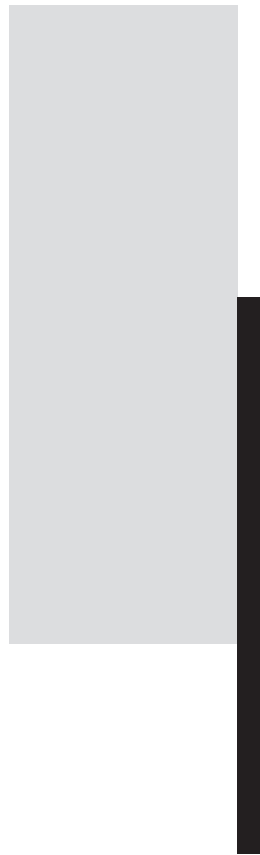


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**A Set of
Proposals for the
National Budget
FY2011-12***

*This set of proposals was released to the media on 26 April 2011.

1. THE MACROECONOMIC FRAMEWORK

The national budget for FY2011-12 is going to be announced at a time, when in spite of some positive developments, the Bangladesh economy has been facing a number of macroeconomic challenges arising from both global and national fronts. The economy is experiencing inflationary pressure manifested largely through food inflation driven by soaring global prices of food and fuel. The balance of payments (BOP) situation has been put under some pressure, because of higher trade deficit and stagnated remittance inflow. Deteriorating BOP situation has transmitted to depreciation of the domestic currency, adding further tension in the price situation.

Macroeconomic correlates are further strained owing to rising interest rate, weak implementation of public investment programmes, low foreign aid disbursement, and slow progress in power and energy sector. The fiscal balance continues to face challenges, underpinned by growing burden of subsidy requirements. The recent turmoil in capital market has had economy-wide adverse impact including those on the financial sector. On the other hand, the economy has also experienced positive trends with regard to a number of performance indicators. These included significant improvements in revenue mobilisation by the National Board of Revenue (NBR), good agriculture sector performance and robust export growth. It is hoped that macroeconomic governance during the upcoming fiscal year (FY2011-12) will build upon these strengths to garner the required momentum to deal with the emergent tensions and the difficult times ahead. Moreover, there is the challenge of operationalising the yet to be finalised Sixth Five-Year Plan (SFYP) in the next fiscal year with a view to achieve the medium-term macroeconomic targets. The upcoming national budget will be an important and key element in achieving the SFYP targets, and attaining the objective of high growth with stability.

Based on early indications, the Table 1 presents the possible fiscal structure of the upcoming national budget.

Table 1: Fiscal Structure of Budgets for FY2010-11 and FY2011-12

<i>(in Crore Tk.)</i>					
Item	FY2009-10	FY2010-11 (B)	FY2011-12 (P)	Growth FY2010-11 (B)	Growth FY2011-12 (P)
Total Revenue Earnings	74526.0	92847.0	119000.0		
as % of GDP	9.6	11.9	13.6	24.6	28.2
NBR Revenue	59720.0	72590.0	92000.0		
as % of GDP	7.7	9.3	10.5	21.6	26.7
Non-NBR Revenue	14806.0	20257.0	27000.0		
as % of GDP	1.9	2.6	3.1	36.8	33.3
Total Budget	95277.0	132170.0	163000.0		
as % of GDP	12.2	16.9	18.7	38.7	23.3
ADP Expenditure	24061.0	38500.0	46000.0		
as % of GDP	3.1	4.9	5.3	60.0	19.5
Non-ADP Expenditure	71216.0	93670.0	117000.0		
as % of GDP	9.1	12.0	13.4	31.5	24.9
Deficit	20751.0	39323.0	44000.0		
as % of GDP	3.0	5.0	5.0	89.5	11.9

Source: CPD-IRBD Database.

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

- The total public expenditure package of FY2011-12 is expected to experience almost a two percentage point increase as a share of gross domestic product (GDP) (from 16.9 per cent to 18.7 per cent).
- There is a need for exploring the rationalisation of subsidy including raising the tariff on energy.
- The rising non-ADP (Annual Development Programme) expenditure is expected to drive the higher expenditure planned for the upcoming fiscal year.
- The proposed ADP will lead to a sharp rise in the public sector investment plan. However, the implementation capacity of the government needs to be improved significantly to achieve the goal.
- The aggregate target of revenue collection, if fully realised, will lead to some significant improvement in the revenue-GDP ratio in FY2011-12 (from 11.9 per cent to 13.6 per cent).
- A 26.7 per cent growth of NBR tax mobilisation may not be overambitious given the recent performance of the NBR and the proposed new tax laws to be brought in action.
- Attainment of the target for Non-NBR revenue will largely hinge on the realisation of the yet to be finalised spectrum fee for the mobile phone operators.

- The estimated budget deficit for FY2011-12 indicates that it may well remain within the FY2010-11 target of 5 per cent of the GDP.
- A critical aspect of deficit financing will be the ability to draw on foreign sources (particularly budgetary support and grant components). In the backdrop of squeezing capacity of bank borrowing, it will need to be ensured that domestic borrowing should not crowd-out private investment demand. The deficit financing will have to be made in a non-inflationary manner. In this context, the government will be better off to use non-bank borrowing window of domestic financing. This may call for an upward adjustment of interest rates on National Savings Directorate (NSD) certificates.

The following sections of this Annex will sequentially present recommendations for the budget FY2011-12 in the areas of overall fiscal measures as also in specific sectors. Some specific views and recommendations in view of the proposed new tax laws have also been included in this document. These recommendations have been prepared by the Centre for Policy Dialogue (CPD) based on its own research. Outputs of consultations and inputs received from various stakeholder groups have also been considered in preparing this document. The proposals cover three areas: fiscal measures, allocations and institutional strengthening to enhance the efficacy of macroeconomic management.

2. NEW LEGISLATIVE INITIATIVES

2.1 Value Added Tax (VAT) Act

- The introduction of the Value Added Tax (VAT) Act is a positive initiative. This will improve the VAT collection through improved transparency. The successful implementation of the Act, however, presupposes adequate preparation and consultation with stakeholders. The Act should not preclude targeted support to strategic sectors.
- The implementation of the Act also requires: (i) awareness building of the consumers to collect the chalangos of the VAT paid by them, since the Act recommends for 100 per cent invoice-based system; (ii) total computerisation of the system so that on line database can be created; (iii) capacity building of the NBR through more human resource and their development.
- In view of the above appropriate preparatory measures should be undertaken before introducing the VAT Act which may be implemented in a phased manner.

2.2 Direct Tax Act

- The consolidated Direct Tax Law is a welcome step since the present tax measures are being implemented on the basis of the 1984 Ordinance. This law should also be finalised after consultation with the relevant stakeholders and experts. There have already been some objections as regards the inclusion of certain expenditure-based tax as direct tax. The nature and structure of income have to be examined for inclusion in the Direct Tax Law.
- In view of the concentration of wealth, particularly of property in the form of land and housing, there is a need to streamline the acquisition of such assets. In FY1999-00, such a tax was introduced but was later withdrawn, and was thus never implemented. Therefore, this tax will be new in Bangladesh.
- As in the case of VAT Act and Direct Tax Law, the introduction of the Wealth Tax also needs further consultation with broader section of people. Issues such as avoidance of double taxation, bringing taxevaders under the tax net, stopping harassment of taxpayers, and modernisation of the tax administration are some of the key steps with regard to implementation of the Wealth Tax.

3. GENERAL FISCAL MEASURES

3.1 Income Tax

- Given the increase in annual inflation rates, income tax deserves a revisit since the level of tax-free income and all tax slabs have remained unchanged for the last three consecutive years. Thus tax exemption limit may

be revised upward to Tk. 200,000 for individuals, Tk. 220,000 for female assesseees, and Tk. 240,000 for assesseees with disability considering the current inflationary pressure on the economy. The minimum threshold of tax could be raised at Tk. 2,500.

- The allowable tax-free house rent allowance, which is currently 50 per cent of basic salary or 15,000 per month (yearly 180,000, whichever is lower), is inadequate in view of the rising trend of house rent. The ceiling of tax-free house rent allowance may be re-fixed at 60 per cent of basic salary or Tk. 20,000 month (yearly Tk. 240,000), whichever is lower.
- Currently the allowable limit of perquisites is Tk. 200,000 which could be increased to Tk. 300,000.
- In order to ensure transparency in the transactions in the capital market, submission of Tax Identification Number (TIN) should be made mandatory for all Beneficiary Owner (BO) accounts.
- To strengthen capital market's primary function as an equity market, create disincentive for speculative trading, and reduce volatility in the capital market, introducing capital gains tax (CGT) on individuals may be considered. This is a common practice in many other countries.
 - Policymakers may consider a nominal percentage of tax on short-term trading (less than 12-months) with capital gains. The proposed tax should be deducted at the time of trading and should be considered as the final settlement of taxes. For example, in South Korea (for individuals holding less than 3 per cent share of listed company), there is a 0.3 per cent trade tax on sales of shares.
 - Another option could be to tax short-term capital gains by individuals for stocks held for less than a year. India, for example, has a 15 per cent tax on short-term capital gains. A differentiated tax slab may be considered for this purpose to protect small investors. Bangladesh's experience reflects that tax deduction at source or using a framework, similar to advance income tax (AIT), is a better way to go. Deduction of a part of the CGT at source may be considered, which can then be adjusted on an annualised return basis with tax on other income. Capital losses may be adjusted against capital gains, while unabsorbed losses are carried forward for a specific period, say for three years.
 - Establishing the technical requirements (i.e. software to calculate the tax at the time of transaction) and raising the needed human resource capacity relevant implementing authorities must be ensured if the above is to be implemented.

3.2 Vat

- Government should enforce the use of electronic cash registers (ECRs) to enhance VAT collection for all medium and large enterprises located in division and district level towns. A time-bound deadline towards this should be announced in the forthcoming budget.
- Submission of VAT return within 10 days after expiry of every preceding month after complying with all the requirements is a difficult task. Hence it is suggested that the provision to extend the submission of VAT return within the next tax period.

3.3 Miscellaneous

- The government is considering the introduction of rules to curb transfer pricing. This is a welcome initiative. The government may consider establishing a specialised wing in the NBR to handle the transfer pricing issue. Allocation of required funds and building the needed expert human resources should be prioritised in the forthcoming budget.
- Taking cognisance of the need to further curtail population growth rate, the government may design an incentive package (perhaps monetary) after a certain age, for all government employees who have only one child.
- Government may consider limiting the practice of making mid-term changes of duty through Statutory Regulatory Orders (SROs), except in exceptional cases such as natural disasters and other emergencies.
- The fee for emergency machine readable passport (MRP) has been fixed at Tk. 6,000 while Tk. 3,000 is to be charged for a normal MRP, according to a Home Ministry Notification. Since this MRP will be valid for five years only, the government may extend the validity period for 10 years considering the expense.

3.4 Strengthening Tax Administration

- Unification of tax administration is essential in order to avoid duplication, harassment, reduce corruption and improve transparency and efficiency of tax collection. This requires a modern information technology (IT)-based tax administration which will have online integration among the VAT, income tax and customs duty (CD) departments.
- Evasion of CD could be reduced substantially if data on revenue collection could be passed on to the NBR monitoring cell on a regular basis through online network between the customs points and the NBR. The budget for FY2011-12 should allocate adequate fund to digitise the customs points.
- A programme under NBR should be undertaken to popularise online submission of tax returns. The pilot project introduced last year needs to be further expanded with due preparatory work.
- It needs to be ensured that certification of tax assessment is submitted at the time of trade (or any other) license renewal.
- The upcoming budget must provide allocation for the additional recruitment in the revenue agency. Due to lack of presence of tax officials at the peri-urban levels, collection of taxes from these areas has not increased. Allocation of resources is required for the tax offices at the local level to work efficiently.

4. AGRICULTURE AND RURAL DEVELOPMENT

4.1 Crop Sector

- Land productivity in Bangladesh has fallen drastically over the past decades in view of the existing cropping pattern and intensity. In order to preserve soil quality and prevent losses of soil nutrient, government may introduce special projects, with appropriate allocation of funds under the ADP, for promoting efficient use of chemical fertilisers and other agricultural inputs, including quality seeds and judicious use of water.
- In order to ensure fair prices for agricultural commodities and also availability of quality data with regard to demand and supply situation of farm produces, it is necessary to modernise the Department of Agricultural Marketing (DAM). Government needs to allocate adequate funds for this purpose and deploy additional manpower for the DAM.
- Investment in agricultural sector in African continent could provide opportunities for Bangladesh from the perspective of ensuring food security, overseas employment and trade. In order to realise these potential opportunities, the government should allocate special funds and form inter-ministerial body with participation from Ministries of Agriculture, Finance and Commerce to assess the prospects and recommend measures in view of this.
- Government should allocate adequate funds to introduce a cell within the DAM which will forecast on domestic crop production, and analyse domestic and international price trends.
- In view of the climate change, there is a growing need to change the cropping pattern in the country. Water-efficient high value crops (such as maize, spices, oil seeds, pulses and orchards) should be promoted in the drought-prone northern regions of the country through distribution of high quality seeds and saplings at subsidised price along with provision for agricultural credit at low interest rate. In the southern regions, Boro rice cultivation should be promoted under special projects with provisions for supply of improved salt-tolerant rice seed, surface water irrigation and support for mechanical tillage. Towards this, appropriate fund allocations will need to be made.
- With a view to create adequate storage facility for grains and cold storage facility for vegetables, potato and fruits by the private sector, particularly for farmers and small traders, the budget should make provisions for incentives such as assured electricity supply, gas connection or captive power supply, and duty-free import of machineries.
- To stimulate production and export, the budget should continue with the existing 20 per cent cash incentive for potato exporters.

4.2 Fisheries

- Open water fisheries resources, particularly in rivers, canals and creeks are facing water pollution mainly due to release of untreated industrial wastes and chemicals by the polluting industries established along the rivers. Industrial waste treatment should be made mandatory and pollution tax needs to be imposed on the violators.
- Commercial cultivation of pond fish has increased quite significantly in recent years. However, lack of availability of quality fingerlings is an endemic problem. On the other hand, production and availability of quality fingerlings depend on the broodstock (mother fish). Therefore, demand for broodstock may be met through establishment of Broodstock Banks for different types of fish such as ruhi, katla, tilapia, freshwater prawn (*Macrobrachium Rosenbergtii*). It is difficult to internalise the costs of such initiatives on the part of the private sectors. As such, special allocations should be made toward this in the budget.

4.3 Livestock Development

- Existing 5 per cent advance tax on import of maize used in poultry feeding needs to be withdrawn.
- With a view to encourage domestic production of milk powder, VAT levied on powder milk produced from locally procured liquid milk should be reduced, say to Tk. 50 per kg from the existing Tk. 100 per kg.
- Government may withdraw VAT on medicine for livestock (HS 300230).
- Government should continue zero tariff/low tariff for import of breeding animals and broodstock (mother fish).

4.4 Agro-based Industries

- Cash incentive for export of potato, tomato, vegetables and fruits should be linked with traceability of the exported commodity. Using the newly introduced farmer identity number, all exportable agriculture products can be given a unique number that could be used to identify the origin of the exported product and to ensure good agricultural practices, which will be helpful for export purposes and compliance with the sanitary and phytosanitary (SPS) and technical barriers to trade (TBT) requirements. This would help increase export of agro-products from Bangladesh to the developed countries and enhance the benefit to the farmers.
- A waiver of 3 per cent import duty on capital machineries for agro-based industries may help the sector to achieve satisfactory growth.

4.5 Addressing Equitable Regional Development

- Government needs to devise a special public expenditure package targeted to the development of Chittagong Hill Tracts (CHT) and other areas inhabited by indigenous communities. Special attention should be given on infrastructure development such as the construction of roads, and establishment of hospitals, educational institutions and vocational training centres.
- Specific budgetary allocation is needed to improve the functioning of zila parishads and other local government institutions such as union parishads and upazila parishads.

5. INDUSTRIAL SECTOR

A number of newly enacted policies (e.g. Industrial Policy 2010) are in operation at present while several others are at drafting stage (e.g. Draft Sixth Five-Year Plan, Draft Direct Tax and VAT Acts 2011). The national budget for FY2011-12 is likely to have implications from the perspective of these policies/acts.

- As per the previous budget statement, tax holiday facility is supposed to end in 30 June 2011. In view of providing support to strategically important potential and emerging industries, a low level of tax (say, 1 per cent) for a limited period may be considered to be imposed for selected industries. The industries to be selected can be identified from the 'thrust sectors' of the Industrial Policy 2010 and the 'priority sectors' in the Export Policy Order 2009-12.

- Special economic zones (SEZs) should be set up through enactment of necessary regulations/acts; funds should be allocated for undertaking infrastructure development works of these SEZs.
- Budgetary allocation for the Skill Development Fund should be increased with a view to enhancing availability of skilled manpower for labour-intensive and prospective industries (e.g. readymade garments (RMG), leather, jute, pharmaceuticals and agro-based industries, etc.).
- The coverage of the Equity and Entrepreneurship Fund (EEF) should be expanded beyond agriculture, agro-processing and IT-related projects to some of the other potential labour-intensive industries such as light engineering, plastic, melamine and electronics.
- Government should allocate special funds for development of industrial clusters (e.g. industrial park) in different parts of the country as has been the case in many other countries in the world including India. It may be recalled, India's national budget for FY2011-12 envisages undertaking seven mega cluster schemes.

5.1 RMG, Leather & Footwear and Pharmaceuticals

- In order to establish garments palli for woven wear sector and knit village for knitwear sector, appropriate allocation of funds is required in the upcoming budget for development of land, utility services such as water, gas, electricity, housing and recreation facilities for workers and necessary logistic facilities.
- Government should allocate necessary fund for public universities/institutes/centres to initiate diploma/post-graduate courses for developing mid-level management professionals in the RMG sector.
- Adequate funds should be allocated for the establishment of an institution that is able to cater to high-end segment of the demand curve for the RMG sector, preferably under public-private partnership (PPP). This would support production of high value-added apparel products for such markets as that of Japan.
- The establishment of 'Leather Industry City' is well behind the stipulated time line (deadline was June 2010, while only 43 per cent of development work will be completed by the end of June 2011). Development works of this project should be expedited with adequate allocation of fund in the next budget.
- In order to reduce uneven competition between domestically produced and imported medicines such as finished insulin and anti cancer drugs, VAT on raw materials should be exempted at import stage to reduce the cost of domestic production of these medicines.

5.2 Jute

- Government should consider setting up a specialised jute technology institute in the country in order to meet the growing need of professionals and technicians of the jute mills. Towards this, Bangladesh Institute of Textile Technology (BITT) located in Tangail which has specialised course on jute technology may be graduated into a full-fledged jute technology institute. Government should allocate necessary funds for upgradation and development of this institute.
- Government should allocate a special fund for jute mills under the proposed Technology Upgradation Fund for undertaking technological restructuring initiatives and modernisation of plants through installation of new machines and state of the art technologies.
- Necessary budgetary allocation should be made for research and development (R&D) particularly to develop jute seeds, raise quality of fibre and towards diversification of jute products. Such R&D activities should be initiated under the PPP arrangements taking into cognisance of the need of private sector jute mills.
- Subject to improvement of power supply situation, the government may consider eliminating the differential rates for industries in the form of peak and off-peak charges.
- Separate Harmonised Commodity Description System (HS) codes are required for machineries and spare parts imported for jute mills. At present these machineries are shown under the same codes applied for textile machineries.
- Jute manufacturing industry ought to be treated as agro-based industry as per the announcement of the government without delay.

5.3 Small and Medium Enterprises (SMEs) and Domestic Market-oriented Industries

- Import tariff on capital machineries across the board should be set at 1 per cent. At present import tariff on capital machineries is 1 per cent for export-oriented and 3 per cent for other industries. Domestic market-oriented industries will be benefited from this initiative.
- Interest rates on project loan and working capital for SMEs need to be recapped at 13 per cent. Banks providing such loans to SMEs should be supported to underwrite the costs. The budget should reiterate the commitment of the government to attain the target of 15 per cent of SME loans to be disbursed to women entrepreneurs, as has been set out in the *Industrial Policy 2010*.
- The budget should make provisions for the NBR to take more vigilant steps against over invoicing at the time of opening of Letter of credits.

5.4 Tourism and Real Estate Sectors

- Financial support should be provided for tourism infrastructure projects to be developed under the PPP. These projects may include development of tourism-related infrastructure and road and railway linkages.
- Financial support should be provided for the promotion of heritage tourism (e.g. heritage sites) and nature and wild life tourism (e.g. Sundarban), and development of 'Exclusive Tourist Zone' in prominent tourist destinations (e.g. Teknaf, Cox's Bazar).
- In order to encourage use of alternate sources of electricity in urban housing projects, subsidised credit should be provided for setting up solar power panels.

5.5 Industrial Workers

- Budget allocation for the Ministry of Labour and Employment needs to be significantly increased with a view to enhance the capability of the Ministry to ensure workers' safety and security such as establishment of labour inspection offices in all major cities, recruitment of labour inspectors and providing necessary logistics to the inspectors to take up regular and timely visit of factories.
- Budgetary allocations should be made towards various activities (including providing insurance for workers) as envisaged under the *Labour Welfare Foundation Act 2006*.
- There are 29 Worker Welfare Centres in existence in the country to provide basic health and treatment facilities. Because of inadequate funds, these centres are, to a large extent, dysfunctional (shortage of medicines and treatment facilities, shortages/absence of doctors and health workers). Instead of including them as 'unapproved' and 'unallocated' projects under the national budget for FY2011-12, necessary allocation should be made for these centres to be appropriately functional.
- Development of workers' housing facilities in major industrial zones under PPPs should be considered for budgetary allocation in the upcoming budget.
- Government should allocate adequate revenue budgets for appointment of more judges in order to make labour courts effective and reduce backlog of cases.

6. ENERGY, INFRASTRUCTURE AND COMMUNICATION

6.1 Energy and Power

- The government should put high importance on medium and large power plants in place of smaller rental and quick rental plants, keeping in mind the long-term solution of power crisis in Bangladesh. For that there is a need to initiate more combined cycle power plants besides undertaking large coal-based plants in the country. It also should seriously take into consideration the issue of increasing the level of efficiency in the public-run aged power plants with a dedicated fund allocation for their regular upgradation, maintenance and systematic overhauling.

- With regard to locally delivered finished goods to independent power producer (IPP) projects, or rental power plants (RPPs), zero customs duty may be allowed for imported raw materials for such projects.
- In view of the ongoing power crisis, the government may consider further reduction/abolition in the existing duty on import of some of the green technologies meant for power generation currently varying between 5 per cent to 12 per cent.
- There is a need for strengthening the allocation to the Bangladesh Petroleum Exploration & Production Company Ltd. (BAPEX) in the coming budget to carry out periodic 3D seismic readings of the country's geographic surface in order to aid gas, oil and coal exploration, and to keep tabs on the state of the country's natural reserves.
- In the backdrop of the rising demand for gas in the country, the budget may propose to introduce a multi-metering billing system with regard to consumption of gas by households and factories to reduce misuse of the gas resource.
- The budget may allocate resource for establishing a fund and provide special incentives in the form of loans with low interest to large commercial buildings and hospitals so that they can go for generating solar energy for self-consumption.
- The upcoming budget may consider providing assistance and support to generation and distribution of localised renewable energy by using bio-mass fuels.
- The budget may allocate funds to continue with the distribution of energy saving bulbs.

6.2 Transport, Connectivity and Construction

- Exploration of the possibility of raising funds aimed at developing infrastructure of the country by allowing 'sectoral mutual fund' in the stock markets and also through PPP initiatives should get positive signals in the upcoming budget.
- Rail service in the country should receive highest priority to ease the pressure on the over-burdened roadways. Thus there is a need to design a plan to develop a non-roadways mass transportation mechanism in the country: railways and waterways. A *Vision Railway for Bangladesh* is a demand of the time. For that, it is very important to first recover all railway lands and other properties from illegal occupation. The government should target expansion of railway route networks in the country and maximises its uses with introduction of – additional train services, online rail-ticket booking, and upgradation of the existing rail station facilities, among others.
- It is also important to strengthen the facilities at the Chittagong and Mongla Ports in view of the proposed enhanced connectivity with neighbouring countries and the expected larger trade flow. The budget should consider additional allocations for that.
- A separate section within the crime branch of Bangladesh Police titled Cyber and Phone Crime Branch is required to efficiently handle related crimes. There is a need for budgetary allocation for setting up such a window in the Police Department.

6.3 Information and Communication Technology (ICT)

- In view of the debate around fixation of license renewal fees for mobile telecom companies, it is suggested that these should be based on justified arguments, taking into consideration economic rationale and the practice in place in comparable countries.
- Government should withdraw 15 per cent VAT charged over the use of internet services in order to encourage more extensive internet uses in the country.
- The bandwidth charges should be reduced further (from the existing level of Tk. 12,000 to for example, Tk. 5,000 for one MB) which is likely to have a positive knock-on effect on reduction of charges at users' level.
- Lack of back up support in the submarine cable connection is considered as a major obstacle for developing international network-based businesses in Bangladesh (e.g. call centre business). Necessary budgetary allocation is required for setting up the connection of the second submarine cable in the country.

- Increased budgetary allocation, timely disbursement and early completion of projects should be of highest priority for projects such as Software Technology Park (STP) at Mohakhali and High-tech Park (Phase 1) at Kaliakoir.
- The budget may allocate additional funds for strengthening the broadband internet-enabled common service centres in rural areas, and put in place a scheme for establishing nationwide area networks.

7. SOCIAL SECTORS

7.1 Social Safety Net

- Detailed information on the safety net programmes should be made public during the announcement of the national budget proposals. These should include information about district/coverage area-wise (and phase-wise, where applicable) allocations for at least the major programmes. Bangladesh should gradually move towards a more comprehensive safety net with a view to designing a social security programme in future.
- Use of PPP in implementing social safety net programmes is not new in Bangladesh. Experience shows that the poorest groups in the society are often left out of, or are relatively less benefited from government's social safety net interventions. In view of this, several non-government organisations (NGOs) have started special programmes specifically targeted towards the ultra poor. The government can build partnership with NGOs to implement these types of programmes on PPP basis, where funding, design, implementation, monitoring and evaluation can be performed jointly by the government and the NGOs.
- Allocation for the fund for the welfare of acid burnt and physically challenged needs to be increased. The private sector may be given incentives to employment opportunities for such victims of violence.
- All public and private institutions (e.g. hospitals, educational institutes, courts, offices) should have wheelchair ramps to facilitate independent movement of physically challenged people. Necessary instructions towards this end should be issued by the government. Where necessary, provisions for targeted allocation will need to be earmarked in the upcoming national budget to ensure this.

7.2 Health

- Bangladesh is lagging behind in terms of attaining a number of health-related Millennium Development Goals (MDGs) including *reducing maternal mortality rate per 100,000 live births* and *increasing proportion of births attended by trained health personnel*. This calls for more allocation for producing more trained health professionals in the maternal healthcare sector.
- According to the Report on Social Study on Government Education and Health Care Condition 2010, Campaign for Good Governance, around 68 per cent of outdoor patients at district hospitals do not get free medicine from the hospitals. About 69 per cent of health and family welfare officials reported that there is neither alternative nor adequate power supply to ensure smooth functioning of the hospitals. In view of this, the government needs to allocate adequate funds to ensure both quality and quantity of healthcare services at district hospitals.
- The National Health Policy includes plans to provide healthcare cards to the ultra poor. The database, created for the National ID cards, should be used by the government to ensure proper targeting of genuine potential beneficiaries to make the programme effective.
- Tax exemption for equipment for persons with disability is still limited. Government may consider reducing the duty on import of these items.

7.3 Education

- Special stipend programme should be introduced for children from low-income families going to public universities. The government may also consider providing Interest-Free Education Loan to these students on merit basis who will then repay the amount within a given timeframe (e.g. five years from the date of graduation).

- All existing public Technical and Vocational Education Training (TVET) institutions need to be modernised and equipped with technologically advanced teaching and learning materials. To reduce the existing gap between the demand for and supply of skills in the contexts of domestic and global market, curricula need to be reviewed and human resource situation must be significantly improved.
- While the European Commission (EC) assisted School Feeding Programme is a welcome initiative; similar programmes need to be introduced in different poverty-prone regions of the country with a view to increasing enrolment, retention rates and improving quality of education in primary schools. In view of this, government may consider adding School Feeding Programme as a new sector in the existing corporate social responsibility (CSR) list.

7.4 Women Empowerment

- There should be a gender audit both at the stage of preparation and outcome assessment of the budget. In general, allocations in sectors from which women stand to benefit most should be increased. In the budget of FY2010-11, ten ministries included budget for women which can be encouraged to be followed by other ministries as well.
- Employment generation schemes for women who are the sole earning member of their respective families should be introduced. Women from poor families should be included in such schemes and also provided training according to the activities at upazila level. Government should also provide monthly remuneration supporting this scheme.
- The issue of women's repression and the severity of various forms of violence against women pose considerable threat towards the efforts of the government to create a just and tolerate society. While the law against violence has been passed in the national parliament, government needs to allocate separate fund for such victims towards medical and legal support.
- Climate change has been severely affecting the marginal population of Bangladesh, mostly women and children. In places affected by climate change the government can introduce special employment programme and healthcare services for women.
- Considering the current price levels, monthly allowance for widowed and physically challenged women should be increased to Tk. 500 from Tk. 350. Similarly, monthly allowance for lactating mothers should be increased from Tk. 350 to Tk. 500.
- The Maternal Health Voucher scheme should be continued and expanded to more than 45 upzilas, particularly in the *monga*, *char* and *haor* areas.

8. ENVIRONMENT, CLIMATE CHANGE AND DISASTER MANAGEMENT

8.1 Environment

- The Polluters Pay Principle is a useful strategy to take actions against polluting and non-compliant industries. A pollution tax or Green Tax may be levied on all inorganic waste generated by various different industries to encourage the installation of effluent treatment plants (ETPs).
- Initiatives already taken for cleaning the critically degraded and important rivers should be further intensified through budgetary allocations.
- The *Dhaka Detailed Area Plan* designed by the government must be fully and faithfully implemented by imposing tough restrictions with regard to supply of civic amenities such as water, gas and electricity to those flats/industries which are built on converted wetlands. Wetlands are critically important for environmental health of Dhaka city, particularly for recharging its ground water level which is at present experiencing alarming depletion, and leading to high risk of ground water contamination for the city.
- Budgetary measures may be imposed on import of polluting motor vehicles/parts of vehicles to discourage their use which cause health hazards.
- Removal or reduction of import duties and VAT from chemicals used for ETPs should be given consideration in the upcoming budget.

- Most importantly, it is the demand of the time to start internalising environmental and climate change concerns in all ADP projects. Keeping in mind this emergent need, the government should introduce relevant provisions in ADP projects related to water, energy, transport and land use.

8.2 Climate Change

- Following the trend with regard to making special allocations for climate change-related initiatives in the last two budgets, the upcoming budget should also provide: (i) funds for 'green financing' and 'developing and disseminating green technology' in the country; and (ii) special allocation for generating clean energy from 'non-conventional sources.'
- There is a need to have budgetary provisions for development of an agro-ecological zone-based climate policy in the country. This is important particularly for sustainable agriculture sector practice in Bangladesh as vulnerability to climate change varies across different agro-ecological zones in the country.
- A project tentatively titled 'Technological Needs Assessment for the Agriculture Sector in Bangladesh' is a demand of the time to identify possible adaptation measures in agriculture in the face of climate change. The budget should have an allocation to this end.
- There is a need to expand allocation for 'Agriculture Insurance' scheme introduced in the last year's budget, particularly for the most vulnerable areas in the country.

8.3 Disaster Management

- Allocation should be made for environmental and disaster risk-related awareness building, and expansion of research capacity in the country. Under the National Council for Science and Technology (NCST) fellowship, young graduates may be provided with scholarships to conduct research on climate change issues, particularly on micro level adaptation and impact assessment. The upcoming budget may recognise this need make necessary allocations.
- In addition to fund for reconstruction of embankments in *Aila* affected areas, allocation should also be made for new embankments at important points of the coastal zones to provide safeguards against future surges.
- Priority basis supply of agricultural inputs for climate-affected coastal and drought-prone areas of the country should be given consideration in the upcoming budget.
- Allocation for social afforestation programmes, particularly for the coastal and river-bank (*char*) areas of the country should be continued in the budget.
- To safeguard against possible earthquake-related disasters, the upcoming budget may consider allocating funds to train special volunteers to be associated with the fire-defense service.

9. PUBLIC-PRIVATE PARTNERSHIP (PPP)

- As envisaged in the Policy and Strategy for PPP, Office of the PPP is to be set up to act as a bridge connecting private and public sectors. The upcoming budget for FY2011-12 could provide a block allocation to establish the Office as an autonomous unit under the Prime Minister's Office and to provide fiscal support to the Office so that it is enabled to discharge its responsibilities with a certain degree of financial independence. It is proposed that an independent fund be created for the Office of the PPP, separate from the allocation for the Prime Minister's Office. Such a separation of allocation would help to promote transparency in the PPP operations.
- For attracting large funds, the government could consider offering medium to long-term concessional contracts under the PPP, depending on size of the project, to incentivise foreign investors. It is important that the fiscal incentives in these contracts be at par with the incentives provided to other foreign direct investment (FDI) and export-oriented investments, and information on this should be given upfront. The concessional contracts should address contingent liabilities which may be incurred by both parties over the life span of large-scale projects. If and when time permits, the government could consider offloading initial public offerings (IPOs) of the Bangladesh Infrastructure Finance Company Ltd. (BIFCL) to attract investors to the country.

10. EXPORT-ORIENTED SECTOR

- Cash subsidy (5 per cent at present) for the textile industries, which is scheduled to end by June 2011, should be extended for another five years. This is particularly important in view of the European Union's (EU) Generalized System of Preferences (GSP) policy shift (from two stage conversion to one stage conversion) which could potentially create disincentive with regard to domestic procurement of fabrics.
- Since the number of non-tariff barriers (NTBs), particularly in the form of SPS measures faced by Bangladesh exporters, are on the rise, strengthening the Bangladesh Standards and Testing Institution (BSTI) should receive the highest priority. This is also important in the context of the proposed South Asian Regional Standards Organization (SARSO) which will be established in Dhaka.
- Appropriate storage facilities for the export of perishable goods should be set up at Bangladeshi airports. This is particularly critical for the country's pharmaceutical industries requiring temperature controlled storage facilities for life-saving drugs and vaccines.
- 100 per cent export-oriented industries located in the domestic tariff area (DTAs) may be allowed to enjoy selected facilities as those enjoyed by industries located in the EPZs, provided that these industries are able to comply with maintaining factory level and worker related rules and regulations properly. These facilities may include duty-free import of office equipments and other machineries.
- Time limit for claiming duty-drawback should be extended to one year in order to reduce hassles involved in the process of submitting required documents (stipulated time now is six months).

11. OVERSEAS EMPLOYMENT

- Creation of a special Contingency Fund for overseas Bangladeshi migrant workers has emerged as an initiative of critical importance, particularly in view of recent experience in the Middle East and North Africa (MENA) countries. Such a fund would be used for ensuring safety, evacuation, support for settling down and re-migration of migrant workers).
- Establishment of the Expatriate Welfare Bank (*Probashi Kalyan Bank*) is a welcome initiative. The Bank will need to be geared towards supporting both job-seekers and returnee migrants through availability of ready credit to reduce cost of migration and develop entrepreneurship.
- In view of the current and future demand for health professionals in the Middle East and Europe, the government should consider setting up special Nurse Training Institutes at least one in every divisional head quarter. The budget for FY2011-12 should have specific allocation for establishing these institutions. The current problems faced by the private sector in setting up such institutions should be addressed on an urgent basis.

12. PRICE STABILISATION SUPPORT

- In order to ensure food security, government should continue zero tariffs for rice, wheat and lentils.
- Ad-valorem tariff depends on the import prices. The government may consider replacing the existing ad-valorem tariff structure by introducing specific tariffs for essential items of consumption.
- Prices of edible oils such as soya and palm in international market have experienced steady rise throughout the last several months. In this backdrop, the government may reduce the VAT on edible oils (crude and refined) from existing 10 per cent to zero per cent.
- With a view to ensuring food security and controlling food inflation, government should set the targets of foodgrains procurement at higher level (about 12-15 lakh MT) with a view to stabilising food prices. At the same time, government is required to import essential commodities periodically from the global market for balancing the deficit in food import account. Adequate budgetary allocation will be needed towards this.
- Specific budgetary allocation is needed for the Trading Corporation of Bangladesh (TCB) to conduct price stabilisation operation during the month of Ramadan through monitoring, import and direct selling.

- Adequate allocations will need to be made to cover the difference between the procurement price and the open market sale (OMS) price.
- In the budget of FY2010-11, government reduced the bank interest rate on L/C opening from 15-16 per cent to 12 per cent which eased the cost pressure of essential food items. In the backdrop of current food prices in the international market, the government may continue this practice.

13. CONCLUDING REMARKS

In the recent past a major strength of Bangladesh economy has been in generating moderately high growth with low levels of inflation. A major focus of upcoming budget for FY2011-12 will be to maintain macroeconomic stability and growth momentum. To attain this, the upcoming budget must ensure raising allocative efficiency, enhancing implementation capacity and strengthening monitoring and outcome assessment.