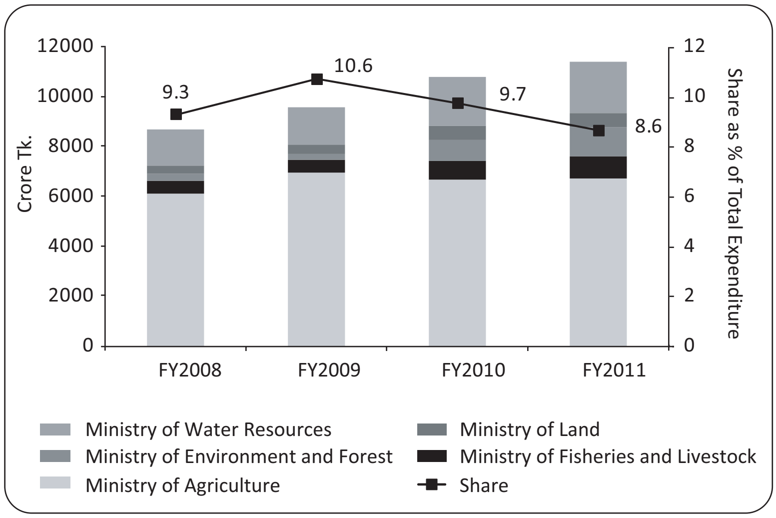
*The share of allocation for the MoA in the total budget for FY2010-11 has decreased to 5.1 per cent from 6.1 per cent in the revised budget of FY2009-10, and 7.8 per cent in the budget of FY2008-09*

The Finance Minister in his budget speech mentioned that Tk. 7,492 crore has been allocated for the Ministry of Agriculture (MoA) in FY2010-11, but the *Budget in Brief* showed an allocation of Tk. 6,738 crore (MoF 2010). This anomaly needs to be clarified to ensure consistency in the national budget. The Budget in Brief has reported detailed allocation for all ministries including for MoA in FY2010-11. The present analysis has been carried out on the basis of data provided in the Budget in Brief. Allocation for the MoA (Tk. 6,738 crore) is 0.6 per cent higher than the allocation in the revised budget of FY2009-10 (Tk. 6,696 crore), and 13 per cent higher than the budget of FY2009-10 (Tk. 5,965 crore), but 3.4 per cent lower than that of FY2008-09 (Tk. 6,977 crore). The share of allocation for the MoA in the total budget for FY2010-11 has decreased to 5.1 per cent from 6.1 per cent in the revised budget of FY2009-10, and 7.8 per cent in the budget of FY2008-09.

Allocation for the Ministry of Fisheries and Livestock in FY2010-11 is Tk. 859 crore which is 18.5 per cent higher than the allocation in the revised budget of FY2009-10 (Tk. 725 crore), 20.0 per cent higher than the budget of FY2009-10 (Tk. 716 crore), and 69.1 per cent higher than that of FY2008-09 (Tk. 508 crore). Allocation for the Ministry of Water Resources in FY2010-11 is Tk. 2,049 crore which is 5 per cent higher than the revised budget of FY2009-10 (Tk. 1,952 crore), 38.2 per cent higher than budget of FY2009-10 (Tk. 1,483 crore), and 40.2 per cent higher than that of FY2008-09 (Tk. 1,461 crore).

Total allocation for agriculture and allied sectors (crops, livestock, fisheries, forestry, land and water resources) is Tk. 11,409 crore which is 6 per cent higher than the revised budget of FY2009-10 (Tk. 10,763 crore), 27.5 per cent higher than the budget FY2009-10 (Tk. 8,950 crore), and 19.4 per cent higher than the budget of FY2008-09 (Tk. 9,557 crore). Allocation in the revised budget of FY2009-10 exceeded that of the original budget due to upward revision of the allocation for agricultural subsidy. However, the share of allocation for the agriculture and allied sectors in the total budget has been reduced during the last two years, from 10.62 per cent in FY2008-09 to 9.7 per cent in FY2009-10, and then to 8.6 per cent in FY2010-11 (Figure 2.5). The declining tendency in the allocation for agriculture as a share of total budget may undermine the government's goal of achieving food self-sufficiency by 2012 and ensuring food security for all citizens of the country.

**Figure 2.5: Total Budget and Budgetary Share (Development and Non-development) to the Agriculture and Allied Sectors**




**Source:** Budget document of FY2010-11, Ministry of Finance (MoF).

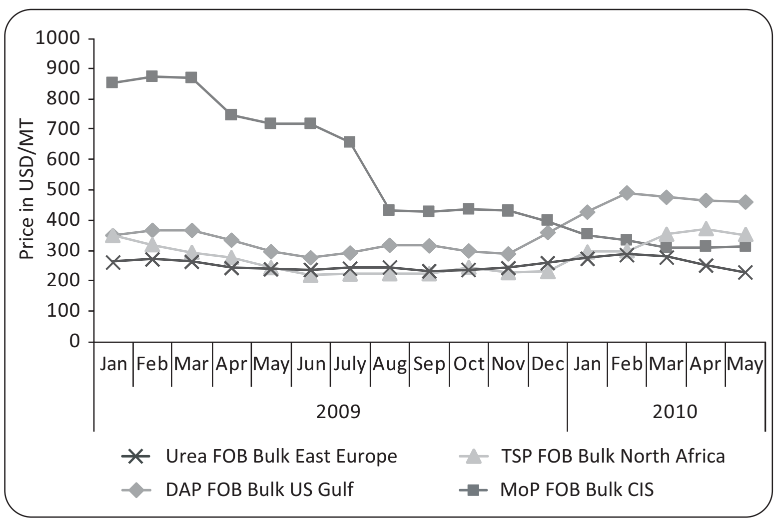
ADP allocation for agriculture in FY2010-11 is Tk. 2,495.11 crore which was 6.5 per cent of the total ADP allocation. This is 38.5 per cent higher than the ADP allocation in revised budget of FY2009-10 (Tk. 1,801.34 crore), 47 per cent higher than the actual ADP of FY2009-10 (Tk. 1,697.62 crore), and 102 per cent higher than the actual ADP of FY2008-09 (Tk. 1,235.2 crore).

*An amount Tk. 4,000 crore has been allocated as subsidy for fertiliser and other agricultural inputs in FY2010-11*

**Subsidy for Fertilisers and Inputs**

An amount Tk. 4,000 crore has been allocated as subsidy for fertiliser and other agricultural inputs in FY2010-11, which is 11.1 per cent higher than the proposed budget in FY2009-10 (Tk. 3,600 crore), but 19.2 per cent and 30.9 per cent lower than the revised budget of FY2009-10 (Tk. 4,950 crore) and FY2008-09 (Tk. 5,785 crore), respectively. In May 2010, prices of urea, triple super phosphate (TSP), muriate of potash (MoP) and diammonium phosphate (DAP) were USD 230, 354, 315 and 461 per metric ton (MT) respectively. Between May 2009 and May 2010, international prices of fertilisers saw substantial changes (Figure 2.6). Prices of urea and MoP decreased by 5 per cent and 56 per cent, whilst prices of TSP and DAP increased by 44 per cent and 55 per cent. Considering the volatility in the international price of fertilisers, actual subsidy for fertiliser may require an upward revision. CPD estimates show that if administered prices of fertilisers remain the same and international prices prevail at the level of May 2010, then the government

**Figure 2.6: International Prices of Fertilisers (Urea, DAP, TSP and MoP): January 2009 - May 2010**




**Source:** Commodity Market Review, The Pink Sheet (various issues), World Bank.
**Note:** FOB refers to free on board.

**Table 2.7: Projection on Fertiliser Subsidy Requirement (for Planned Amount of Fertiliser Distribution with Current Administered Price)**

| Fertiliser | Source | Price (USD/MT) | Insurance and Freight Charge (USD/MT) | Imported Cost (USD/MT) | Cost (Tk./kg) | Administered Price (Tk./kg) | Quantity (Lakh MT) | Subsidy Requirement (Crore Tk.) |
|---|---|---|---|---|---|---|---|---|
| DAP | China | 460.60 | 50.00 | 510.60 | 35.38 | 30.00 | 3.80 | 204.61 |
| Urea | China | 229.60 | 60.00 | 289.60 | 20.07 | 12.00 | 20.31 | 1638.87 |
| | Bangladesh | | | | 9.00 | 12.00 | 8.00 | -240.00 |
| TSP | Tunisia | 353.80 | 100.00 | 453.80 | 31.45 | 22.00 | 5.60 | 529.11 |
| MoP | Belarus | 315.00 | 100.00 | 415.00 | 28.76 | 25.00 | 4.90 | 184.22 |
| Total | | | | | | | 42.61 | 2316.81 |

**Source:** CPD estimation.

may require Tk. 2,316.81 crore as fertiliser subsidy to meet its projected fertiliser demand of 42.61 lakh MT in FY2010-11 (Table 2.7).

**Production and Distribution of Seeds**

In order to ensure quality seed supply the budget has announced a target to produce and distribute more than 2.03 lakh MT of seeds through the Bangladesh Agricultural Development Corporation (BADC) and Department of Agricultural Extension (DAE). It has also proposed to expand seed storage capacity from 0.4 lakh MT to 1.0 lakh MT which is expected to further strengthen the existing seed delivery system. The budget has also set a target to expand hybrid paddy area to 12 lakh hectares of land which, however, appears to be rather very ambitious since the target is more than double of the existing area for this crop. To achieve this goal, the government will have to demonstrate highest level of effort and efficiency. In addition, the budget has proposed to promote salinity resistant BRI-47 variety of rice in about 5.0 lakh hectares of land in FY2010-11, which was 0.6 lakh hectares in FY2009-10. This appears to be an achievable target since farmers will be able to use their own seed.

*The budget has also set a target to expand hybrid paddy area to 12 lakh hectares of land which, however, appears to be rather very ambitious since the target is more than double of the existing area for this crop*

**Agricultural Research**

There are no new allocations for agricultural research in the FY2010-11 budget. The budget proposed that the existing Endowment Fund of Tk. 412 crore will be used in the coming fiscal year for research on crop diversification. Efficient and timely use of these funds will be needed for quality agricultural research on generating improved technology. Adequate funds for agricultural research will be the key to development of new technologies.

*Adequate funds for agricultural research will be the key to development of new technologies*

**Fair Price for Agricultural Products**

The budget has mentioned that the government is taking steps to organise Farmers Marketing Group and Farmers Club throughout the country to ensure fair price for agricultural products. In addition, 128 agro-markets at the upazila level and 30 such bazaars at the district level will be established. Considering the difficulties that farmers face in getting fair price, these are timely initiatives. However, these steps are inadequate to cater to the need of the entire country.

**Agriculture Insurance**

The budget has proposed to initiate Agriculture Insurance scheme for small and medium farmers in order to provide them with some support in the event of crop failure due to natural disaster. However, no specific allocation has been made for this purpose. It should be mentioned here that the main opposition party Bangladesh Nationalist Party (BNP) has also suggested introduction of insurance in agriculture in their pre-budget proposals. To implement the proposal, the government will have to set the required modalities on an immediate basis, and should specify the procedures to realise the scheme. It is apprehended that since there is no allocation for this initiative, the initiative may remain unimplemented in FY2010-11.

*The budget has mentioned about the construction of 139 godowns with 1.1 lakh MT storage capacity*

**Establishment of Godowns**

The budget has mentioned about the construction of 139 godowns with 1.1 lakh MT storage capacity. This is being implemented in the northern region of the country. Speedy completion of these godowns is urgently needed for food security of the country. It is pertinent to mention here that establishment of 333 godowns with a storage capacity of 2.19 lakh MT is yet to be passed by the Executive Committee of National Economic Council (ECNEC). Without expediting these projects, the government will not be able to materialise its plan for greater involvement in the Public Food Distribution System (PFDS).

In the current fiscal year, Bangladesh had experienced bumper harvest in potato and vegetables, but due to lack of cold storage facility farmers could not reap the benefit of this good output. In this backdrop, special allocation for establishing cold storages would have been very useful. However, no such allocation has been made in the budget for FY2010-11.

*Special allocation for establishing cold storages would have been very useful*

**Agricultural Credit**

The budget has proposed to distribute Tk. 12,000 crore as agricultural loans, which is 4.2 per cent higher than that of FY2009-10. Hopefully, increase in credit facility will be helpful to meet up farmers' financial needs. During July-April of FY2009-10, total amount of agricultural credit disbursed by commercial and specialised banks was Tk. 8,949.3 crore which was 78 per cent of the target. Also, an amount of Tk. 500 crore was distributed as collateral-free loans to the sharecroppers in 150 upazilas at 10 per cent interest rate through a special refinancing scheme with the BRAC.

**Surface Water Irrigation and Drainage Projects**

In FY2010-11, the budget has proposed an allocation of Tk. 300 crore to expand irrigation facilities in the southern region of Bangladesh, to mitigate water logging problems in the south-west region, and to promote multicrop production through draining out water in *haor* areas. It is an appreciable and much needed initiative. However, only 50 per cent of total allocation (Tk. 427 crore) for this purpose was spent during the first 10 months of FY2009-10.

*An amount of Tk. 500 crore was distributed as collateral-free loans to the sharecroppers in 150 upazilas at 10 per cent interest rate through a special refinancing scheme with the BRAC*

**Water Resources**

Allocation for development of water resources amounts to Tk. 2,049 crore in FY2010-11. This includes expansion of irrigation facilities, development of wet and *haor* land, reduction of salinity risk, prevention of river erosion and flood control, management of Ganges water, and ensuring supply of safe water in the rivers surrounding Dhaka. Though it is a good initiative, the success will depend on the implementation of the proposed projects, for which the track record is rather poor. During July-April of FY2009-10, only 50 per cent of the RADP allocation for water-related projects was spent.

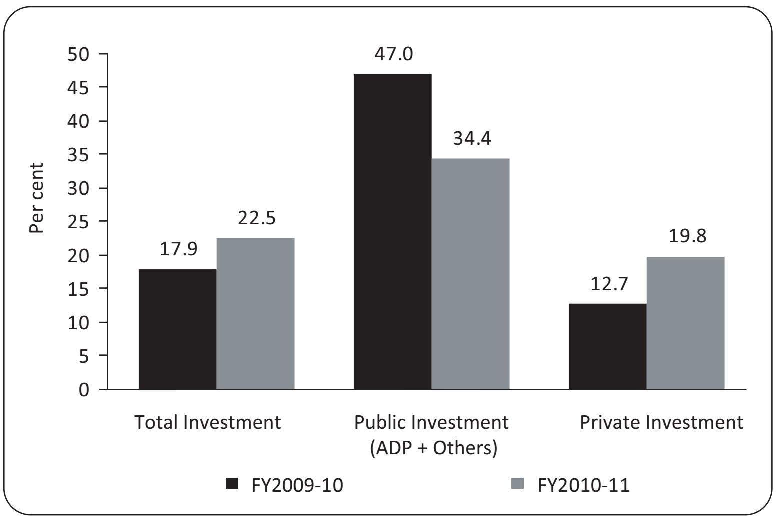
*An effort towards transforming the southern and coastal belt into the country's granary is visible in the budget*

In brief, an effort towards transforming the southern and coastal belt into the country's granary is visible in the budget. However, vision for promotion of high-value and water-efficient crops in the northern drought-prone regions have not been backed by the required budgetary allocation. In the budget of FY2010-11, the government has announced to formulate the *National Agricultural Policy 2010* by modifying *National Agricultural Policy of 1999*. This is a timely initiative. A set of issues that involve distribution of *khas* land, shifting of the production pattern, and meeting the impact of climate change needs to be addressed appropriately in the proposed agriculture policy.

### 2.5.2 Industry

In the backdrop of gradual deceleration of industrial growth over the last five years (from 10.8 per cent in FY2005-06 to 5.9 per cent in FY2009-10), the target of industrial growth at 9.0 per cent for FY2010-11 reflects government's intention to revert back to the earlier trends, which is crucial to attaining higher level of GDP growth. However, the sluggish growth of industrial sector in FY2009-10, if continued in the next year, would weaken the possibility to attain the targeted level. The national budget for FY2010-11 has set an investment target of Tk. 205,996 crore which is equivalent to 26.4 per cent of GDP. If this investment-GDP ratio is attained in FY2010-11, this would be somewhat above the trend level of 24.0 per cent. During FY2010-11, total investment is required to grow at a rate of 23 per cent (against that of 18 per cent in FY2009-10), where growth of public investment will have to be 34 per cent (vis-à-vis 47 per cent in FY2009-10), and that of private investment is to be 19.8 per cent (12.7 per cent in FY2009-10) (Figure 2.7).

**Figure 2.7: Growth in Investment**




**Source:** Estimated from MoF (2010) data.

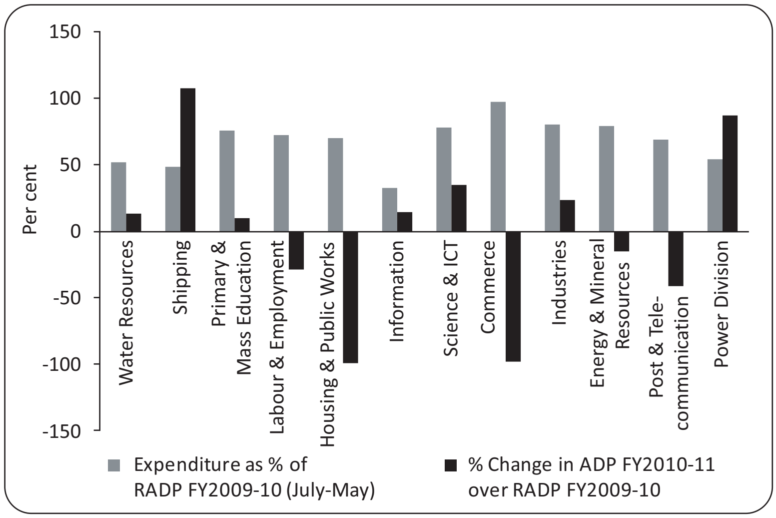
*Since there is a strong demand for higher level of public investment for the development of power and energy sector, and improvement of scarce and low quality human resources, proposed budget has allocated the highest amount of fund for these purposes*

The national budget for FY2010-11 has proposed an allocation of Tk. 39,694 crore as public investment, of which Tk. 38,500 crore is for ADP and Tk. 1,194 crore is for non-ADP development expenditure. Since there is a strong demand for higher level of public investment for the development of power and energy sector, and improvement of scarce and low quality human resources, proposed budget has allocated the highest amount of fund for these purposes. To elaborate, Tk. 5,794 crore has been allocated for the development of power and energy (15.8 per cent of total ADP), Tk. 4,634 crore for communication (12.0 per cent), and Tk. 9,317 crore for the development of human resources (24.2 per cent). As a result, allocation for various ministries responsible for the development of infrastructure and human resources has been well above the level of RADP of FY2009-10: Ministry of Shipping (107 per cent), Power Division (86 per cent), Science and Information and Communication Technology (ICT) (34 per cent), and Information (32 per cent) (Figure 2.8).[6] In this context, weak performance of ADP

[6]However, a number of ministries experienced a decline in their budgetary allocation: Labour and Employment (-28 per cent), Housing and Public Works (-99 per cent), and Energy and Mineral Resources (-15 per cent).

implementation of major infrastructure-related projects during FY2009-10, particularly for power, roads and railway, bridge, shipping and water resources sectors, raises serious concern as regards the capacity of the relevant ministries to fully utilise the extended ADP allocation in FY2010-11. From this point of view, it is envisaged that better implementation record of few ministries in FY2009-10 (65-80 per cent of RADP during July-May period) such as Industries, ICT, and Labour and Employment should rather be rewarded with higher allocation.

**Figure 2.8: RADP of FY2009-10 and ADP of FY2010-11 for Various Ministries**




**Source:** Estimated from Planning Commission (2010) data.

### Textiles and Apparels

Textiles and apparels has been one of the most adversely affected sectors due to the global financial crisis, particularly in FY2009-10. Government has allocated Tk. 2,000 crore under the second stimulus package as part of providing support to encourage export diversification (5 per cent additional cash incentive in FY2008-09, 4 per cent for FY2010-11, and 2 per cent for FY2011-12), 5 per cent additional cash incentive for SMEs against their apparels export in FY2008-09, and 10 per cent cash incentives on electricity bill for the period ended in June 2010 for SMEs which did not have captive generator facility. In view of adverse consequences confronted by the textiles and apparels sector, especially SMEs, these long-awaited incentive packages need to be implemented immediately.

*The ADP allocation for the Ministry of Textiles and Jute in FY2010-11 is largely targeted for infrastructure and human resources development*

The ADP allocation for the Ministry of Textiles and Jute in FY2010-11 is largely targeted for infrastructure and human resources development. Although Ministry's total ADP allocation (Tk. 103 crore) is 90.7 per cent higher compared to that of the RADP of FY2009-10, but the allocation to this Ministry is small, at only 0.26 per cent of total ADP of FY2010-11. Most of this is allocated for several ongoing projects, particularly upgradation of textiles institutes to textile colleges, establishment of 10 textile vocational institutes and strengthening of the National Institute of Textile Training Research And Design (NITTRAD) and Textile Strategic Management Unit (TSMU), etc. On the other hand, an allocation of Tk. 6.44 crore has been made for two new projects, such as upgradation of Barisal Textile Institute to textile engineering college and establishment of a *benarasi palli* at Rangpur. Timely implementation of these projects will contribute to meet the requirement of professionals and technical people for textiles and apparels sector. It is important to note that various unallocated and unapproved projects included in the ADP of FY2010-11 for this sub-sector (e.g. establishment of garment industrial park and textiles institute) will need to be approved subsequently, with adequate allocation. Demand from different trade bodies for creating an Industrial Police, particularly to service the industrial clusters, did not get reflected in the FY2010-11 budget.

*Demand from different trade bodies for creating an Industrial Police, particularly to service the industrial clusters, did not get reflected in the FY2010-11 budget*

It is a matter of fact that industrial sector in general, and readymade garments (RMG), textiles, jute and SMEs in particular, have been suffering significantly because of frequent power outages resulting in underutilisation of production capacity and additional cost for use of diesel to operate captive power plants (CPPs). Frequent power failure also causes damages to sophisticated industrial machineries. Besides, inadequate supply of gas has also emerged as a growing concern for industries that are dependent on gas. It is reckoned that the industrial sector should get priority with regard to distribution of additional electricity which is expected to be added to the national grid (792 MW (mega watt) in 2010 and 920 MW in 2011); this should also be same for the additional supply of gas. With regard to electricity and gas tariff, there is a need for further rationalisation of tariffs to reduce the fiscal deficit in the emerging budget. However, in this connection there has to be safeguard measures to address concerns of the low-income people. Also, any major revision in tariff rationalisation of electricity, particularly for industrial sector, should be adjusted in a manner so that it does not lead to significant cost escalation till the situation of power supply improves.

*With regard to electricity and gas tariff, there is a need for further rationalisation of tariffs to reduce the fiscal deficit in the emerging budget*

**Pharmaceuticals**

National budget for FY2010-11 has proposed withdrawal of VAT on various kinds of life-saving drugs and vaccines at import stage (e.g. HS code: 30.01-30.04), which is likely to reduce both import cost and retail prices of these drugs. Although Finance Minister in his budget speech has mentioned about the establishment of active pharmaceutical ingredient park, there is no ADP allocation for this in the FY2010-11 budget. At present there are two drug-testing laboratories in the country which are not adequately equipped with the required modern instruments and skilled human resources. In this context, inclusion of a new project for establishment of another drug-testing laboratory at Gopalganj in the ADP for FY2010-11 is a welcome initiative; however the project should be approved with necessary allocation. Besides, projects should be taken to provide appropriate storage facilities at international airports by setting up temperature-controlled rooms for life-saving drugs and vaccines.

**Leather**

*Establishment of Leather Industrial City has been delayed because of slow implementation of the project*

Sizable export growth of leather and footwear industries, at a time when global economic downturn was in full swing, however was not enough from the perspective of attaining export target during FY2009-10. In this context, announcement of cash incentive for crust leather at a rate of 5 per cent, though a delayed support, has contributed to improve the export competitiveness of the leather sector in the international market. Establishment of *Leather Industrial City* has been delayed because of slow implementation of the project. While the project timeline is already over, only 18.5 per cent of total allocation of the project has been spent, particularly for land development work and establishment of central effluent treatment plant. In view of increasing demand for meeting the international environmental standards, the Government of Bangladesh (GoB) should take adequate measures in order to ensure implementation of this project on an urgent basis.

**Beverages**

Beverages industry such as juice and energy drinks is to be excluded from facilities enjoyed by cottage industries. This sub-sector is now being subject to SD currently applied on other beverages as well as fruit drinks. Furthermore, fruit jam, jelly and juice industries have been brought under compulsory VAT registration irrespective of their annual turnover. This will hopefully contribute to the government ex-chequer.

*Beverages industry such as juice and energy drinks is to be excluded from facilities enjoyed by cottage industries*

**Small and Medium Enterprise (SME)**

Government's efforts to develop the SME sector during FY2010-11 will be benefitted from various targeted initiatives undertaken in FY2009-10. These include Tk. 23,995 crore credit disbursement for 2010, preparation of an SME financing guideline called the *SME Credit Policies and Programme* and directives with regard to establishment of the *Women Entrepreneur Dedicated Desk*, and establishment of a separate department in the Bangladesh Bank called *SME and Special Programme Department*.

*SME sector is suffering because of low productivity and lack of adequate knowledge on technologies and technical skills*

The national budget for FY2010-11 has proposed a number of fiscal measures for improvement of competitiveness of SMEs both in domestic and foreign markets. Bangladesh Small & Cottage Industries Corporation (BSCIC) is to establish a *benarasi palli* in Rangpur at a cost of Tk. 2.38 crore of which about 60 per cent (Tk. 1.44 crore) has been allocated for FY2010-11. Two old BSCIC industrial areas located in Narayanganj and Chittagong have received an allocation of Tk. 7.75 crore for the purposes of modernisation, renovation and maintenance. SME sector is suffering because of low productivity and lack of adequate knowledge on technologies and technical skills. A number of related projects should be taken into consideration for improvement of technological skill of the SME sector. Establishment of industrial parks comprising of SMEs under PPP should be considered with due importance in order to improve the competitiveness of the SME sector. Government may consider allocation of funds for the development of foundry industry which is one of the important sources of capital machineries, and for parts and components required for other industries.

*The proposed upward revision of VAT should not have significant adverse impact on SMEs since the revised tax rates are only marginally higher than the previous rates*

The threshold level for turnover tax at a rate of 4 per cent for SMEs has been extended to Tk. 60 lakh from Tk. 40 lakh. This is expected to contribute to some reduction in the overall production cost of the SMEs. The proposed upward revision of VAT should not have significant adverse impact on SMEs since the revised tax rates are only marginally higher than the previous rates: Tk. 6,000 in metropolitan cities of Dhaka and Chittagong (earlier this was Tk. 4,800); Tk. 4,800 in all other metropolitan cities (earlier this was Tk. 3,000); Tk. 3,600 in all other district towns; and Tk. 1,800 in other parts of the country.

Broadening the VAT net by including a number of items manufactured largely by SMEs is likely to impact prices at the retailers' end since it may raise retail prices of manufactured products. Such products include coconut oil, fruit jam and jelly, juice, medicine, paints, cosmetics, soap, match, mosquito coil, PVC pipe, shoe and sandal, brick, goods made of ceramic and porcelain, MS products, electrical fan, dry-cell battery and storage battery, electrical bulb, and rubber and plastic foam manufacturing units.

**Import Substituting and Domestic Market-oriented Industries**

*A number of fiscal measures have been proposed in support of import-substituting industries, particularly for industries associated with manufacturing of electronics items and vehicles*

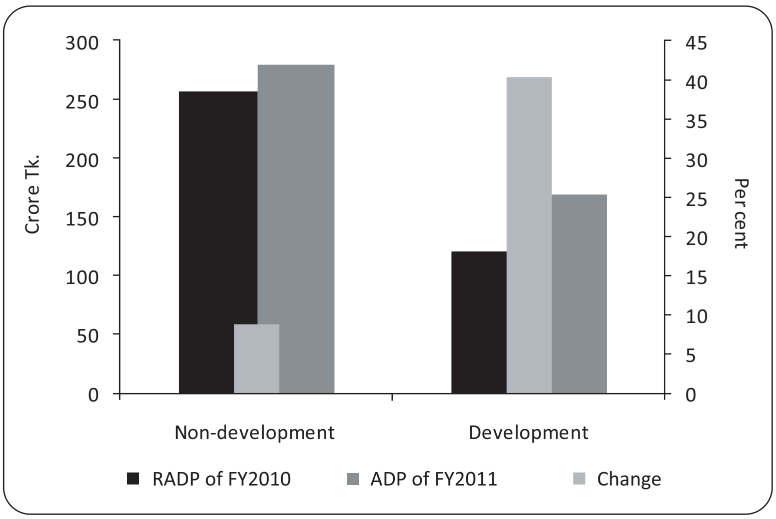
A number of fiscal measures have been proposed in support of import-substituting industries, particularly for industries associated with manufacturing of electronics items and vehicles. For example, refrigerators, freezers and motorcycle manufacturing industries which are mentioned as 'heavy industry' in the budget speech, have been proposed for withdrawal of VAT at the manufacturing stage, for a period of 4 years. The budget also proposed raising of SD on both CBU and CKD motorcycles from 20 per cent to 30 per cent. Such fiscal measures, especially time-bound ones, provide investors with predictability for investment in domestic electronics industry. In this context, the criteria for 'heavy industry' should have to be specified in order to avoid ambiguity in the definition of 'industry.' Imposition of higher levels of duties and taxes on imported finished products such as glass tube, urea resin, maize starch, poly propylene film, fly ash, paper/paper backed aluminium foil, and surface coloured paper/paper board was proposed in the budget perhaps with a view to encourage import-substituting activities related to these products. Exemption of VAT from manufacturing of energy saving lamps and its raw materials for a period of 5 years is a timely initiative, which will hopefully encourage local production of electrical appliances in consideration of their significant demand at local level for the frequent electricity disruption. These measures are outlined in the Table 2.6 as well.

*It appears that, in spite of the Digital Bangladesh slogan of the government, the ICT sector has failed to get any special attention in the ADP allocation for FY2010-11*

**Information and Communication Technology (ICT)**

It appears that, in spite of the *Digital Bangladesh* slogan of the government, the ICT sector has failed to get any special attention in the ADP allocation for FY2010-11. Budgetary allocation for the ICT sector in FY2010-11 largely falls short of what is stipulated in the *National ICT Policy 2009*. According to the Policy, 5.0 per cent of the annual development budget was to be allocated for the information technology (IT) sector which was equivalent to about Tk. 1,985 crore. However, total allocation for ICT sector under the Ministry of Science and Information & Communication Technology (MoSICT) was only Tk. 450 crore in FY2010-11; of which Tk. 280 crore was allocated for non-development and Tk. 170 crore for development expenditure. Against the revised allocation in FY2009-10, 40 per cent higher allocation for development expenditure in FY2010-11 is accounted for by inclusion of a number of special projects (Figure 2.9). These include two important projects, which are *Establishment of the SASEC (South Asia Subregional Economic Cooperation) Information Highway (Bangladesh Part*) and *Development of National ICT Infrastructure Network for Bangladesh Government.* Out of the total expenditure of Tk. 29.4 crore for establishment of the SASEC (within a period of two years), the government has allocated 51.7 per cent of the total budget of this project in FY2010-11 (Tk. 15.21 crore). Besides, for the Development of National ICT Infra-Network for the Government which will be implemented within four years at a cost of Tk. 281.48 crore, only about 4.8 per cent of total expenditure (Tk. 13.61 crore) will be received in FY2010-11. Government should allocate more funds for these projects, especially for the national infrastructure development project in FY2010-11. There is a need to put special emphasis on timely completion of these projects. However, there is no allocation for two other important projects; these are setting up of a high-tech park and building global connectivity through establishing the second submarine cable line. Immediate implementation of these projects is strongly suggested.

**Figure 2.9: Budget Allocation for MoSICT: RADP of FY2009-10 and ADP of FY2010-11**




**Source:** Estimated from Planning Commission (2010) data.

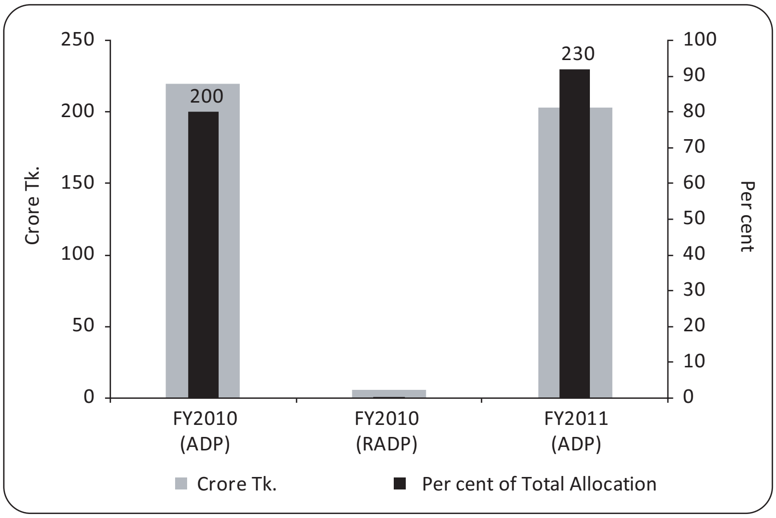
*As an emerging sector, increased private investment in the ICT sector requires greater access to adequate credit facility*

As an emerging sector, increased private investment in the ICT sector requires greater access to adequate credit facility. Equity and Entrepreneurship Fund (EEF), a window for subsidised credit for ICT, has been strengthened through a budgetary support of Tk. 200 crore which was Tk. 100 crore in FY2009-10. This will contribute to encourage more investment in the ICT-related projects. Considering the nascent stage of development of e-commerce in the country, government may consider withdrawal of VAT on e-commerce which is proposed in the national budget for FY2010-11. In this context, exemption of duties and VAT which is currently applicable for printers and some accessories, could be extended to networking-related computer parts and equipments.

**Tourism**

Development of the tourism sector in Bangladesh requires substantive public and private investment on tourism-related projects. Ministry of Civil Aviation and Tourism, which is the focal ministry for implementing such projects, suffers from lack of funds for various tourism projects. Although ADP allocation for the ministry has been increased from a mere Tk. 9 crore in the RADP of FY2009-10 to Tk. 283 crore in FY2010-11, more than 80 per cent of this allocation has been allotted for the development of the Shahjalal International Airport in Dhaka (Tk. 230 crore) (Figure 2.10). Due to various legal problems in FY2009-10, implementation of this project progressed only at a snail pace; as a result it faced a drastic budgetary cut in the RADP (from Tk. 200 crore to Tk. 9 crore). However, significant allocation has been made for this project in the FY2010-11 ADP with a view to completing the project by FY2011-12.

**Figure 2.10: Project Cost: Upgradation of Shahjalal International Airport**




**Source:** Planning Commission (2010).

While a number of projects have been included in the national budget for FY2010-11 without approval and allocation, appropriate budgetary allocation and timely implementation of these projects should be seen as high priority. This includes, establishment of a resort in Teknaf and development of tourism facilities in the areas of Kishoreganj, Netrokona, Nijhumdeep and some adjacent areas of Kaptai Lake. To encourage more private investment in tourism sector, some of these projects can also be initiated on PPP basis.

**Capital Market**

*There has been no development with regard to an earlier decision in connection with offloading shares of the 26 state-owned enterprises*

Since capital market suffers from dearth of availability of new stocks and bonds, Finance Minister's announcement in the national budget on issuance of infrastructure bonds to raise equity for infrastructure-related projects under BIFF (PPPs) is a welcome initiative, which is likely to contribute to the depth and diversity of the share market. However, there has been no development with regard to an earlier decision in connection with offloading shares of the 26 state-owned enterprises (SoEs); government needs to show its firm commitment and take time-bound approach to offload shares of these enterprises.

The Securities and Exchange Commission (SEC) requires budgetary support to undertake restructuring and pursue reform measures in different areas, particularly for strengthening surveillance and monitoring operations and building independent research capacity of the Commission. There is a need to undertake extensive training programmes on the functional process of the capital market, for the mass investors of all over the country.

**Labour and Skills Development**

*A number of projects related to workers' welfare and skill development have been added in the ADP for FY2010-11 without approval and targeted allocation*

Growing labour force in the industrial sector demands closer attention of the government, particularly Ministry of Labour and Employment in case of industries' compliance with regard to workers' rights, their safety and security in the workplace and development of workers' skills, etc. ADP allocation for the Ministry in FY2010-11 is only Tk. 72 crore, which is way below the requirement (although this allocation is 4.4 per cent higher compared to that of the previous year). However, there are also concerns as regards this Ministry's capacity to implement larger-sized ADP projects, for which the ADP allocation of FY2009-10 was drastically cut in the RADP (from Tk. 120 crore, it was down-sized to Tk. 34 crore).

Most of the ADP projects for FY2010-11 are continuation of last year's project (e.g. establishment of five marine technology institutes), whilst only a few new projects have been included in this fiscal (e.g. safe migration of working women which will facilitate women's migration abroad). A number of projects related to workers' welfare and skill development have been added in the ADP for FY2010-11 without approval and targeted allocation. These include modernisation of 29 Labour Welfare Centres, building housing facilities for workers in industrial zones, upgradation of Tongi Industrial Relations Institution to National Institution of Labour Administration and Training, and modernisation and strengthening of Directorate of Factory Inspection. CPD in its budget proposal had earlier proposed that a number of these projects be earmarked for budgetary support.

*The GoB has finally come up with a comprehensive and ambitious five-year plan for the power sector development, besides taking a number of significant steps for the energy sector*

### 2.5.3 Power and Energy

Bangladesh in recent times has fallen into a black hole of power and energy crisis. This has become a serious national issue. It is not only causing sufferings to the common people, but also undermining regular economic activities and investment in the country. Infrequent gas supply has made a bad situation worse. The need for ensuring energy and power for economic growth and development was not given due importance which has contributed to the present dismal situation. The GoB has finally come up with a comprehensive and ambitious five-year plan for the power sector development, besides taking a number of significant steps for the energy sector. The budget for FY2010-11, which is also the first year of the plan period, has allocated Tk. 6,115 crore for power and energy sector, about 61.5 per cent higher than the revised budget for the FY2009-10. The ADP allocation for this sector is about 15.8 per cent of the total ADP budget (Tk. 6,075 crore). The overall growth in ADP is estimated to be about 62 per cent, whereas for the Power Division it is 87.9 per cent higher, and for the Ministry of Energy and Mineral Resources, about 1.1 per cent less than the allocation for the FY2009-10. Under the ADP, allocations for power and energy sector were made for 99 projects, which included a number of new projects for setting power plants and projects for development of power distribution and transmission systems.

*The new power plan (for the period of FY2010-11 and beyond) took some critically important steps for the management of power sector in Bangladesh*

The new power plan (for the period of FY2010-11 and beyond) took some critically important steps for the management of power sector in Bangladesh. These were mainly: setting up of 'Sustainable Energy Development Agency' for generation of energy from renewable sources; and 'Gas Development Fund' to enhance the capacity of Bangladesh Petroleum Exploration & Production Company Ltd. (BAPEX) for exploration of oil and gas; and allocation of Tk. 1,600 crore for Investment Fund to use in the energy sector, and for ensuring speedy and hassle-free tendering and agreement signing process. These are indeed required steps which will hopefully improve the power situation in the country, if these are properly implemented within the stipulated timeframe. Initiatives such as distribution of CFL (compact fluorescent lamp) bulbs and finalisation of National Coal Policy are some of the carryover promises made earlier in the FY2009-10 budget. The plan to import liquefied natural gas (LNG) through Chittagong Port (or the envisaged deep sea port) is a matter that would require very careful assessment.

Despite various initiatives such as daylight saving, power rationing for commercial purposes, diversion of gas from fertiliser production to power generation, a number of roadshows abroad, the overall power supply situation has failed to improve in any significant manner till now. Moreover, technical faults in some of the power grids and transmission lines, depletion in gas supply in Sangu, leakage in Titas and lack of adequate infrastructure for smooth supply of fuel to power plants have made the situation even worse. Against this backdrop, the Five-Year Plan for power sector development has come up with a moderately ambitious plan to address the emergent situation. However, the government will need to address the following issues with due caution:

*The Five-Year Plan for power sector development has come up with a moderately ambitious plan to address the emergent situation*

(i) ***Additional Fiscal Pressure***: The budget has proposed to increase the power tariff rate by 20 to 30 per cent over the next 2-3 years but no specific figure was given. It is now up to the Bangladesh Energy Regulatory Commission (BERC) to come up with an 'appropriate tariff' which can ease the subsidy burden for the government, as well as offer a 'comfortable rate' for the consumers. This is not an easy task. Even after some rationalisation of tariff rates the remaining subsidy burden will be to the tune of Tk. 3,500 crore as CPD estimates indicate.

(ii) ***High System Loss***: Reduction of system loss is another issue which requires serious attention. Regrettably, the issue got ignored in the FY2010-11 budget, although provisions are there to develop transmission and distribution systems. There is thus a need to set a specific target for reducing the system loss which at present accounts for over 20 per cent of the total generation.

*It is now up to the Bangladesh Energy Regulatory Commission to come up with an 'appropriate tariff' which can ease the subsidy burden for the government, as well as offer a 'comfortable rate' for the consumers*

(iii) ***Power Generation by Existing Plants***: There is no doubt that Bangladesh needs more power plants given its current demand-supply gap and in view of the huge demand over the coming years to meet the envisaged economic growth. The GoB has given high priority to the power generation from 'rental' and 'peaking' plants, which by any measure is not a long-term solution. Many of the existing and ageing power plants require renovation and technical upgradation. Signing of contracts with private players and undertaking required upgradation of the existing plants could provide some respite under the circumstances. Although 13 agreements have been signed by the government in recent times, total generation till date has remained rather stagnant as some of the rental plants have failed to deliver on time. If this trend continues, the power crisis is likely to continue.

(iv) ***Expensive LNG Terminal***: Establishing LNG terminal at the Chittagong Port or the proposed deep sea port for importing LNG from abroad would require huge investment. LNG import from abroad will require substantive investment in infrastructure as well, which will call for substantial resources.

*Many of the existing and ageing power plants require renovation and technical upgradation*

(v) ***Drive for Infrastructure Development***: To facilitate investment-friendly environment in the power sector, the government needs to develop the required infrastructure. Developing the port for LNG import, importing electricity from India and other considered options will require significant investment. However, the budget did not make adequate allocation for this.

Implementing the power plan and the ADP projects related to power sector development will be a major challenge for the government. In order to ensure timely execution, there is a need to give adequate attention to the followings:

(i) ***Maintaining Transparency and Accountability*****:** Till date the government has signed agreement with 13 private sector players, including nine quick rental power plants (RPPs) having capacity of 1,167 MW of electricity. These were done without going through the tendering process or evaluating the relevant track records. The compulsion of reducing the time needed for the tendering process is no doubt there, however, the requirements of transparency and accountability ought to be maintained at all levels.

*Out of the nine quick RPPs a number have failed to go for production on time*

(ii) ***Ensuring Timely Operationalisation*****:** Out of the nine quick RPPs a number have failed to go for production on time. This is indeed a matter of great worry. Unwanted delay despite paying much higher tariff rates to the quick rental and peaking plants will only make the situation worse. Particular attention (with sanctions when required) will be called for to ensure timely delivery. Government should also play its own role in facilitating the process.

(iii) ***Immediate Finalisation of the Coal Policy*****:** The delay in the finalisation of the proposed coal policy does not augur good for the country. The plan for imported coal-based power generation at Khulna and Chittagong will call for significant investment. The country's lone coal-based power plant at Barapukuria is also facing formidable challenges. The government should come up with a comprehensive plan to accelerate coal extraction from the four proven coal mines, and towards this, the coal-based power plants should rather be set up in the Northern region of the country.

*Offshore gas and oil exploration procedure needs to be accelerated*

(iv) ***Delay in Gas Exploration*****:** Given the current state of gas supply, there is no other viable alternative than to start exploring for gas resources in the new blocks and go for drilling additional gas-wells in the old ones (especially in Titas). Leakages in various gas fields (such as in Titas) should immediately be addressed. Transmission lines should undergo technical upgradation on a priority basis. Offshore gas and oil exploration procedure needs to be accelerated. Failure to generate additional gas supply will not only delay improvement of power situation, but may also undermine the current situation with gas and power availability.

### 2.5.4 Export Promotion and Diversification

The total allocation for the Ministry of Commerce (MoC) is Tk. 185 crore in the FY2010-11 budget with ADP allocation of Tk. 123 crore (35 per cent, 69 per cent higher respectively compared to last year). Six foreign aid-based projects have been approved in the ADP FY2010-11 for export promotion with an estimated expenditure of Tk. 531.67 crore (these are: Bangladesh Leather Service Centre for Export Development; Development of Business Service Market; Bangladesh Economic Growth Project; Bangladesh Trade Policy Support Program; Support to RMG Sector under the Better Work in Textiles and Garments (BWTG) Project; and Promotion of Social and Environment Standard in the Industries). Mobilisation of funds from development partners for these projects will be a major challenge.

*Strengthening the Bangladesh Standards and Testing Institution (BSTI) should be given highest priority*

#### Strengthening Bangladesh Standards and Testing Institution (BSTI)

Strengthening the Bangladesh Standards and Testing Institution (BSTI) should be given highest priority, since the number of sanitary and phytosanitary measures-related problems that Bangladesh is facing, are on the rise. A project titled *Market Access and Trade Facilitation Support for South Asian LDCs through Strengthening of Institutional and National Capacities related to Standards, Metrology, Testing and Quality* has been initiated earlier to improve the capacity of BSTI. However, no new project in this regard has been included in the budget for FY2010-11.

**Stimulus Packages**

First Stimulus Package in view of the global economic crisis was announced in April 2009, with an allocation of Tk. 3,420 crore. In the budget for FY2009-10 the package was scaled up to Tk. 2,400 crore. During July-March FY2009-10, about Tk. 1,210 crore was disbursed as cash incentives (67.3 per cent of the allocation of Tk. 1,800 crore). The Second Package was announced in November 2009 for the export-oriented industries. In the budget for FY2010-11 an additional Tk. 2,000 crore has been proposed as stimulus. Timely disbursement is required for effective utilisation of these packages. There is also a need to assess the effectiveness and implementation quality of the disbursements under the previous packages.

*There is also a need to assess the effectiveness and implementation quality of the disbursements under the previous stimulous packages*

**Overseas Employment and Remittance**

The allocation for Ministry of Expatriates' Welfare and Overseas Employment (MEWOE) was only Tk. 224 crore (37 per cent higher), where allocation in ADP was Tk. 85 crore (98 per cent higher compared to last year). This appears to be rather low. Recently, the government has approved the *Expatriate Welfare Bank Bill 2010* to provide financial assistance to overseas job-seekers. Government has also created *Immigration and Skill Development Fund* with an allocation of Tk. 70 crore. Several new projects have also been taken up with a view to prepare more new skilled workers each year. Adequate funds should be allocated for the development of the Bureau of Manpower Employment and Training (BMET) so that it is well-prepared to take the policy initiatives to enable Bangladesh to access the emerging opportunities in the global labour market.

*The government has taken a number of steps to realise the opportunities of regional and sub-regional cooperation*

**Regional and Sub-regional Cooperation for Export Promotion and Trade Facilitation**

In recent times, the government has taken a number of steps to realise the opportunities of regional and sub-regional cooperation. These include: removal of some of the tariff and non-tariff barriers (NTBs) in trade between Bangladesh and India; development of BSTI to ensure acceptance of the BSTI certificate by India; opening up of two more land ports at Ramgar-Sabroom and Demagiri-Tegamukh points between Bangladesh and India; introducing border *haats*; declaring Ashuganj of Bangladesh and Shilghat of Tripura as Ports of Call; establishing Akhaura-Agartala railway linkage with financial assistance from India; providing India with the facility to use Chittagong and Mongla Ports by developing them, and thereby, paving the way for the use by Nepal and Bhutan as well. Besides these, some other steps have been taken with regard to such areas as obtaining India's consent to make use of the land port at Banglabandha-Fulbari border to expand trade with Bhutan and Nepal; use of Rohanpur-Singabad rail track between Nepal-Bangladesh and Biral-Radhikapur rail track between Bhutan-Bangladesh for transportation of goods; obtaining financial assistance from China for developing road communication up to Kunming province; these initiatives would enhance trade facilitation among the regional countries in future. However, one fails to see budgetary allocations and detailed work plan for the development of the relevant infrastructure.

*One fails to see budgetary allocations and detailed work plan for the development of the relevant infrastructure for regional connectivity to enhance trade facilitation*

### 2.5.5 Climate Change and Environment

Climate change in recent years has emerged as a serious developmental challenge for many countries. Bangladesh has taken the issue of climate change very seriously both at the national and international level as one of the most vulnerable victims to climate change. It has taken a number of initiatives in recent years in terms of policy formulations and budgetary allocations to address the negative consequences of climate change. But many other environmental problems such as loss of ecosystems and biodiversity, increasing pollutions, water mismanagement, etc. did not receive adequate importance in the policy agenda. Although the government in the recent years, especially since FY2008-09, has been giving special attention to such issues, poor implementation continues to nag as a major concern.

*An amount of Tk. 700 crore has been allocated for climate change*

An amount of Tk. 700 crore has been allocated for climate change, environmental and disaster management in the budget of the FY2010-11. Although the amount appears to be too insignificant compared to the extent of the problem, allocation for disaster-related capacity building, control of air and industrial pollutions, solid waste and sewage management, modernisation of early warning and cautionary systems are some of the important areas which got budgetary attentions in the FY2010-11. Initiatives such as establishing Bangladesh Climate Change Resilience Fund (BCCRF) with an amount of USD 110 million, approval of Climate Change Trust Fund Policy, *Medical Waste Management and Administration Act 2010,* and formulation of *Solid Waste Management Rules 2010* (now at the final stage) by the government are timely initiatives which need to be appreciated.

Finally, to meet the targets of achieving the desired goals proposed in the Perspective Plan, the Sixth Five-Year Plan, the Second Poverty Reduction Strategy Paper (PRSP-II) and the Millennium Development Goals (MDGs), there is a need for proper and careful policy and budgetary attention on each of the six thematic areas highlighted by the action plan (MoEF 2009).

**Box 2.1: Modernisation of Bangladesh Railway: Urgent Attention Needed**

Modernisation of the railway service is the key to addressing Bangladesh's transportation problems since railway is the most cost effective, safe and environment-friendly mode of transportation. It is also important from the perspective of regional connectivity with India, Nepal, Myanmar, Bhutan, as well as China. Bangladesh is also planning to join Trans-Asian Railway which would connect the country's railway system to an 81,000-km network stretching from Europe to East and South-East Asia. There is a high demand for railway service and people are ready to pay to avail the service. However, news about railways is rather disappointing: 106 railway stations have been closed since 1991 due to lack of skilled drivers, stationmasters and other manpower in general.

Traditionally, the government and development partners have directed most of their efforts towards development of the road sector. At present, the railway network spreads over only 2,855 km, while roads and highways cover 21,000 km across the country. Over the years, vested interest groups have significantly undermined the cause of the railway sector. On a welcome note, there have been some changes in the attitude of the development partners and the government with regard to transport and communication strategy. At present, the government is implementing the Bangladesh Railway Sector Improvement Project for modernising the railways, at a cost of Tk. 3,600 crore. However, there is a need for more pronounced emphasis on the development of railway as a mode of transport; for example, allocation for railway in the development budget was Tk. 1,093 crore in FY2009-10, while allocation for roads and highways department was Tk. 1,714 crore. And in the current FY2010-11, development budget allocations for railway and roads sectors are Tk. 1,002 crore and Tk. 1,695 crore respectively. Utilisation of the allocated fund has traditionally been rather poor in the railway sector. This trend must be reversed through appropriate policy attention. If required, there should be a separate budget for the railways (as in India).

Towards modernisation of the railways a separate Ministry for Railways may be considered. Budgetary allocation for this ministry will need to address such areas as modernisation of railway service, extension of rail line, improved signalling system, and production facilities for making spare parts of rail engines.

### 2.5.6 Infrastructure and Communication Sector

The present budget as also the budget for FY2009-10 focused on the formulation of the Integrated Multimodal Transport Policy towards an integrated communication system. The Sixth Five-Year Plan (Draft) and the long-term Perspective Plan also mentioned about different targets in the transportation and communication sector including construction of Padma and Karnaphuli Bridges, Dhaka-Chittagong four-lane express way, rail and road connection with neighbouring countries under the Asian Rail and Highways, construction of deep sea ports and modernisation of Chittagong and Mongla Ports, etc. Some of the targets set out in the Awami League manifesto have been taken up in the FY2009-10 budget and the ADP. These include the construction of Padma Bridge, elevated express way connecting Uttara and Jatrabari, etc.

Mention has also been made in the FY2010-11 budget about some new initiatives including second Padma Bridge (Paturia-Goalanda), designing of the project for building a deep sea port at Sonadia, Bangabandhu Sheikh Mujib International Airport, and linking of Bangladesh Railways with Trans-Asian Railway Network. Besides, there is stipulation of construction underground railway, mono or circular rail and navigable river route around Dhaka to solve the public transportation problem and traffic jam in the capital. These are all good intentions but no allocation has been made as yet to carry out these plans. The budget should have given some idea about the timeline and resource requirement, and about the possible sources of funds for these.

*Mention has been made in the FY2010-11 budget about some new initiatives including second Padma Bridge (Paturia-Goalanda), designing of the project for building a deep sea port at Sonadia, Bangabandhu Sheikh Mujib International Airport, and linking of Bangladesh Railways with Trans-Asian Railway Network*

The total allocation in the budget FY2010-11 for Transport and Communication is Tk. 8,843 crore (6.7 per cent of total budget) which is 29 per cent higher compared to the last year. The allocation in transportation (roads and railways) is Tk. 6,613 crore (4.7 per cent of total budget) which is 12.6 per cent higher compared to the last year. Currently, total carry forward projects under the Ministry of Transport and Communication is 40 (Roads: 27, Railway: 5, Water Transportation: 3, Postal: 4 and Civil Aviation: 1), and 12 new projects have been proposed with allocation in ADP in the budget FY2010-11. There are two projects under PPP in ADP (Dhaka Elevated Expressway and Jatrabari-Gulistan Flyover), which are going to be implemented in FY2010-11. Another 85 unallocated but foreign aid-supported projects are there in the ADP under the Ministry of Transport and Communication. These have been approved with total expected expenditure of about Tk. 134,042.48 crore over the next several years. Mobilisation of funds from the development partners for these projects will be a formidable challenge for the government.

### 2.5.7 Rural Development and Local Government

**Rural Development**

To promote rural development, a number of initiatives have been proposed in the budget which includes the *One House-One Farm* project, development of rural infrastructure and planned promotion of better housing in rural areas.

*To promote rural development, a number of initiatives have been proposed in the budget which includes the One House-One Farm project, development of rural infrastructure and planned promotion of better housing in rural areas*

***One House-One Farm Project*:** The Ministry of Local Government has been implementing a five-year project (July 2009 to June 2014) under this title with a total cost of Tk. 1,197 crore. About 578,400 families are targeted to benefit from this project and the total number of beneficiaries will be around 29 lakh. An amount of Tk. 68 crore was allocated for FY2009-10, but it was revised downward to Tk. 8 crore; however, actual expenditure was only about Tk. 7 crore up to 9 June 2010. There is no doubt that it is an innovative project, but expected outcome of the project may not be realised because of the poor implementation of the project. For successful implementation of the project, technical supports from the Ministries of Agriculture, and Livestock and Fisheries will be needed. Coordination and monitoring of implementation with all concerned agencies need to be strengthened for achievement of the targets.

***Rural Infrastructure*:** The Finance Minister in his budget speech stated that 3,900 km new roads will be constructed, and 16,500 km roads will be brought under maintenance by the Local Government Division with a view to generate additional employment opportunities. The budget also proposed construction of 20 cyclone shelters, development of 207 rural *haat-bazaars*, and carrying out aforestation programme along 18,600 km roads. These are welcome measures. However, compared to total needs, the target appears to be low.

*In the context of scarcity of land and due to shifting of agricultural land to other uses, the government has planned to build housing centres with assured utility services in the rural areas*

***Rural Housing***: The present budget has mentioned that the government has a plan to initiate special housing projects in the rural areas. In the context of scarcity of land and due to shifting of agricultural land to other uses, the government has planned to build housing centres with assured utility services in those rural areas. Indeed, it may be recalled that previous budgets had also come up with similar proposals. However, the progress of those projects has not been good. This year no specific allocation has been made for this sector. It goes without mentioning that, these projects are of significant importance for a country such as Bangladesh to address the problems associated with city-centric growth. Appropriate planning is of critical importance in this respect.

**Local Government**

Local government is a key to the process of Bangladesh's decentralisation. Peoples' participation in the country's development process can be ensured if there is an active decentralised local government. Keeping this in view, the government has allocated Tk. 10,309 crore (development and non-development) in the budget for rural development and local government in FY2010-11. This allocation is 18.8 per cent higher than that of FY2009-10. In ADP, rural development and institutions received Tk. 4,440.28 crore which is 11.53 per cent of the total ADP allocation. This allocation is 11.33 per cent higher than the RADP of FY2009-10 and 22.4 per cent higher than the ADP of FY2009-10.

*Finance Minister in his budget speech has mentioned that upazila and union parishads have not been functioning properly*

Finance Minister in his budget speech has mentioned that upazila and union parishads (UPs) have not been functioning properly. To address this, chairmen, members and secretaries of the upazila parishads were given training which was expected to yield good result. The Minister also mentioned that the government was taking steps to reform the upazila parishad. However, the budget did not mention any specific measures (legislative support or reform measures) in this regard; neither did it make any targeted allocation. Budget speech also stated that, in order for the benefit of development to reach the door steps of citizens, zila parishads will be restructured so that these are transformed into strong local government institutions. However, there is no clear indication with regard to how this will be done and which restructuring modalities will be followed.

**Regional Development**

*Special attention should be given so that the Technical Training Centres are established in the backward regions*

The budget for FY2009-10 allocated Tk. 70 crore for skill development of migrant workers. In FY2010-11, the government has taken initiative to establish 30 new Technical Training Centres and five new Marine Technology Institutes in 35 districts. This is likely to produce 100,000 new skilled workers each year. Special attention should be given so that these training centres are established in the backward regions. Budget also stated about the *National Skill Council* which could play a useful role in developing skilled manpower in various parts of the country. This is important in view of the regional disparity articulated by the number of workers going abroad in search of employment opportunities. These are welcome measures. Hopefully timely implementation will deliver the desired results. Bangladesh could learn from the experience of India with regard to setting up the National Skill Council. Indian National Skill Council is headed by her Prime Minister. All government operated or funded skill programmes come under its purview. This council is supported by National Skill Development Coordination Board. National Skill Council in Bangladesh should be designed in such a manner that coherence can be maintained between the nature of labour demand and supply.

The budget has proposed to establish Regional Cultural Centres under a programme titled *Development of Indigenous Culture* with an allocation of Tk. 100 crore to conserve the culture of indigenous and backward groups. It has also mentioned that effective initiatives will be taken to explore and conserve archaeological sites. For improvement of the backward communities (such as Potter, Garo), the budget has mentioned that training facilities will be set up for them. These are excellent initiatives in support of promoting folk culture.

*National Skill Council in Bangladesh should be designed in such a manner that coherence can be maintained between the nature of labour demand and supply*

## 2.6 SOCIAL SECTOR AND SAFETY NET PROGRAMMES

### 2.6.1 Education

Education budget for FY2010-11 is built on the premise set out by the National Education Policy 2010. With a view to realise the goals envisaged in the Policy, education sector is to receive the highest ever allocation to this sector. Exceeding the revised allocation for FY2009-10 by 13.5 per cent, the sector has received Tk. 17,959 crore in FY2010-11. Needless to say, if a modern education system is to be set up in the country, the government will need to play a proactive role and successfully implement the programmes envisaged in the FY2010-11 budget. These include providing 100 per cent salary subvention to teachers of registered non-government and community primary schools, continuing the school feeding programmes in poverty-stricken areas, and distributing stipends among primary school going children. It is encouraging to note that allocation for School Feeding Programme has been increased to Tk. 18 crore from Tk. 7 crore in FY2009-10. However, there is a need and scope for widening the coverage of such programmes, particularly taking into cognisance the severity of poverty incidence in particular pockets in the rural areas.

*It is encouraging to note that allocation for School Feeding Programme has been increased to Tk. 18 crore from Tk. 7 crore in FY2009-10*

Although primary education up to Class VIII has now been made compulsory, debate continues to persist as to whether this confers a right to the children who want to go to schools but are unable to do so due to poverty. In this context, the GoB could consider enacting a *Right To Education* law. It may be noted here that India has recently ratified such a law guaranteeing compulsory primary education to children.

It may be mentioned here that Bangladesh is poised towards attaining the MDGs in the education sector by 2015. Although the enrolment rate in primary schools is moving on track, one need to consider the fact that high incidence of poverty could become a hindrance in the way of achieving the targets set for 2015. To this end, efficiency of allocation in the education sector needs to be raised significantly. From this perspective, the budget for FY2010-11 should be welcome as the allocation is significantly higher than the resource requirement as projected by the government for the fiscal year. It is understood that allocated funds will be used also in areas beyond MDG-specific activities. Nevertheless, if resources are optimally utilised to ensure efficiency gain, FY2010-11 could form a solid base for the government to move forward towards reaching the MDG-2 (achieve universal primary education by 2015). Besides, Bangladesh is also preparing the country document in view of the MDG Summit in September 2010. This calls for a strong coherence between budgetary allocations and the strategies put forward in the country report to achieve particular MDG targets.

*The education sector budget for FY2010-11 should be welcome as the allocation is significantly higher than the resource requirement as projected by the government for the fiscal year*

### 2.6.2 Health

It was encouraging to note that allocation for the health sector (Tk. 8,149 crore) in the budget for FY2010-11 is an impressive 17 per cent higher than that of the previous fiscal. However, an MDG cost estimate by the GoB underscored that Bangladesh will need to spend as much as Tk. 17,210.5 crore in FY2010-11 alone to be on track towards achieving the health-related MDGs. These estimates reinforce the need for enhanced government allocation in the sector which could complement household expenditure in health, and help attain health-related MDG targets.

*The proposition to expand Maternal Health Voucher Scheme to an additional 17 upazilas is commendable*

Among other initiatives, the proposition to expand Maternal Health Voucher Scheme to an additional 17 upazilas is commendable. Although not fully adequate to meet the national demand, this certainly is a welcome step towards addressing the deepening healthcare problems in the country, and will be particularly helpful in terms of improving child and maternal healthcare situation. It may be noted here that in its budget proposals CPD had earlier proposed more allocation towards adoption of such expansionary measure. There is a need to put more emphasis on accelerating the pace of recruitment of health professionals to reduce maternal mortality rate which is still way below the MDG target.

*One key step in updating the National Drug Policy 2005 would be to take urgent and appropriate measures to combat unscrupulous practices in drug manufacturing and sales*

The budget for FY2010-11 has also proposed to establish a Drug Testing Laboratory and set up an Essential Drug Company. Such measures, if realised, is expected to have positive impact not only on ensuring quality of drugs for the domestic market, but also help the growth of Bangladesh's pharmaceutical export. However, it was not clear from the budget document what progress has actually been made towards updating of the National Drug Policy 2005. One key step in this regard would be to take urgent and appropriate measures to combat unscrupulous practices in drug manufacturing and sales. This necessitates strengthening of the human resource capacity in the Directorate of Drug Administration (DDA).

### 2.6.3 Social Safety Net

One of the important features of the budget for FY2010-11 is the proposal for increasing the number of social safety net programmes from 63 in FY2009-10 to 82, with introduction of nine new programmes. To put this into practice, the government has proposed an allocation of Tk. 19,497 crore which is 14.8 per cent of the total budget. A major increase has been seen in the allocation for the One Household-One Farm project for which an amount of Tk. 170 crore has been earmarked in the current budget. On the other hand, the *Ghare Phera* programme appears to have been discontinued. Besides, both coverage and allocation have been reduced significantly for Stipend for Dropout Children and *Char* Livelihood programmes. The budget for FY2010-11, therefore, portrays a mixed picture with regard to addressing the social safety net related needs of the country.

*The EGHP suffers in its design from lack of concentration on specific poverty-prone regions*

With a view to bringing in more people under the ambit of the programme titled Employment Generation for the Hardcore Poor (EGHP), an allocation of Tk. 1,000 crore has been proposed in the budget for FY2010-11. However, nothing was mentioned about specific costs related to administrative functions. This is considered to be a serious concern from the perspective of effective implementation of the programme. Besides, the EGHP also suffers in its design from lack of concentration on specific poverty-prone regions. The budget should have considered proposing a Region Specific Master Plan to cater to the needs of the deserving beneficiaries. Nonetheless, the proposal for developing a social safety net programme database is a praiseworthy initiative which will hopefully contribute towards better administration of the safety net system in future.

The National Service programme has received an allocation of Tk. 190 crore in the budget for FY2010-11. This is a significant increase from the allocation made in the previous budget (Tk. 36.4 crore). While the underlying objective of the programme is highly praiseworthy, there are a number of concerns which the current budget had failed to address. First, the government's commitment related to job creation for the trained youths raises question as to whether there is a match between demand for and supply of jobs, or whether adequate vacancies can be created for the recruitment of trained youths. Moreover, there is always the apprehension that these youths would subsequently demand mainstreaming/absorption of their jobs once the two-year contract had expired. There was no direction in the proposed budget with regard to such concerns. There is a need to think through all these before going for nationwide implementation of this programme.

*The government's commitment to create jobs for the trained youths raises question as to matching between demand for and supply of jobs, and for availability of adequate vacancies for recruitment*

## 2.6.4 Gender

The share of allocation for gender equity component is about 26 per cent of the total budget of FY2010-11 (Table 2.8). Separate allocation for women has been made for ten ministries. These are: Agriculture, Disaster Management Division, Education, Environment and Forest, Fishery and Animal Resources, Health and Family Welfare, Land, Rural Development and Cooperative Division, Social Welfare, and Water Resources Division. However, it excludes a number of important ministries such as Labour and Employment, Overseas Employment, and Science and Technology.

The government has set the target of expanding computer training programmes to 34 districts in order to create opportunities for women in technology-driven jobs, but no additional allocation has been made for training for women workers, especially for those who are looking for overseas job. The government's initiative to establish ten more day care centres in the city, though welcome, is not adequate (Table 2.9).

A directive has been issued to establish a *Women Entrepreneur Dedicated Desk* in each bank and financial institutions to ensure better opportunity for the women entrepreneurs to receive loans on easier terms and conditions (Table 2.9).

**Table 2.8: Gender-related Expenditure**

| Description | FY2009 | | FY2010 (Revised) | | FY2011 (Proposed) | |
|---|---|---|---|---|---|---|
| | Gender as % of Budget | Gender as % of GDP | Gender as % of Budget | Gender as % of GDP | Gender as % of Budget | Gender as % of GDP |
| Non-development Expenditure | 22.00 | 2.54 | 17.00 | 1.90 | 17.00 | 1.97 |
| Net Outlay for Food Account Operation | 35.00 | 0.02 | 35.00 | 0.00 | 35.00 | 0.01 |
| Loans and Advances (Net) | 28.00 | 0.07 | 34.00 | 0.06 | 22.00 | 0.09 |
| Structural Adjustment Expenditure | 15.00 | 0.01 | 15.00 | 0.01 | 15.00 | 0.00 |
| Development Expenditure | 45.00 | 2.30 | 42.00 | 1.98 | 42.00 | 2.32 |
| Total Expenditure | 29.74 | 4.93 | 24.65 | 3.95 | 25.96 | 4.40 |

**Source:** Budget documents of FY2008-09, FY2009-10 and FY2010-11, Ministry of Finance (MoF).

**Table 2.9: Some Commendable Programmes under Gender-sensitive Budget**

| Measure | FY2009-10 | FY2010-11 | Implication |
|---|---|---|---|
| Gender equity expenditure | 24.6% of total budget | 25.9% of total budget | Increased gender sensitivity |
| Resource allocations for women advancement | Covering 4 ministries | Covering 10 ministries | Good initiative to implement projects targeting particularly women |
| Women entrepreneur | Committed to ensure separate banking arrangements, loans and technical facilities | Directive has been issued to establish a 'Dedicated Desk for Women' in each bank and financial institutions for receiving easier loans | More firm initiative than the previous year and this initiative will definitely help women empowerment |
| Day care centres | No mention regarding this subject (18 day care centres already exist in Dhaka city) | Decided to establish 10 more day care centres (7 for lower-income and 3 for middle-income) | Positive step but very few considering the demand |

**Source:** Budget documents of FY2009-10 and FY2010-11, Ministry of Finance (MoF).

While several measures have been taken to empower women, many of these require more clarification with concrete actions. Some of the statements as regards women's empowerment are just expression of intention. It is not clear from the budget proposals as to how and when these intentions will be realised.

## 2.7 CONCLUDING REMARKS

With regard to budget FY2010-11, the apprehension is that targets set out for revenue collection and resource mobilisation could be more within reach rather than the full implementation of the expenditure plan in quantitative and qualitative terms. In recent times, a number of initiatives have been taken to raise the efficacy of the delivery and implementation mechanisms in various areas including enactment of the law on special economic zones, establishment of Bangladesh Development Bank Ltd. (BDBL) as a result of the merger of Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Sangstha (BSRS), introduction of *Consumer Protection Act 2009*, expansion of MTBF to 33 ministries, and preparation of the concept paper for a unified budget. These initiatives will need to be followed-up with appropriate measures and actions.

*Implementation of the budget proposals will hinge on significant improvement in the delivery capacity of the entire government machinery including various implementing ministries, institutions and agencies*

Meanwhile, some of the reform measures articulated in the budget of the previous year have failed to draw adequate attention in the budget proposals of this year. There was no mention of the regulatory reforms and Bangladesh Better Business Forum (BBBF)[7] although these were noted in the FY2009-10 budget speech. There was no indication of the five-year strategic business plan to bring enhanced quality of service and dynamism in banking operation. Special monitoring arrangement of the development programmes through CPM was also overlooked. Issues such as reforms in public expenditure and civil service were also absent.

No doubt these are critical in raising the efficacy of public service delivery. Implementation of the budget proposals will hinge on significant improvement in the delivery capacity of the entire government machinery including various implementing ministries, institutions and agencies. This will require initiatives in terms of changes in policies, adequate human resource development and strengthening of logistics support.

[7] Established in 2007, the BBBF was later dissolved on 19 August 2010.

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