2

CHAPTER

Analysis of National Budget FY2011-12

2.1

INTRODUCTION

The national budget for FY2011-12 and the revised budget for FY2010-11 were presented by the Hon'ble Finance Minister of Bangladesh on 9 June 2011. The budget was placed in the backdrop of rising pressure on macroeconomic management as signs of weaknesses began to appear in some of the key macroeconomic indicators towards the end of FY2010-11. In keeping with its tradition of putting the budgetary framework and proposals under close scrutiny, the Centre for Policy Dialogue (CPD) had earlier organised a series of events to project its views and perspectives on the progress made in the context of the various indicators relating to the FY2011-12 Budget.

CPD presented its immediate reactions on the national budget for FY2011-12 at a well-attended media briefing on 10 June 2011, the day after the budget was placed before the national parliament. CPD also organised a national dialogue on 18 June 2011 in Dhaka with participation of high level policymakers, Members of the Parliament (MPs), leaders of political parties, representatives from private sector, non-government organisations (NGOs) and civil society, academics and other stakeholders. CPD's presentation was based on an in-depth analysis of the various budgetary proposals and the fiscal stances taken by the government. Again, a regional dialogue was held in Chittagong on 25 June 2011 in collaboration with the Bangladesh Economic Association (BEA), Chittagong Chapter to take cognisance of views from the thinkers and stakeholders of the Port City. Participants at both dialogues shared their views on the analysis presented by the CPD, and commented on various aspects and measures proposed in the budget. Reports of these dialogues are included in this volume as Annex 1 and Annex 2.

FY2011-12 has been benchmarked by commendable revenue mobilisation by the National Board of Revenue (NBR), rebound in export earnings, and momentums in private investment and domestic demand. On the other hand, a certain degree of disquiet afflicted the economy with mounting pressure on foreign exchange reserves, slow down in remittance growth, underutilisation of foreign aid, and the urgency of maintaining food security. The budget for FY2011-12 is to tackle a number of challenges including soaring inflationary pressure, deteriorating balance of payments (BOP), apprehension with regard to liquidity in money market, and financing of the rising budget deficit.

The budget speech of the Finance Minister had set out with a slogan that said *Towards Building a Happy, Prosperous and Caring Bangladesh*. The speech featured a detailed narrative of achievements by the present government. The Document also presented a report card on some of the election promises of the Grand Alliance which was claimed to have been kept. For example, the speech recalled that net enrolment at primary level was targeted to be 100 per cent by 2010; it was reported that this had risen to 99.3 per cent. It is also important to mention that, as it appears from the speech, some of the election pledges were also revised. For example, the employment guarantee scheme was supposed to provide 100 days of employment per year for one youth from every family. The flagship employment generation programme of the government titled *Employment Generation Programme for the Poorest (EGPP)* was scaled down to 80 days. Some election promises remained unmet. The election manifesto's targets included supplying pure drinking water to all citizens by 2011. Though new water sources have been set up, not all citizens had access to arsenic-free pure drinking water. In view of this, a comparative matrix of promises and actual achievements would have been helpful to citizens to have a better understanding of the actual track record.

The budget for FY2011-12 also includes contextualisation of global trends and a revised Medium Term Macroeconomic Framework (MTMF) taking cognisance of the emerging realities. Growth target for FY2011-12 stands at 7 per cent and was set to increase to 8 per cent by FY2014-15 (Table 2.1). Growth projection for broad money (M2) was moderate, while inflation target for FY2011-12 remains moderately high. However, questions remained as to how the high growth targets in government borrowings (to finance budget deficit) would be accommodated with the envisaged moderate growth of M2! With respect to the external sector, in reference to the high benchmarks of FY2010-11, targets for export and import are set at a lower level. The target of foreign exchange reserve for FY2011-12 (USD 11.6 billion) was unlikely to be attained in view of expected slowdown in export and remittance growth with continuing high import and uncertainties about timely disbursement of foreign aid. In view of the missing links between various targets of MTMF, one wonders whether the presented Framework depicted a 'reality-based projection' or just an 'ideal set of targets?'

Table 2.1

Medium Term Macroeconomic Framework

Indicator	Revised	Projections				
	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016
Real Growth (%)	6.7	7.0	7.2	7.6	8.0	8.2
Total Revenue (as % of GDP)	12.1	13.2	13.4	14.0	14.6	15.2
NBR Tax	9.6	10.2	10.8	11.4	12.0	12.6
Non-NBR Tax	0.4	0.4	0.4	0.4	0.4	0.4
Non-Tax	2.0	2.5	2.2	2.2	2.2	2.2
Total Expenditure (as % of GDP)	16.5	18.2	18.4	19.0	19.6	20.2
Budget Deficit and Financing (as % of GDP)	4.4	5.0	5.0	5.0	5.0	5.0
Domestic Financing	3.1	3.0	3.0	3.0	3.0	3.0
Banking System	2.3	2.1	2.2	2.2	2.2	2.2
Non-Bank	0.8	0.9	0.8	0.8	0.8	0.8
Net Foreign Financing	1.3	2.0	2.0	2.0	2.0	2.0
Inflation (Annual Average %)	8.0	7.5	7.0	6.5	6.0	5.5
Credit to Private Sector (% change)	27.0	20.0	18.0	18.0	18.0	18.0
Broad Money (M2) (% change)	20.0	16.0	16.0	16.0	16.0	16.0
Export (% change)	38.0	14.5	14.5	14.5	15.0	15.0
Import (% change)	45.0	14.0	14.0	14.5	14.5	15.0
Remittances (bln USD)	11.5	12.7	14.2	15.9	17.8	20.0
Current Account Balance (% of GDP)	-0.3	-0.2	-0.2	-0.3	-0.4	-0.6
FOREX Reserve (bln USD)	10.7	11.6	12.9	14.5	16.1	17.6

Source: Medium Term Macroeconomic Framework 2011, Ministry of Finance (MoF).
Note: GDP: Gross domestic product.

Before going into the detailed analysis of the Budget FY2011-12 one will need to keep in mind the four envisaged trade-offs for the government in FY2011-12: (i) growth vs. macroeconomic stability; (ii) subsidy requirement vs. other priorities; (iii) government borrowing vs. servicing private sector credit demand; and (iv) exchange rate: inflation vs. export.

The remainder of this chapter has six sections. Following the introductory section, the discussion sets off with a brief analysis of the envisaged public finance framework in the national budget for FY2011-12 in Section 2.2. Section 2.3 provides an overview of proposed fiscal measures, while a review of budgetary measures for different sectors are presented in Section 2.4. Section 2.5 and Section 2.6 deal with the budgetary allocations for social sectors and various safety net programmes respectively. The chapter rounds up with a few concluding remarks.

2.2

PUBLIC FINANCE

The national budget for FY2011-12 has envisaged an expenditure package of Tk. 163,589 crore which is 25.8 per cent or Tk. 33,578 crore higher than the revised budget for FY2010-11. The estimated growth target of 24.4 per cent for revenue mobilisation indicates a faster growth on the expenditure side when compared with the earning side. As percentage of GDP the proposed public expenditure (18.2 per cent of GDP) in FY2011-12 is about 1.7 percentage points higher than that of FY2010-11 (16.2 per cent in the revised budget). The proposed Annual Development Programme (ADP), to the tune of Tk. 46,000 crore, is equivalent to 28.1 per cent of total public expenditure; this was 27.6 per cent in the revised budget for FY2010-11. Overall budget deficit is projected at 5 per cent of GDP for FY2011-12. For financing of the deficit, the government has planned to rely on the banking system, which means the private sector may have to compete with the government for access to finance in the credit market. High foreign financing target (79.8 per cent growth over the revised budget of FY2010-11) is set with an anticipated gross foreign aid flow of about USD 3.3 billion. As the targets for both revenue earnings and expenditures are set on the high side in the revised budget, growth targets for FY2011-12 are likely to be higher when calculated over the actual figures of FY2010-11.[1] In order to have a better understanding of the budgetary proposals and fiscal stance, one may separate the four real defining elements in the framework – revenue earnings (NBR and non-tax), subsidy, ADP expenditure and foreign financing of fiscal deficit.

2.2.1 Revenue Earnings

Budget for FY2011-12 has targeted a revenue earning of Tk. 118,385 crore which implies that an additional Tk. 23,198 crore will need to be mobilised in FY2011-12 when compared to the revised budget target of FY2010-11. As a result, revenue-GDP ratio and tax-GDP ratio are expected to increase to 13.2 per cent and 10.6 per cent respectively in FY2011-12 from the previous year's revised matched figures of 12.1 per cent and 10 per cent respectively.

NBR Components

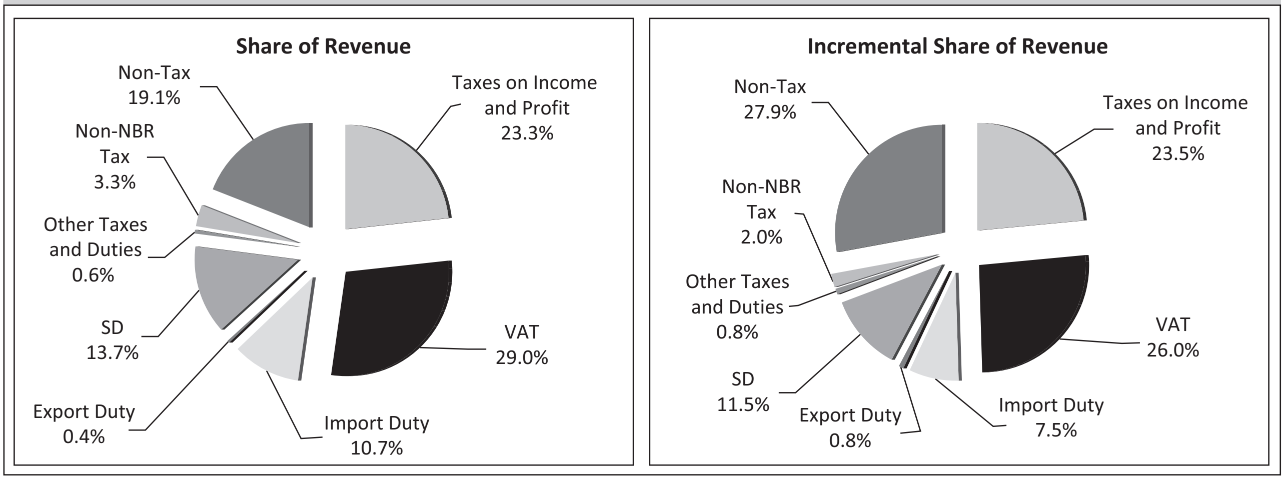
As it stands, in order to achieve the revenue earnings set for target FY2011-12, NBR will have to play the key role and contribute the largest share (70 per cent) of the additional revenue (Figure 2.1). The share of NBR in total revenue has decreased to 77.6 per cent for FY2011-12 from 79.4 per cent in FY2010-11 (revised). Overall, the NBR growth target for FY2011-12 is set at higher level, at 21.2 per cent, over the revised budget figure of FY2010-11. This growth rate was 26.5 per cent in FY2010-11 (revised).

Within NBR, tax collection efforts from domestic sources (income tax, value added tax (VAT) and supplementary duty (SD)) will need to be intensified to attain the targets. The targets for FY2011-12 are set with reference to their recent performance particularly in view of the significant contribution of these sources in FY2010-11.[2] In fact the growth

[1] At the end of FY2010-11, actual revenue and expenditure growth targets turned out to be 29.6 per cent and 31.1 per cent respectively.
[2] At the end of FY2010-11, actual growth in income tax, VAT and SD turned out to be 33.3 per cent, 29 per cent and 27.8 per cent respectively.

Figure 2.1

Projected Share and Incremental Contribution of Sources in Revenue Growth: FY2011-12



Source: Estimated from the Ministry of Finance (MoF) data.

targets set for these three sources (24.7 per cent for income tax, 21.3 per cent for VAT and 19.7 per cent for SD) are set on the lower side compared to their robust performances during the preceding fiscal year. The target for customs duty (CD) in FY2011-12 is somewhat conservative (16 per cent) against the revised budget for FY2010-11, as the import payments had gone up in recent months. In view of the proposed fiscal measures, expected improvement in revenue collection efforts and high price levels, it appears that the targets for NBR tax components should be within the reach.

Non-NBR Components

The budget predicts a significant recovery of non-NBR tax and non-tax revenues in FY2011-12. It is also projected in the revised budget of FY2010-11 that collection through these two revenue components will improve during the second half of FY2010-11. The performance during the first half, however, does not indicate this when a negative growth of (-) 12.9 per cent was achieved.[3] Such a shortfall in benchmark (FY2010-11) would mean a higher than stipulated growth targets for FY2011-12.[4] Within the additional Tk. 6,465 crore targeted from non-tax sources, Tk. 4,893 crore is expected to come from 'Other Non-Tax Revenue and Receipts.' It appears that, attainment of this target will largely hinge on the decision with regard to telecom spectrum fee and its timely collection.

2.2.2 Public Expenditure

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 Public Services sector over the revised allocations of FY2010-11. Total allocation for Public Services is set to increase by 1.4 times, driven partly by subsidies (including for export), public-private partnership (PPP) and lump allocation for development programmes financed from the revenue budget. Expenditures on Industrial and Economic Services sector, and Transport and Communication sector are also projected to post significant growth of 40.2 per cent

[3] At the end of FY2010-11, in aggregate, revenue collection by non-NBR and non-tax components resulted in a shortfall by a margin of 23.4 per cent (Tk. 4,591 crore) against their joint revised target.

[4] This shortfall will mean that higher growth rates (76.8 per cent) will be required compared to what has been projected in the budget of FY2011-12 (35.4 per cent) to reach the target.

and 30.2 per cent respectively (Table 2.2). Interest Payments is also likely to post significant rise (by 23.5 per cent).

Revenue Expenditure

Revenue expenditure (augmented) as a percentage of GDP is set at 11.4 per cent which was 10.6 per cent in the revised budget for FY2010-11. Revenue expenditure target for FY2011-12 is set at Tk. 91,897 crore with a 13.6 per cent growth over the revised target of FY2010-11 (Table 2.3). Share of three major heads (Interest Payments, Pay and Allowances, and Subsidies and Current Transfers) stands at 80.8 per cent in FY2011-12 (83.2 per cent of FY2010-11). About one-third of the total incremental revenue expenditure (Tk. 10,977 crore) will be due to envisaged rise in interest payments, particularly from domestic interest payments. Interest payments is to increase by 23.5 per cent in FY2011-12 over the revised budget target. Interest payments for domestic borrowings is expected to make a significant growth of 25.6 per cent while foreign interest payments will increase by only 3.9 per cent. Expenditure on Pay and Allowances is set to rise by 5.7 per cent in FY2011-12. Expenditure on Subsidies and Current Transfers will contribute 37.7 per cent of total revenue expenditure and is set to increase by 7.4 per cent. However, it is important to note that, 'Subsidies and Current Transfers' reported in economic analysis of non-development revenue expenditure does not include all subsidy expenditures. Public budget documents also did not provide a detailed account of subsidy expenditures and contingent liabilities for FY2011-12. The MTBF Document reports that revised allocation for total subsidy in FY2010-11 was Tk. 16,085 crore (2.3 per cent of GDP). One can understand that subsidy allocation for FY2011-12 is set to rise by a substantial amount and may get close to 3-4 per cent of GDP, particularly due to rising subsidy demand from fuel (Bangladesh Petroleum Corporation (BPC)) and power sectors (Bangladesh Power Development Board (BPDB)).

Table 2.2

Sector-wise Distribution of Total Expenditure

Sector	Share (%)		Change in FY2012 (B) over FY2011 (RB)	
	FY2012 (B)	FY2011 (RB)	Crore Tk.	Per cent
Public Services	14.7	7.7	13992.0	140.1
Education and Technology	12.4	14.3	1741.0	9.4
Interest Payments	11.0	11.2	3419.0	23.5
Agriculture	7.7	10.1	-553.0	-4.2
Local Government and Rural Development (LGRD)	7.5	8.1	1783.0	17.0
Defence Services	7.3	7.2	2633.0	28.3
Transport and Communication	6.9	6.7	2618.0	30.2
Social Security and Welfare	6.8	8.0	627.0	6.0
Health	5.4	5.9	1252.0	16.4
Public Order and Safety	5.2	5.8	921.0	12.2
Fuel and Energy	5.1	5.6	1055.0	14.5
Recreation, Culture and Religious Affairs	1.0	1.2	83.0	5.1
Housing	0.9	1.0	205.0	15.7
Industrial and Economic Services	0.8	0.7	373.0	40.2
Others (Memorandum Items)	7.4	6.7	3429.0	39.6
Total Expenditur (in Tk. Terms)	100.0 (163589.0)	100.0 (130011.0)	33578.0	25.8

Source: Estimated from the Ministry of Finance (MoF) data.

Table 2.3

Economic Classification of Revenue Expenditures

(in Per cent)

Indicator	Growth in FY2012 over FY2011 (RB)	Share FY2012 (B)	Share FY2011 (RB)	Incremental Share FY2012 (B)
Pay and Allowances	5.7	23.5	25.3	10.6
Goods and Services	7.6	12.8	13.5	7.6
Interest Payments	23.5	19.6	18.0	31.1
Domestic	25.6	18.0	16.3	30.6
Foreign	3.9	1.6	1.8	0.5
Subsidies and Current Transfers	7.4	37.7	39.9	21.7
Block Allocation	180.8	2.0	0.8	10.6
Deduct: Recoveries	-100.0	0.0	-2.2	16.4
Acquisition of Assets and Works	6.0	4.4	4.7	2.1
Total Augmented Non-Development Revenue Expenditure	13.6	100.0	100.0	100.0

Source: Estimated from the Ministry of Finance (MoF) data.

Annual Development Programme (ADP)

The ADP for FY2011-12 has been targeted at Tk. 46,000 crore (5.1 per cent of the projected GDP). The new ADP will be 28.2 per cent higher than the Revised ADP (RADP)

Table 2.4

Sectoral Allocation for Top Five Sectors in ADP for FY2011-12

(in Per cent)

Sector	Share FY2011 (ADP)	Share FY2011 (RADP)	Share FY2012 (ADP)	Growth in FY2012 ADP over FY2011 RADP
Transport	14.30	14.90	16.85	47.83
Power	13.00	14.30	15.59	42.96
Education and Religious Affairs	13.50	14.40	13.31	21.18
Physical Planning, Water Supply and Housing	9.20	9.50	12.61	73.33
Rural Development and Institutions	11.50	13.00	9.57	-3.23

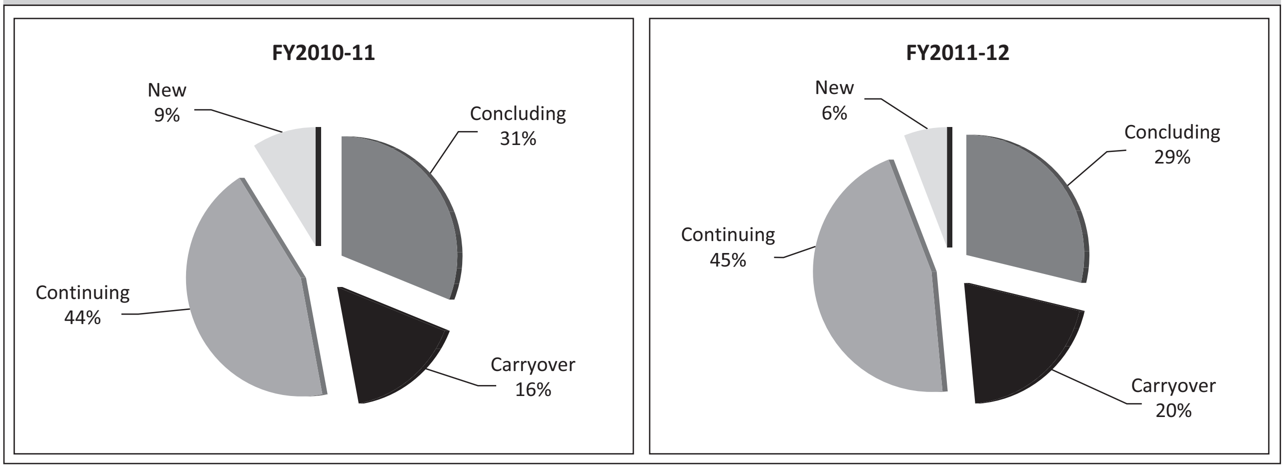
Source: Estimated from the Planning Commission data.

and 19.5 per cent higher than the original ADP of FY2010-11. Project aid component of the new ADP is targeted at 40.6 per cent of total (which was 33.3 per cent in the RADP and 39.7 per cent in the original ADP of FY2011-12). Five priority sectors in the ADP for FY2010-11 have received 67.9 per cent of the total allocation (Table 2.4). Allocation for Padma Bridge accounts for 28.2 per cent of the total allocation for the Transport sector, 78.2 per cent of this is expected to come from project aid.

In the FY2011-12 ADP, 77 new projects worth Tk. 2,251.91 crore have been included. This implies that only 5.7 per cent of total allocation is for new projects (Figure 2.2). Carryover projects consist of 19.9 per cent of the total allocation (which was 16 per cent in FY2010-11), while 325 projects with 28.6 per cent of total allocation is expected to be completed in FY2011-12. These to-be-completed and carryover projects will need to be prioritised in the process of ADP implementation. It is also important to know about the top 50 projects, which are under 'intensive monitoring.'

Figure 2.2

Structure of ADP in FY2010-11 and FY2011-12



Source: Based on the Planning Commission data.

An examination of the six 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 completion in FY2011-12. 46.7 per cent, 39.5 per cent and 38.1 per cent of respective allocations for the Power, Oil, Gas & Natural Resources, and Social Welfare sectors are carrying over. Even though Power Division spent 107 per cent of its RADP allocation during the first eleven months of FY2010-11, considerable reallocation among the projects within power sector had to be made because of the underimplementation of some of the old projects. Lack of progress with regard to the latter projects could put under question the attainment of the set targets for the Power sector.

Some 259 development projects, worth Tk. 14,000 crore are in the pipeline, and are listed in the FY2011-12 ADP list (without allocation) to attract foreign financing. About 35.6 per cent of projects in this list are carried over from the FY2010-11 list of unapproved projects. If the related negotiations are successful, an additional USD 230 million (Tk. 1,690 crore) of foreign aid would come to Bangladesh annually over the next five years. In view of past record, this is highly unlikely.

In case of the ADP for FY2011-12, 16 new PPP projects are included, of which 13 were in power sector. Fiscal allocation for PPP in FY2011-12 is 1.8 per cent (Tk. 3,000 crore of the total budget: Tk. 2,500 crore for the Bangladesh Infrastructure Finance Fund Company Limited (BIFFCL); Tk. 400 crore as Viability Gap Fund (VGF); Tk. 100 crore for technical support). Except for the fast implementing Jatrabari-Gulistan flyover (under build-own-operate-transfer (BOOT) arrangement of PPP), the budget for these much-hyped PPP initiative remained mostly unutilised over the last two fiscal years. The PPP Office is yet to be fully functional although some recruitments were made. A PPP focal point has also been established in each of the line ministries, however, overall progress in PPP had been very slow to say the least.

2.2.3 Budget Deficit and Financing

The revised budget for FY2010-11 projects an overall deficit (excluding grants) of Tk. 34,824 crore (4.4 per cent of GDP) for the fiscal year. With the possibility of ADP not attaining its revised target, the final budget deficit figure for FY2010-11 was likely to be lower than the revised targets. For FY2011-12, once again, a larger deficit of Tk. 45,204 crore has been projected which is expected to be within 5 per cent of the GDP (Table 2.5). However, in view of the growing subsidy requirement and increased demand for investment on account of infrastructure, adoption of moderately higher deficit in FY2011-12 appears to be a justified policy choice. This was also needed to guard against any apprehension about the inflationary pressure from its financing nature.

Table 2.5

Fiscal Framework in Budget FY2011-12

Description	FY2011 (RB)		FY2012 (B)		Growth in FY2012 (B) over FY2011 (RB) (%)
	Crore Tk.	% of GDP	Crore Tk.	% of GDP	
Revenue Collection	95187	12.1	118385	13.2	24.4
Total Expenditure	130011	16.5	163589	18.2	25.8
ADP	35880	4.6	46000	5.1	28.2
Non-ADP	94131	12.0	117589	13.1	24.9
Overall Deficit (excluding Grants)	34824	4.4	45204	5.0	29.8
Financing					
Foreign Grants	4224	0.5	4938	0.5	16.9
Foreign Loan (Net)	5783	0.7	13058	1.5	125.8
Foreign Loan	10920	1.4	18685	2.1	71.1
Amortisation	5137	0.7	5627	0.6	9.5
Domestic Borrowing	24817	3.2	27208	3.0	9.6
Bank Borrowing (Net)	18379	2.3	18957	2.1	3.1
Non-Bank Borrowing (Net)	6438	0.8	8251	0.9	28.2
Total Aid Requirement (Net)	10007	1.3	17996	2.0	79.8
Total Aid Requirement (Net) (bln USD)	1.4	-	2.5	-	79.8
Total Aid Requirement (Gross)	15144	1.9	23623	2.6	56.0
Total Aid Requirement (Gross) (bln USD)	2.1	-	3.3	-	56.0

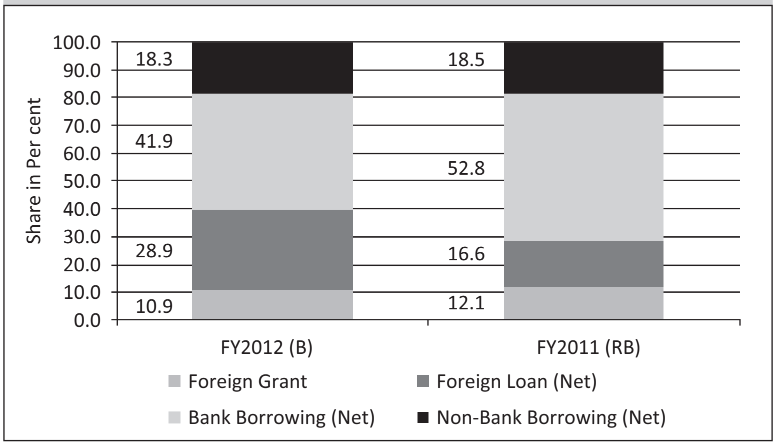
Source: Calculated from the Ministry of Finance (MoF) data.

With regard to financing of the deficit projected in the budget of FY2011-12, it may be noted that about 60.2 per cent of total deficit (Tk. 27,208 crore) is earmarked to be financed through domestic borrowing, of which Tk. 18,957 crore (69.7 per cent) is to come from the banking system (74.1 per cent in revised budget for FY2010-11), and Tk. 8,251 crore (30.3 per cent) to be mobilised through non-bank instruments (25.9 per cent in revised budget for FY2010-11).

The remainder 39.8 per cent is supposed to come from foreign sources that included foreign loans and grants (Figure 2.3). Gross foreign aid requirement is envisaged to be about USD 3.3 billion (USD 2.1 billion in revised budget FY2010-11) which is a challenging target particularly in view of the fact that only USD 1.4 billion was received during July-April, FY2010-11.

Figure 2.3

Sources of Deficit Financing



Source: Calculated from the Ministry of Finance (MoF) data.

The financing structure of budget deficit suggests that the government could not help but rely on bank borrowing. Thus, crowding out impact on private borrowing from banks should be monitored carefully, while inflationary impact needs to be considered as well. Much will depend on whether interest on National Savings Bond (NSD) certificates will be fixed at a level that matches market interest rates accrued from other savings alternatives (e.g. Fixed Deposit Receipt (FDR)).[5]

2.3

OVERVIEW OF FISCAL MEASURES

To meet the revenue expansion target, the budget for FY2011-12 has proposed a number of moves to expand the tax and VAT net. Some measures are also proposed to expedite the reform process in tax administration.

2.3.1 Direct Tax Measures

It may be recalled that the last adjustment in income tax threshold limit was made back in FY2008-09. Taking note of over 15 per cent inflation since then, income tax threshold limit has been raised to Tk. 180,000 from Tk. 165,000 in the budget for FY2011-12. Although this implies a 9 per cent upward shift of the exemption limit (lower than the recorded inflation in-between), the adjustment made in net terms appears to be logical considering the fact that significant growth in per capita income has also taken place during this time period (although the rate might have varied among income groups).

In line with the above revisions, exemption limits for individuals above 65 years, women and physically challenged people have also been raised, to various extents (from Tk. 180,000 to Tk. 200,000, and from Tk. 200,000 to Tk. 250,000 respectively). From the point of social justice, a differentiated tax slab for particularly vulnerable sections of people ought to be seen as a positive move.

[5]The interest rates of all NSD certificates were raised from 1 July 2011 along with a provision of Social Security Premium (SSP) at the time of maturity. The income tax at source (a flat 5 per cent rate) will be deducted before SSP payments. However, for most NSD certificates the interest rates are lower compared to interest rates on FDR.

Two distinctive initiatives proposed in the budget are notable with regard to personal income tax structure. *First*, 10 per cent surcharge on tax payable for those having wealth over Tk. 2 crore has been proposed. This is a welcome measure from the perspective of income distribution. *Second*, a bold and politically sensitive move to withdraw tax exemption for parliamentarians and government officials was also proposed.[6] This was a long awaited measure which would establish a semblance of equity between public and private sector employees.

The budget also proposes to impose a reduced rate of 5 per cent tax on the income from fisheries, poultries, etc. This was a move towards bringing the agriculture (non-crops) sector under the tax net and to further widen the tax net. However, one could question the timing of this move given the persistent high inflationary trend.

Another tax move proposed in the budget that appears to be unjustified relates to the deduction of tax at 10 per cent at the time of payment of service charges received from abroad by residents. There are two concerns in this regard. *First*, this particular income is tax-free and therefore the provision for deduction at source is contradictory. *Second*, the move may discourage the growing self-employment through catering to outsourced works from overseas. It may also encourage diversion of foreign earnings to bank accounts held in overseas by relevant clients.

The budget for FY2011-12, however, made no changes in corporate tax rates.

2.3.2 Special Tax Measures

The government in its budget proposals for FY2011-12 made a number of moves to improve savings and investment situation in the economy. For investment in national savings schemes, tax deduction rate has been brought down from 10 per cent to 5 per cent. This is likely to benefit smallsavers and pensioners. On the other hand, this could impact, albeit on a limited scale, the availability of non-bank borrowing sources of financing for the government.

The budget also maintained the provision of allowing investment in Bangladesh Infrastructure Finance Fund Limited (BIFFL) or Treasury Bonds, without questioning source of income, subject to payment of tax at the rate of 10 per cent. However, it is to be noted that BIFFL Bond was to be issued last year and this did not happen. The Finance Minister stated that the Bonds will be issued in three months.[7] In addition to this, the provision of lower than minimum usual tax rate (which is 15 per cent) creates moral hazard for regular taxpayers.

2.3.3 Custom Duties, Supplementary Duties and VAT

Given the inflationary pressure and in the backdrop of concerns about food security, the budget for FY2011-12 continues with the earlier fixed zero import duty on rice, pulse, wheat, sugar, edible oil, onion, fertiliser and seeds. This appears to be the right policy choice in the current context. The budget also continues zero import duty on life saving medicines which is indeed a major contribution to the health sector. It has also been proposed that SD on chewing tobacco be raised to 30 per cent from 10 per cent, driven by

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[6] On 17 November 2011, the Cabinet decided to bring the salaries of the Prime Minister, ministers, state ministers and deputy ministers under the tax net. In view of this, the Cabinet approved the proposals for amending *The Prime Minister's (Remuneration and Privileges) Act 1975* and *The Ministers, State Ministers, and Deputy Ministers (Remuneration and Privileges) Act 1973*.

[7] In October 2011, the Bangladesh Bank has issued a license for BIFFL as a non-bank financial institute to facilitate the country's infrastructural development activities.

the ambition of curtailing its consumption. However, only a marginal increase in SD on cigarettes has been proposed.

Significant increase in SD on cars has been proposed which is likely to have positive implications from the perspective of both revenue generation and traffic congestion. However, this will only be applicable for the 'double cabin pick-ups' which will perhaps limit possible impact.

The budget has proposed the increase of SD on imports of all kinds of fabrics and readymade garments (RMG) articles from 20 per cent to 45 per cent. This is a welcome measure as it will improve the protection available for domestic market-oriented apparel industries. At the same time, the proposed measure to continue with 5 per cent regulatory duty on the import of finished products (along with 25 per cent import duty) is also likely to help protect the local industry and increase revenue collection.

While the proposed SD on cards incorporating a magnetic stripe and import tariff on SIM (Subscriber Identity Module) cards will generate revenue, the budget has reduced tax on SIM card (under VAT) from Tk. 800 to Tk. 600 which is likely to lead to a revenue implications of (-) Tk. 300 crore. One could apprehend that although there is a revenue consequence of the move for the government, there will be no impact on consumers as the tax burden tends to be usually absorbed by the service providers.

The budget has also increased CD on imported textbooks from 5 per cent to 12 per cent which will raise educational expenses for students, and as such, indeed amounts to taxing knowledge.

2.3.4 Export Tax

In the budget for FY2011-12, tax deductable at source for exports is raised to 1.5 per cent while the previous rate was in the range of 0.4 per cent to 0.5 per cent.[8] This will add to the cost burden of the exporters. Since the proposed change is not insignificant, it would have been more appropriate if this increase was made in a more gradual manner to help exporters to cope with the situation accordingly.

Export tax on tobacco (not stemmed, partly stemmed or wholly stemmed) has been reduced from 10 per cent to 5 per cent (Table 2.6). This is likely to encourage cultivation of tobacco leafs, resulting in diversion of agricultural land. Given the already threatened food security situation and the uphill task of further enhancing crop production (particularly of cereals) to keep pace with the population growth, the proposal does not appear to be rational.

Table 2.6

Some Selected Changes in Tax Rates

Item	Duty/Tax	FY2011 (%)	FY2012 (%)	Implication
Liquefied Petroleum Gas (LPG)	Import duty	5	0	Likely to increase the use and reduce pressure on domestic gas supply
All kinds of RMGs and similar articles	SD	20	45	Increased effective rate of protection (ERP) to local industry
Cotton waste	Export duty	0	25	Prevent export and support local textile industries

(Table 2.6 contd.)

[8] Later, the export tax rate at source was reduced to 0.6 per cent for the garments sector, and 0.7 per cent for other industries from the proposed rate of 1.5 per cent.

(Table 2.6 contd.)

Item	Duty/Tax	FY2011 (%)	FY2012 (%)	Implication
Cars: Cylinder capacity up to 1000 cc (double cabin pick-up)	SD	0	30	Reduce purchase of cars/traffic congestion; increase government revenue
Cars: Cylinder capacity of 1000-1500 cc (double cabin pick-up)	SD	0	45	
Cars: Cylinder capacity 4000+ and above (double cabin pick-up)	SD	0	500	
Particle board	Regulatory duty	5	0	Will protect the environment
Cigarettes (at different price level)	SD	33, 53, 56, 58	36, 55, 58, 60	Marginal increase; less likely to reduce consumption
Tobacco, partly or wholly stemmed/stripped	Export duty	10	5	Might encourage agricultural land conversion to tobacco cultivation
Rice, pulse, wheat, sugar, edible oil, onion, fertiliser, seeds	Import duty	0	0	Right move in view of current inflationary trend; will help to keep prices low
Motorcycles (completely built unit (CBU) condition)	SD	30	45	Should help the growing domestic motorcycle manufacturing industries
Motorcycles (completely knocked down (CKD) condition)	Regulatory duty	5	0	Helpful for domestic motorcycle assembling industries
Imported toilet paper and facial tissue	SD	20	30	Higher protection for the growing domestic industry

Source: Budget Document for FY2011-12, Ministry of Finance (MoF).

2.3.5 Tax Incidence

At the import stage, revenue collection during FY2010-11 (July-April) was Tk. 27,959.3 crore, which is about 35.4 per cent of total revenue collection. CPD has estimated that if import value for FY2009-10 is taken as a base year and the tariff structure for FY2011-12 is applied on the import value, proposed changes in CD, SD, regulatory duty and VAT (import) are likely to increase import-related revenues by 23.7 per cent. This appears to be consistent with the projections made in the budget for FY2011-12. This estimation was based on the assumption that import growth for FY2011-12 will be 14 per cent as proposed in the Medium Term Budgetary Framework (MTBF). Nevertheless, if the trend of high import growth (which was 41.8 per cent during FY2010-11) continues in FY2011-12, this will be higher. It also needs to be mentioned here that the estimated revenue collection is possible only under the circumstances that import grows at the rate projected and composition of import structure remains the same as in FY2009-10.

2.3.6 Tax Administration

In the previous fiscal year's (FY2010-11) budget, a number of measures geared towards strengthening of the tax administration were announced. Evidence suggests that noticeable progress has been made with respect to some of these announced measures. These include:

- *E-filing of income tax returns on a limited basis*. After a pilot programme, online filing and digitisation of tax return was scheduled to start from June 2011.[9]
- *Instalment of tax calculator software on the website of NBR*. This is to help taxpayers assess their own tax. The tax calculator is already in place on the NBR website.
- *Motivational programme for taxpayers of income tax and VAT*. A number of programmes such as tax fairs and regional dialogues were carried out during FY2010-11.

[9]However, as of November 2011, online tax filing facility was yet to kick-off outside the pilot project areas covering two tax zones.

However, it is to be noted that a number of measures that were announced for FY2010-11 did not see much (if any) progress. These are:

- *Restructuring of manpower and other facilities of income tax department*. A long standing issue for the NBR and yet to be resolved.
- *Introduction of 2-page Income Tax Return Form*. This was intended to simplify the tax form filling procedure. This is yet to be implemented.
- *Reforms in judicial process for easy settlement of VAT-related cases*. No move could be traced in this regard.
- *Reforms in VAT administration including setting up more VAT offices and recruitment of officials*. VAT offices are still suffering from manpower shortages as no initiative was visible in making fresh recruitments to meet the gap. Also, the proposal was to set up VAT offices in each upazila which did not materialise.

Tax Administration: Measures for FY2011-12

To remove some existing obstacles and strengthen the tax administration, budget for FY2011-12 announced a number of measures. For example, in view of nearly 19,000 pending cases and about Tk. 5,000 crore in taxes being stuck with those, 'alternative dispute settlement means' are proposed to be used to settle such cases outside of the court. This was a welcome measure in expediting the settlement process. However, there is a flipside to this, and hence caution should be practiced to avoid any malpractices in this regard.

The government also planned to expand online tax return filing facility which was introduced as a pilot project in two tax zones of Dhaka City. The budget announced that this facility will be expanded to another two tax zones in this fiscal year, with a plan to cover the entire country by 2013. Indeed, e-filing of tax return is a much awaited measure and is likely to help widen the tax net. The budget also announced for two Taxpayers' Information and Service Centres to be established in Dhaka and Chittagong, from 1 July 2011 to provide taxpayers all the relevant tax-related services. Withdrawal of the requirement of paying tax of Tk. 1,000 for Taxpayer Identification Number (TIN) registration has also been announced. To further motivate taxpayers, the budget announced that taxpayers who show 20 per cent higher income compared to the preceding year, in general, will not be audited. All these are positive measures and should contribute to a better tax administration.

Tax Administration: Concerns

Despite the measures during the last few years, a number of outstanding obstacles remain to be major concerns regarding the tax administration of Bangladesh. Only a few field officials were employed, and as such, acute shortage of manpower by the NBR continues to nag the functions of the institution. The budget for FY2011-12 also imposes the requirement of a quarterly withholding tax return submission (by institutions) in addition to Annual Information Return (AIR). There has been a concern that the measure could increase hassle for the taxpayers. Requirement for submission of AIR for certain financial transactions has also been proposed. While this will improve transparency of financial transactions, discretion should be applied on the basis of merit of the case.

The government is developing new *Direct Tax Act* and *VAT Law* which has been on hold in recent period. Indeed, these laws need to be reformed and revised, and there is no denying of the need to undertake this exercise. However, this should be done following due consultation with relevant stakeholders and experts; appropriate preparatory works ought to be undertaken before going for implementation of a number of these reforms.

2.3.7 Measures to Promote Overseas Employment

The budget for FY2011-12 announces some measures directed towards promotion of overseas employment. It has been announced that labour wings will be established in seven countries with high Bangladeshi labour concentrations. This is indeed a welcome measure, and there is a need to expand the initiative to all other countries in a phased manner.

The budget has made an allocation of Tk. 140 crore to the *Immigration and Skill Development Fund* for much needed skill development of potential overseas workers. The plan includes the establishment of 30 new Technical Training Centres (TTCs) and five new Marine Technology Institutes which is a positive initiative. However, the earlier project named *Skill Development Fund for Expatriate Returnees and New Entrants to Labour Market* has been discontinued in FY2011-12.

Overseas Employment: Gaps in Addressing Special Needs

Notwithstanding the measures proposed, there appears to be some gaps in addressing special needs of the overseas job sector. Despite much discussion, nothing has been mentioned about designing a 'Contingency Plan' to address the needs of Bangladeshi migrant workers in the host countries during times of crisis. One may recall here the experience from the Middle East and North Africa (MENA) crisis when necessities for such emergency support measures were critically felt. The budget also has not provided any indication towards giving special focus on skill development of aspirant female migrant workers.

2.4

SECTORAL MEASURES

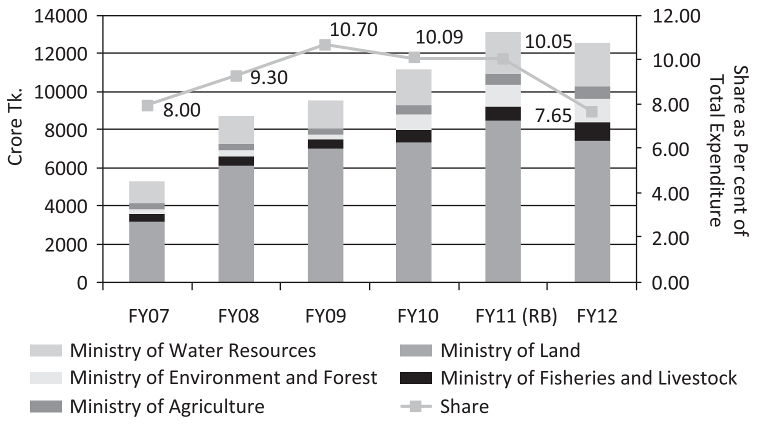
2.4.1 Agriculture

Allocation for Agriculture and Allied Sector

Though a lot of emphasis is given on the agriculture sector given its contribution towards food security of the country, the allocation for this sector has surprisingly been reduced in FY2011-12 compared to the previous fiscal year. In the proposed budget of FY2011-12, allocation for the Ministry of Agriculture in (MoA) total budget is 4.53 per cent, when this share was 6.49 per cent in the revised budget of FY2010-11. On the other hand, allocation for the agriculture and allied sectors (development and non-development) is (Tk. 12,516 crore), 4.23 per cent lower than the revised budget of FY2010-11 (Tk. 13,069 crore). This allocation is 7.65 per cent of total budget in FY2011-12 compared to 10.05 per cent in the revised budget of FY2010-11. However, allocations for a

Figure 2.4

Trend of Budgetary Allocation and Share (Development and Non-Development) of the Agriculture and Allied Sectors



Source: Budget Documents (various years), Ministry of Finance (MoF).

number of related ministries such as Ministry of Fisheries and Livestock, Ministry of Environment and Forest, Ministry of Land, and Ministry of Water Resources in FY2011-12 have increased by 23.05 per cent, 9.13 per cent, 16.41 per cent and 4.45 per cent respectively compared to the revised budget of FY2010-11. Allocation for agriculture and allied sectors is considered as public investment for its sectoral development. The declining trend in the allocation as a share of total proposed budget may have negative impact on the country's effort to achieve food self-sufficiency, and in ensuring food security. Figure 2.4 and Table 2.7 show allocation for agriculture and allied sectors.

Table 2.7

Changes in Budgetary Allocation and Share of the Agriculture and Allied Sectors

(Crore Tk.)

Ministry/Division	FY2012 (B)			FY2011 (RB)			Change between FY2012 (B) and FY2011 (RB) (%)	Share of Agriculture and Allied Sectors in Total Budget (%)	
	Non-Development	Development	Total	Non-Development	Development	Total		FY2012 (B)	FY2011 (RB)
Ministry of Agriculture	6368	1038	7406	7393	1042	8435	-12.20	4.53	6.49
Ministry of Fisheries and Livestock	509	468	977	492	302	794	23.05	0.60	0.61
Ministry of Environment and Forest	955	276	1231	942	186	1128	9.13	0.75	0.87
Ministry of Land	501	173	674	477	102	579	16.41	0.41	0.45
Ministry of Water Resources	721	1507	2228	689	1444	2133	4.45	1.36	1.64
Agriculture and Allied Sector	9054	3462	12516	9993	3076	13069	-4.23	7.65	10.05

Source: CPD calculation based on the Budget Documents, Ministry of Finance (MoF).

Agricultural Subsidy

In the budget of FY2011-12, the amount of subsidy for fertiliser has been reduced. The amount allocated amount for agricultural subsidy is Tk. 4,500 crore in FY2011-12 which is 26.66 per cent lower than the revised budget of FY2010-11, and 12.5 per cent higher than the original budget of FY2010-11. In April 2011, prices of diammonium phosphate (DAP), urea, triple super phosphate (TSP) and muriate of potash (MoP) were USD 617, USD 340, USD 536 and USD 414 respectively.

In view of the upward trend and volatility in international fertiliser market, actual subsidy for fertiliser may have to be revised as well over the subsequent period. CPD estimation based on imported price and projected demand of fertiliser shows that an amount of Tk. 5,732 crore may be needed in FY2011-12 as subsidy for fertiliser that is Tk. 1,232 crore higher than the allocated Tk. 4,500 crore in the proposed budget of FY2011-12 (Table 2.8).

Table 2.8

Projected Estimation of Subsidy Requirement for Fertiliser in FY2011-12

Fertiliser	Source	Price (USD/Ton)	Insurance and Freight Charge (USD/Ton)	Imported Cost (USD/Ton)	Cost (Tk./kg)	Administered Price (Tk./kg)	Quantity (Lakh Ton)	Subsidy (Crore Tk.)
DAP	China	617	50	667	48.6	27.0	6.5	1401
Urea	China	340	60	400	29.1	20.0	21.0	1915
	Bangladesh				9.5	20.0	9.0	-945
TSP	Tunisia	536	100	636	46.3	22.0	7.0	1701
MoP	Belarus	414	100	514	37.4	15.0	7.4	1659
Total	-	-	-	-	-	-	50.9	5732

Source: CPD estimation.

High market price in the international market is one of the factors contributing to this gap. According to Commodity Market Review of the World Bank Pink Sheet, international market prices saw substantial increment over the last year. Prices of urea, TSP, DAP and MoP increased by 24 per cent, 81 per cent, 44 per cent and 17 per cent respectively between January 2010 and April 2011. If the Government of Bangladesh (GoB) did not readjust the recent administered price of urea (from Tk. 12/kg to Tk. 20/kg), additional subsidy of Tk. 2,400 crore would be needed to meet the projected demand.

Fair Price for Agricultural Produce

In accordance with the Budget Speech FY2011-12, the government is planning to form additional 600 Farmers' Marketing Group and 6,200 Farmers' Club throughout the country to ensure fair prices for agricultural produces. Moreover, the government is taking steps to establish four agro-products processing centres which will facilitate agricultural marketing. The budget also mentioned that 'wholesale market infrastructure' in 15 districts and 'growers' market infrastructure' in 16 districts of the northern region have already been established. In addition, 490 Farmers' Marketing Group and 16,677 Farmers' Club have already been formed throughout the country. All these timely initiatives are needed to be continued to maintain fair price for agricultural produce in view of the formidable difficulties that farmers face in getting fair price in their end.

Agricultural Insurance

The proposed budget mentions that 'Crop Insurance' would be provided to small and medium farmers through crop price support in case of the yield damages caused by natural disasters such as flood and cyclone. Towards this, the state-owned Sadharon Bima Corporation has drawn up a pilot project in one upazila. However, no specific allocation has been made to initiate this scheme. In this regard, clarity in terms of modalities and procedures will be needed for implementation of the proposal in an appropriate manner.

Agricultural Research

In the proposed budget for FY2011-12, agricultural research fund is increased to Tk. 450 crore from Tk. 350 crore, mainly through interest (as profit) accumulation. The size of the fund is very small compared to the need and government's commitment towards agricultural development. Efficient allocation and use of these funds are important criteria to achieve quality and productive outcomes. Additional fund and adequate fund utilisation mechanism are also needed. *National Agriculture Policy 2011* and *Bangladesh Agricultural Research Council Act, 2011* should be finalised and enacted to support the agriculture sector and to strengthen research capacity in this sector.

Fisheries and Livestock

In FY2010-11, production of hilsha fish had indeed registered some increase, thanks to several programmes to prevent the netting of *jatka*. In the proposed budget, the government announced to finalise a draft Shrimp Policy to encourage environment-friendly shrimp cultivation. In this regard, a total of 22,175 shrimp farmers have been trained and 188 demonstration firms have been set up with the registration of 180,000 production firms. In FY2011-12, there is a plan to develop the livestock sector through initiatives including construction of 200 artificial insemination points, a semen production lab, setting up bull stations, and training programmes for farmers and volunteers. The budget also mentioned that required activities are in progress to increase meat and milk production by using improved variety and artificial technology. However, specific allocation is needed to implement these objectives. Allocation of Tk. 947 crore is proposed for the development of fisheries and livestock sector to carry out the development programmes.

2.4.2 Industrial Sector

During the new fiscal year FY2011-12, the industrial sector will find it increasingly difficult to maintain last year's growth (9.5 per cent in FY2010-11 vis-à-vis 6.5 per cent in FY2009-10, particularly the manufacturing sector) because of poor benchmark condition prevailing in the economy. This includes slow economic growth in the USA and debt crisis in a number of Eurozone countries, weak BOP situation, instability in the foreign exchange market, pressure on availability of credit for private sector, and high inflation rate. In this backdrop, one only hopes that the various fiscal and budgetary measures proposed in the National Budget 2011-12 will prove to be adequate to address the manifold challenges that the industrial sector is confronted with.

Tax Holiday

Government is likely to revisit the tax holiday facility provided to different categories of industries with a view to rationalise the structure of support for the industrial sector in a phased manner. In the 2011-12 Budget, government has proposed the structure of a revised tax holiday facility by including some new industries and replacing some of the existing ones, and also extending the timeline for eligibility for the facility till June 2013 (Table 2.9). The revision of the list of sectors to be eligible for tax holiday facility is,

Table 2.9

Coverage of the Thrust Sectors under the Proposed Revision of Tax Holiday Measures

Thrust Sector	Sectors under Existing Tax Holiday Measures	Sectors under Newly Proposed Tax Holiday Measures
Agro-based and agro-processing industry	Fertiliser, insecticide, pesticide, agro-machineries and agro-processing	Bio-fertiliser, insecticide and pesticide, and processing of locally produced foods and vegetables
Ship-building	Tax holiday present	N/A
Renewable energy and appliances	Solar energy plants	Energy-efficient appliances
Tourism	Residential hotels of 3-star standard	N/A
Basic chemicals	Basic ingredients of chemicals	Basic chemicals or dyes and chemicals
Information and communication technology (ICT) and ICT-based services	Computer hardware production	Basic ingredients of electronic industry (e.g. resistance, capacitor, transistor, integrator circuit), computer hardware
RMG, home textiles and handicrafts	High-value garments and textiles	Textile machinery
Active pharmaceutical ingredient (API), radio pharmaceuticals, pharmaceuticals	Pharmaceuticals, basic ingredients of drug and pharmaceuticals	Pharmaceuticals, API industry and radio pharmaceuticals industry
Radioactive industry	N/A	Tax holiday proposed
Development of polymer industry	Melamine, petrochemicals	Petrochemicals
Jute and jute products	Jute goods	N/A
Light engineering industry	Steel production from iron core, boilers, compressors, MS rod	Boilers, compressors
Plastic industry	Plastic	N/A
Ceramic	Ceramic and sanitary ware	N/A
Tissue grafting and biotechnology	N/A	Tax holiday proposed
Jewellery	Diamond cutting	N/A
Cosmetics and toiletries	N/A	Barrier contraceptive and rubber latex
Tea industry, herbal medicinal plants, hospital and clinic, leather and leather products, furniture, frozen fish, toys, human resources export	N/A	N/A

Source: National Budget Speech FY2011-12 and Industrial Policy 2010.

however, not always in consonance with the list of sectors mentioned as 'thrust sectors' in the *Industrial Policy 2010*. With a view to diversify the location of industries, the National Budget 2011-12 has offered tax holiday facility to the lagging regions which are outside the regions of Dhaka, Gazipur, Narayanganj and Chittagong. These initiatives are the continuation of existing differentiated tax holiday schemes for different regions. This may have some positive impact. However, till the time appropriate infrastructural facilities are developed in the targeted areas, including roads, supply of electricity and gas, other logistic facilities, linkage with the seaport, etc., the likelihood of tax holiday facility in being able to actually attract investment in those regions will remain doubtful.

Import Duty and Other Indirect Taxes

The budget of FY2011-12 has proposed some changes in the duty structure at import stage with a view to improve competitiveness of local industries. The reduction of duty on imported raw materials and intermediate products belonging to the sectors such as chemical, particle board and light engineering would cause a reduction of total tax incidence (TTI) within the range of 0.6 to 7.7 percentage points. Increase of duty on finished imported products, on the other hand, would likely to raise the price of domestic finished products as TTI will be increased by about 15 to 70 percentage points (for example in case of RMG, glass and furniture sectors), as shown in (Table 2.10).[10] It appears that these measures will have adverse impact on certain sectors in view of the likely shortages of fund for financing productive activities, attendant high interest rate, rising cost of import due to volatility in the foreign exchange market, and high inflation.

Table 2.10

Import-Substituting Sectors: Change in Total Tax Incidence

Sector	Difference in TTI between FY2012 and FY2011
Chemical (raw materials)	-0.6
Particle board (raw materials)	-7.7 to -0.6
RMG (intermediate/finished products)	38.0 to 70.0
Glass (intermediate/finished products)	14.8
Light engineering (raw materials/finished products)	-0.6 to 22.5
Furniture (finished products)	14.8

Source: CPD estimates.

Development of Standardisation System

In view of the need to maintain the required standards of local product, improvement of standardisation and testing facilities at the Bangladesh Standards and Testing Institution (BSTI) is exceedingly important. To this end, the ongoing project titled *Strengthening of BSTI* needs to be completed immediately. However, allocation for this project in FY2011-12 appears to be rather insignificant (Tk. 1.01 crore out of Tk. 72.9 crore). The likelihood of timely completion of the project in the coming fiscal year is rather doubtful under the circumstances.

Sector-specific Measures

Textiles and RMG

Although the Finance Minister has expressed concern with regard to the likely pressure on the backward linkage textiles sector, particularly given the adverse situation facing the sector in view of the changing Rules of Origin (RoO) in the EU-EBA (European Union's Everything But Arms), the developments in the industry should be put under close scrutiny. The government should be ready to provide support if there is a need to do so

[10]The FY2011-12 Budget announced measures related to import on following products: plastic, PET light sheet, LPG cylinder instruments, computer and related parts, pharmaceutical products, effluent treatment plant (ETP) and related parts, poultry industry, capital machinery, perfumes, woven fabrics, RMG, glass tube, fan, furniture parts, particle board, CKD motorcycles, sugar confectionary, spectacles.

(e.g. through a support package). On the other hand, proposed imposition of SD on imported fabrics (from 20 per cent to 45 per cent) should have some positive impact for the competitiveness of domestic market-oriented textiles mills. With a view to rise of the contribution of export-oriented industries in government's exchequer, the national budget for FY2011-12 has proposed to increase the rate of tax deduction at source for all export proceeds from 0.4 per cent or 0.5 per cent to 1.5 per cent. Given the diverse nature of industries in terms of volume of export, proceeds, size of firms, rate of profitability, etc., the governments should take phase-by-phase approach for full implementation of the initiative.[11] Extension of the timeline for renewal of bond licenses from one year to two years will reduce barrier to exporters.

As part of continuation of earlier initiatives to improve industrial waste management in the manufacturing sector, the national budget for FY2011-12 has proposed to bring down the duty on certain chemicals required for setting up ETP (not locally produced) to 3 per cent which contributes to reduce the set up cost of ETP by the industrial enterprises. Although various fiscal measures have been announced for last several years to make factories environmentally compliant, the fact of the low rate of setting up of ETPs by the enterprises remains a nagging concern.

Given the rising demand for professionals and skilled workers in the textiles sector, necessary allocation for the establishment of adequate number of textile institutes is important. Unfortunately, there is lack of sufficient allocation against the approved ADP projects announced in the budget. While two-thirds of the stipulated timeline of the projects will be over in FY2011-12, only 8.6 per cent of the total expenditure is likely to be used within that timeline. Necessary allocation for land and infrastructure development is required to complete the 'unapproved and unallocated' project titled *Garment Palli*. Allocation should also be made for construction of dorms for RMG workers.

Jute and Leather

In order to sustain the recent surge in the export of jute goods, adequate budgetary support is required for the improvement of the competitiveness of the jute manufacturing sector. The exclusion of jute industry from the tax holiday facility under the newly proposed scheme rather contradicts the government policy stance with respect to the sector. However, an accelerated depreciation in lieu of tax holiday is in effect for the jute manufacturing sector. In order to increase capital and labour productivity, a special *Technology Upgradation Fund (TUF)* is needed for the jute sector which could be used for technological restructuring. NBR and Bangladesh Tariff Commission should consider providing separate Harmonized Commodity Description and Coding System (HS) codes for machineries and spare parts imported for jute mills.[12]

The *Leather Industrial City* – a project currently being implemented with a view to establish an environment-compliant industrial zone for the leather sector needs to be completed on an urgent basis. As of December 2010, only 18.4 per cent of the project has been completed and another 27.7 per cent is to be completed in FY2011-12. This is a rather lengthy timeline. Government should actively think of removing bureaucratic and financial impediments including compensation for relocation of factories from their existing locations. Soft term loans should be made available for this purpose and for sharing of the cost burden connected with setting up of centralised ETP facilities.

[11] Taking into account the concern raised by the exporters, the tax deduction at source has been raised to 0.75 per cent for all export proceeds.
[12] Currently machineries of jute mills are treated under the same HS classification applied for textile machineries.

Pharmaceuticals

Pharmaceuticals sector will enjoy tax holiday facility for new ventures (such as active pharmaceutical products and radio pharmaceutical products) along with ventures for basic ingredients of drugs. In this connection, the *Active Pharmaceutical Ingredient Industrial Park* project needs to be completed in an expeditious manner (as per the project timeline it is supposed to be finished by the end of December 2011). With the level of progress made so far (only 29.9 per cent of total cost of the project spent) and the proposed allocation for FY2011-12 (another 22.3 per cent), it is unlikely to be completed in accordance to the timeline. The sector also requires allocation for improvement of logistics and support facilities, particularly for establishment of drug-testing laboratory (as has been proposed, in Gopalganj), upgrading manpower in the other two drug-testing facilities, and setting up of appropriate storage facilities for the export of drugs and other ingredients.

Small and Medium Enterprise (SME)

The national budget for FY2011-12 has proposed reduction of annual turnover tax for SMEs to 3 per cent from the existing level of 4 per cent, keeping the turnover tax margin unchanged (Tk. 60 lakh). Whilst only a limited number of sectors are currently eligible to enjoy the benefits, the government may consider expansion of the eligibility criteria for SMEs from other sectors. Although the government has announced a number of measures in support of the SMEs, given the adversities in terms of high interest rate and high inflation, the possible implications of these measures are likely to be low.[13]

The coverage of Equity and Entrepreneurship Fund (EEF) implemented by the Bangladesh Bank is to be extended to silk, flowers and herbs.[14] The Fund could be made available for other potential labour-intensive industries as well, including light engineering, plastic, melamine and electronics. Currently import tariff on capital machinery is 1 per cent for the export-oriented industries and 3 per cent for the rest. It is advisable to set import tariff on capital machinery at 1 per cent across the board. The proposed reduction of import duty on some of the raw materials for iron and steel industry will reduce the production cost of the light engineering sector. Due to the lack of required supply of raw materials from the local ship-breaking industries, light engineering factories have been at a disadvantage. In view of this, import of cast iron shaft and cables will need to be encouraged.

Information and Communication Technology (ICT)

ICT sector will get an allocation of Tk. 2,300 crore in FY2011-12 which is equivalent to 5.5 per cent of total ADP allocation. This is in consonance with the annual allocation target envisaged in the *National ICT Policy 2009*. However, poor state of implementation of a number of important IT infrastructure projects (SASEC Information Highway, High Tech Park, etc.) has become a concern. Likewise, the delay in the establishment of the second submarine cable line which would help a faster linking with the global information highway has also been detrimental to the country's interest. The inordinate delay in finalising the policy guideline with regard to usages has not been helpful.

The National Budget 2011-12 did not propose any reduction of import duties on various computer parts, components, special networking parts and cables although the *ICT Policy 2009* had suggested this. Reduction of duties would have reduced the cost for repairing and assembling of computers and other IT components. There is also no announcement in

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[13]Recently the Central Bank has removed the lending cap on interest rates. At present interest rate on term/working loan is 10-18 per cent.

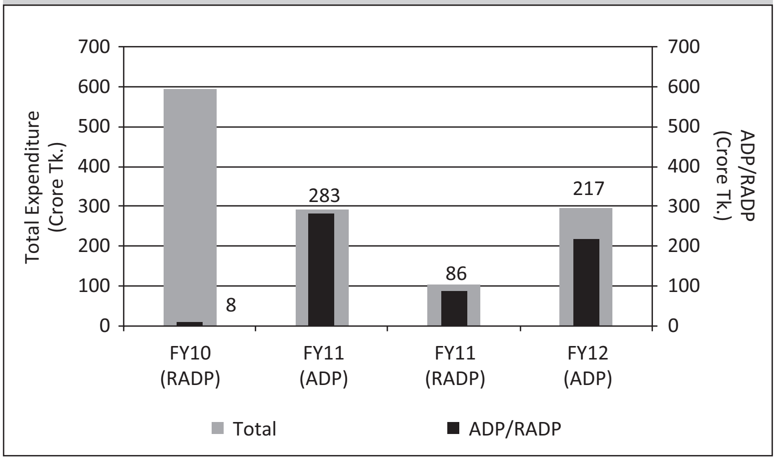
[14]Previously only agro and ICT industries were eligible for this facility.

the budget to withdraw the VAT over the use of internet. This would have encouraged wider access to internet facilities. Like some others, IT sector will also enjoy the extended tax holiday facility up to 2013. Government should keep in mind that such facility will need to be extended further, till 2018, as per the recommendation of the *ICT Policy 2009*. It was expected that as per the policy guideline, a separate ICT authority would be set up with an allocation of 10 per cent of proposed fund (Tk. 700 crore); however, there is no mention about this in the budget. Likewise, there is no mention about the separate VAT code for IT and IT-enabled services in order to reduce the complexities in the VAT collection process.

Tourism

Despite the announcement of tourism sector as a thrust sector, there is inadequate reflection of this in the budgetary allocation of FY2011-12. The total allocation for the Ministry of Civil Aviation and Tourism in FY2011-12 is amounted to Tk. 296 crore, of which Tk. 79 crore is for non-development purpose and Tk. 217 crore is for development programmes. As a matter of fact, Ministry's revised budget for FY2010-11, particularly the development budget, has been drastically reduced to a mere Tk. 86 crore against an initial allocation of Tk. 283 crore (Figure 2.5). This has happened largely on account of the slow implementation of the single largest project under the Ministry, i.e. upgradation of the Hajrat Shahjalal International Airport. In fact, last year's unspent money for this project has been reallocated in this year's development budget for the Ministry. A number of tourism development projects were included in the ADP for FY2011-12 without any approval and specific budgetary allocation. This included, among others, development of tourism facilities at the Bangabandhu Mausoleum at Tungipara and the proposed Padma Bridge areas, and in Panchagarh and Noakhali districts. The provision for tax holiday for 3-star residential hotels has been withdrawn under the new scheme. Such facility should have continued particularly for tourist locations with high business potentials.

Figure 2.5
ADP and RADP in the Tourism Sector



Source: Estimated from the Planning Commission data.

Real Estate and Housing

Real estate sector has been confronted with a number of challenges in recent times. These included withholding of gas and electricity connections for newly constructed apartments because of supply shortages.[15] Since, the government is actively thinking of implementing the measure to set up solar panels in newly constructed apartments, subsidised credit facility for this purpose would encourage attainment of this objective. The national budget for FY2011-12 has revised the tax rates for registration of apartments and commercial spaces. Real estate companies will benefit from reduction of taxes for registration of apartments; however, for some, the cost will rise since tax rates for commercial spaces has been raised (Table 2.11).

[15]With the rise in the supply of electricity and gas under the ongoing projects, allocation for newly constructed apartments and commercial space should now be increased.

Table 2.11

Existing and Proposed Tax for Registration of Apartments and Commercial Spaces

Level	Apartment			Commercial Space				
	Existing Tax Rate for Category B (Tk. 2,000/ sq. m)	Proposed Tax for Category B (Tk. 1,800/ sq. m)	Reduced Tax Burden (Tk.)	Existing Tax Rate for Category A & B (Tk. 2,000/ sq. m)	Proposed Tax Rate for Category A (Tk. 20,000/ sq. m)	Proposed Tax for Category B (Tk. 15,000/ sq. m)	Increased Tax Burden for Category A (Tk.)	Increased Tax Burden for Category B (Tk.)
1000 sq. ft	185874	167286	18588	185874	1858736	1394052	1672862	1208178
1200 sq. ft	223048	200743	22305	223048	2230483	1672862	2007435	1449814
1500 sq. ft	278810	250929	27881	278810	2788104	2091078	2509294	1812268
2000 sq. ft	371747	334572	37175	371747	3717472	2788104	3345725	2416357

Source: CPD estimates.

Note: Category A includes: Gulshan, Banani, Baridhara, Motijheel and Dilkusha of Dhaka. Category B includes: Dhanmandi, Lalmatia, Uttara, Bashundhara, DOHS, Mohakhali, Dhaka Cantonment and Karwanbazar of Dhaka; and Khulshi, Agrabad, Nasirabad and Panchlaish of Chittagong.

Industrial Workers

A number of projects related to the development of human resources has been proposed in the national budget of FY2011-12; however, without any approval and allocation. Some of these are: establishment of five zonal and four regional training centres; 22 labour welfare centres and three industrial training centres; development of the National Institute of Labour Administration and Training at Tongi; project for skill development of *monga*-afflicted people in North Bengal; and reconstruction of Dhaka Divisional Labour Office. Funds need to be allocated for the existing 29 Worker Welfare Centres in order to make them operational. In view of the high food inflation, broadening of subsidised food distribution system for the RMG and textile workers through Open Market Sales (OMS) and other distribution mechanisms is a welcome initiative.

Capital Market

The capital market needs radical restructuring and reforms which must be geared to rescue the market from its current dysfunctional state. There were expectations that institutional as well as necessary fiscal and budgetary measures would be proposed in the budget to this end. In this connection, announcement of enactment of the *Financial Reporting Act*, establishment of the Financial Reporting Council, Clearing and Settlement Company, enforcement of demutualisation of stock exchanges, amendment of the *SEC Act* and *Security and Exchange Commission (Public Issue) Rules, 2006* would contribute positively towards improvement of governance in the capital market. Although injection of money in the capital market has been questioned by many, the government has announced provision for investment of undocumented/undisclosed money in the capital market and also for investing in BIFFL and treasury bonds, subject to payment of tax at the rate of 10 per cent. However, tax deductible at source for the commission charged by the brokerage houses has been raised from 0.05 per cent to 0.1 per cent.

Strengthening the surveillance system in the capital market has been a widely discussed issue. Although funds were allocated for the Asian Development Bank (ADB)-financed projects for strengthening of the capital market, but these were not actually disbursed within the stipulated time for reasons not known to the general public. This project has been revived and allocation has been made in order to implement the project by 2012. Besides, the government should make it mandatory to have TIN for all Beneficiary Owner (BO) account-holders with a view to ensuring transparency in transactions at the capital market.[16]

[16]Interested readers may like to consult CPD publication titled *State of the Bangladesh Economy in FY2010-11 (Second Reading)* for a more detailed discussion of the relevant issues, available on the CPD website (http://www.cpd.org.bd/downloads/IRBD_FY11.pdf).

2.4.3 Power and Energy

The allocation for power sector reflects the government's policy to strengthen power supply in the country. However, the allocation for energy sector appears to be low compared to the revealed demand, particularly when the issue of accelerating power generation in the long-run is considered.

In FY2011-12 Budget, the 'Power and Energy' sector received a total allocation of Tk. 8,311 crore (15 per cent higher than last year's allocation). Of this, Tk. 8,286.5 crore has been allocated under ADP and the remaining sum of Tk. 24.5 crore for non-development expenditure. If the GDP targets envisaged in the draft Sixth Five-Year Plan (SFYP) are to be achieved, there is a need to ensure about 10 per cent annual growth in energy consumption in the country during FY2011-12 to FY2014-15 period. The budget of FY2011-12 is unlikely to support such a 'big push' in energy consumption. Achieving the GDP targets projected in the SFYP will face problem in view of this.

Power

The revised target of producing 11,698 mega watts (MW) of additional power by 2015 (in place of 8,634 MW projected in the last year's plan) reflects the need of the economy. However, this appears to be rather difficult to achieve given the current rate of success and the resource constraints that the government faces. It is to be noted here that by the first week of June 2011, five quick rental power plants of 333 MW capacities failed to start their respective planned generation. On the other hand, the actual generation from the seven quick rental plants of 622 MW capacity was found to be about only 75 per cent in the month of May 2011 (due to mechanical problems, as noted by BPDB). This would mean that the current delay in generation and underperformance by power plants will put under threat the attainment of targets envisaged in the revised Power and Energy Plan.

The government is planning to generate 5 per cent of total power from renewable energy sources by 2015. This would mean that 610 MW of electricity will need to come from this particular source (given the production target of 12,197 MW by 2015). Attaining this will require huge resource allocation as renewable energy generation is costlier compared to primary energy-based power generation. Given this scenario, the target appears to be difficult to achieve by 2015.

The target of generating additional 700-800 MW of power from renovation of the aged plants appears to be an open-ended target since no timeline has been mentioned in the plan. Moreover, at present there are only two projects running under the ADP for renovation of aged plants in the country, and no new project has been proposed in FY2011-12. Given this, strengthening of the generation capacity of the aged plants by 700-800 MW through renovation appears to be a rather long shot.

Energy

An additional gas production of 1,920 million cubic feet per day (mmcfd) by 2013 appears to be a high target, particularly in view of the uncertainties surrounding the production of 1,000 mmcfd gas by the international oil companies (IOCs). 'Sunetra' could perhaps contribute to improving the situation. Additionally, the budgetary allocation for Bangladesh Petroleum Exploration & Production Company Limited (BAPEX) appears to be inadequate in view of the tasks ahead.

The need for a 'planned energy use guideline' to achieve 'energy use efficiency' is missing in the revised *Power and Energy Sector Road Map*, which is vital for the country to reduce the misuse of energy resources.

Risks and Challenges

There are a number of risks and challenges that the government is likely to face in the power and energy sector during the current FY2011-12. Increasing subsidy demand for power and energy may emerge as a major problem for the government. It is to be noted here that, the subsidy requirement for quick rental power plants alone in FY2011-12 might reach to the tune of Tk. 6,300 crore to Tk. 9,850 crore.

It is rather strange that the issue of this significant subsidy burden, in addition to the fuel subsidy which will need to be given, has not been mentioned in the budget. There is an urgent need to make the subsidy issue (both on account of sale of fuel and purchase of power) more transparent. Financing of this increasing subsidy should also be clearly spelt out. This is necessary not only from the perspective of sound macroeconomic management, but also to ensure long-term sustainability of power and energy sector growth in the economy.

Recommendations

Implementing the power plan and ADP projects efficiently will prove to be a challenging task for the government. Even if in the short-run the quick rental power plants are able to somewhat take care of the load shedding, in the long-run the accumulated oil import charges will put pressure on the BOP. Increasing domestic borrowing will be necessary which is likely to lead to higher inflation and undermining of macroeconomic stability. In view of this, the following initiatives demand special attention:

Resuscitate the National Coal Policy: According to the *Power Sector Master Plan*, by 2014 coal is envisaged to be a major source of energy in Bangladesh. Towards this, the *National Coal Policy* needs to be finalised on an urgent basis.

Renovation of old power plants: The allocation made in Budget FY2011-12 for the energy sector development may not be enough to achieve power generation targets. Renovation of aged power plants has not received due budgetary support that it deserves, although the target to achieve 700-800 MW additional power through augmentation of capacity has been mentioned in the *Revised Power and Energy Road Map*.

Ensuring quick rental power plants' efficiency: The deadline for achieving this target is also not clear. Some policy guidelines should have been provided to ensure that quick rental power plants generate the 'agreed' amount of power. Otherwise, the planned supply projected in the revised road map could come under threat.

Tariff rationalisation: The budget should have provided a sense with respect to the rationalisation of power tariff that the government was planning to implement.

2.4.4 Environment, Climate Change and Disaster Management

Though Bangladesh is considered to be one of the most vulnerable and adversely affected countries from the perspective of climate change, budgetary allocation does not reflect this concern. It is true that due to increasing awareness with regard to climatic vulnerability and environmental risks, the government is putting emphasis on comprehensive policy strategy for environmental care and disaster management. In order to mitigate the adverse affects of climate change, Bangladesh Climate Change Trust Fund (BCCTF) has been established for improving capacity building for disaster management. In line with the budget of the previous two years, Tk. 700 crore was allocated for BCCTF in FY2011-12. In FY2009-10 and FY2010-11, a total of Tk. 1,400 crore was allocated for 60 projects (worth Tk. 719.61 crore) initiated under this fund. Moreover, to ensure appropriate utilisation of the fund, the *Climate Change Trust Act, 2010* has already been enacted. In line with the same purpose, the government has also created another fund titled Bangladesh Climate Change Resilience Fund (BCCRF), which is worth of USD 113.5 million. This fund is supported by development partners.

Air pollution has emerged as a serious health threat in the country. One of the major reasons for air pollution is the brickfields which are primarily located in the adjoining areas of the capital Dhaka. The government has already set the deadline for improving their existing technology and has put a ban on export of brick. Moreover, in order to identify the sources of air pollution and to reduce the pollution in the Dhaka city to a minimum level, a special project titled *Clean Air and Sustainable Environment* has been undertaken. With a view to controlling air pollution in the export processing zones (EPZs) of Chittagong and Dhaka, the Infrastructure Development Company Limited (IDCOL) has granted funds for the installation of central ETP system. In order to manage the industrial waste in an environment-friendly manner, the *Solid Waste Management Rules, 2011* and the *Hazardous Waste and Ship Breaking Waste Management Rules, 2011* is expected to be enacted by FY2011-12. A proposal has been made to reduce tax by 3 per cent from the earlier 5-12 per cent on chemicals imported for ETPs. This is a welcome step.

Apart from these initiatives, a number of steps have been taken to update the existing laws, rules and regulations. In order to protect and preserve the existing environment, *Bangladesh Environment Preservation (Amendment) Act, 2010* and *Bangladesh Environment Court Act, 2010* have been enacted already. Moreover, to maintain ecological and environmental balance, the government has prepared the *National Action Plan 2020*, and formulated *Wildlife Protection Act, 2010*, which is in the process of finalisation. It is mentioned in the proposed budget that 20 per cent land of the country will be under afforestation programme by the year 2015.

Mitigating the risks of natural disaster and coping with the consequences of environmental hazard are some of the major challenges for a country such as Bangladesh. Though the government is implementing the second phase of *Comprehensive Disaster Management Project* and *National Disaster Management Plan 2010-15*, the internalisation of climate change concerns into development projects has not received a positive nod in the proposed budget. However, as per the promise in the previous budget to modernise the forecasting and warning system, an early warning system through cell phone networks of Grameen Phone and Teletalk in Cox's Bazar and Sirajganj districts has been initiated on a pilot basis. This is a positive move and more districts are expected to be covered in the coming year.

2.4.5 Rural Development and Local Government

Rural Development

A number of initiatives have been proposed in the budget of FY2011-12 to promote regional development and increase the effectiveness of the local government. A combined development and non-development budget allocation of Tk. 11,714 crore is proposed for rural development and local government, which is 18 per cent higher than the revised budget allocation of FY2010-11. For the upcoming fiscal year, 24 per cent of the development expenditure will go towards rural development. This includes total 68 projects, of which only five are new initiatives. All the new projects are under the Local Government and Engineering Department (LGED), and mostly geared towards infrastructure development, including construction of *Aila*-affected rural infrastructure. Another project which received a positive nod from the government relates to setting up of 2 lakh water sources by FY2012-13. For ensuring supply of arsenic-free water in rural areas, the government plans to design a policy to re-excavate and ensure at least one source of safe water supply in each village, with active support from the local government. Such a drive is likely to be given priority in the coastal belt, drought-prone and other disaster-prone areas in Bangladesh.

The GoB is also sketching out a policy framework for *Integrated Land Use and Housing* to complete land zoning and to set up *Palli Nibash* (rural housing area) in union and upazila growth centres so that unplanned housing does not hamper arable lands. In this regard, *Protection of Cultivable Land and Land Use Act, 2011* has been finalised. It is expected that these initiatives would generate positive outcomes for the rural economy of Bangladesh. Moreover, the second phase of the *Chittagong Hill Tracts Development Project* is going to start in foreseeable future to improve the living standard of ethnic minorities in the Chittagong Hill Tracts (CHT) areas. An amount of Tk. 10 crore has been allocated for constructing a housing colony for Dhangar ethnic community in this region which has traditionally belonged to neglected segment of the society. In the coming years, such initiatives could be taken for many of the other ethnic communities living in the country to raise living standards of these neglected communities in our country.

Due to existing high demand-supply gap with respect to power generation, access to power persists to be a major problem in the rural areas of the country which often has to bear the brunt of power outages. In this regard, the Rural Electrification Board (REB) has set up a target of 14,408 home solar systems in the underprivileged rural areas which are not covered by the national power grid. On the other hand, IDCOL has installed bio-gas plants for about 20,000 households, and plans to add another 150,000 plants by 2016 under the *National Household Bio-gas and Fertilizer Program*. Respective government agencies have also taken steps to commercialise production procedures and use of bio-gas and bio-electricity by making use of poultry and dairy firm wastes. Such non-traditional measures, through appropriate government patronisation, can reduce grid-based electricity consumption in the country.

Local Government

Local Government (Union Parishad) Act 2009, Local Government (Pourashava) Act 2010, and *Local Government (City Corporation) Act 2009* were designed towards decentralisation of the governance system and with a view to strengthening people's participation in governance in the country. However, adequate resource allocation and real empowerment will be the real keys to getting the desired outcomes. Training has been provided to upazila parishad chairpersons and vice chairpersons so that they are able to discharge their responsibilities better. Moreover, audit has been conducted at the union parishad (UP) level to ensure transparency and accountability of public expenditures. All these initiatives are commendable, and continuation of such measures may be helpful in strengthening and empowering the local government system in the country.

The GoB has also taken initiatives to restructure the zila parishad. Additionally, necessary measures have been taken to formulate/amend laws to further strengthen the pourashavas and city corporations. However, no specific allocation has been made in the proposed budget of FY2011-12 to implement these measures.

2.5

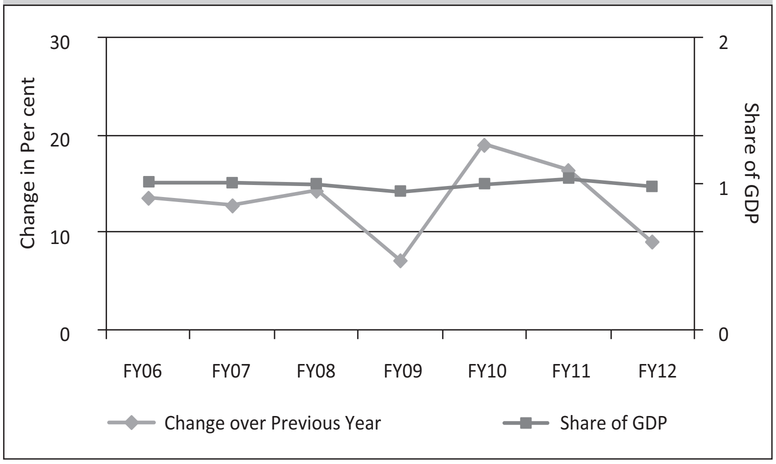
SOCIAL SECTOR

In view of the growth-poverty nexus in Bangladesh, the importance of strengthening various fiscal measures in social sectors can hardly be overemphasised. As is known, successive governments have tried to address this concern by way of allocating specific funds under the national budget every year. The budget for FY2011-12 has also continued with this endeavour. Such critically important sectors as health, education and social safety net, including food security and employment generation schemes have received significant allocations in the proposed budget. While some of the initiatives articulated in the budget appear to be supporting sustainable growth in these sectors, a large number of these measures are not complemented by the needed effective implementational modalities. This could undermine the expected outcomes.

2.5.1 Health

A total of Tk. 8,869 crore, accounting for about 5.4 per cent of the total budget has been allocated for the health sector in the national budget for FY2011-12. This is only about 1 per cent in terms of share in the GDP, and lower than that of the previous year in terms of year-on-year growth (Figure 2.6). Hence, it is doubtful that this allocation will be adequate to address the various health-related concerns in the country.

Figure 2.6
Allocation for Health in Various Years



Source: Budget Documents (various years), Ministry of Finance (MoF).

One important initiative proposed in this year's budget is the proposal to start a new phase of the *Health Nutrition and Population Sector Program (HNPSP)*. This new phase is to be implemented over the period of 2011 to 2016. From the perspective of attaining the health-related Millennium Development Goals (MDGs), this was indeed a welcome initiative. However, discontinuation of the *Micro-Nutrient Supplementation Programme* from social safety net somewhat contradicts the government's commitment to ensure nutrition for all. This could further aggravate the already weak prospect with regard to attaining the nutrition-related MDGs. Though the plan to employ alternative healthcare practitioners at district and upazila levels is a welcome initiative, budgetary implication of such measures is likely to surface as a concern. This was particularly relevant in view of the significant resources that would be needed for the development of necessary infrastructure and for providing salary to the concerned health personnel.

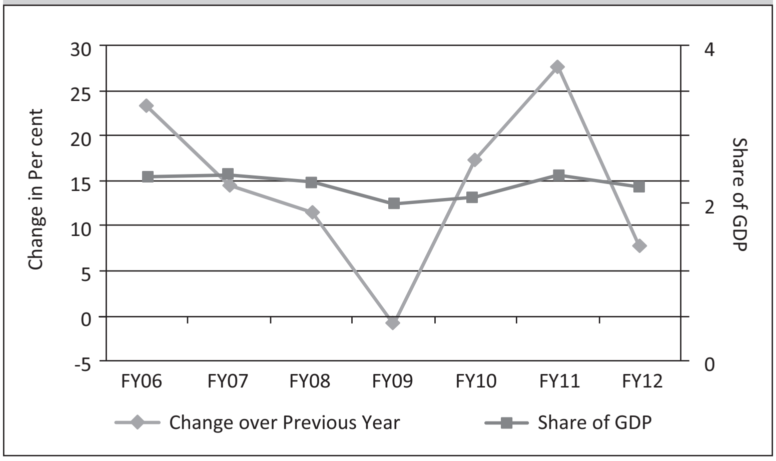
It is also somewhat disquieting that the budget for FY2011-12 did not address the issue of human resource scarcity in the Directorate of Drug Administration (DDA). Given the importance of this organisation in monitoring the quality control of the pharmaceutical and drugs production, as well as facilitating the export of pharmaceutical goods, there was a need to take a target-oriented policy initiative to strengthen this agency, with allocation of necessary funds.

2.5.2 Education

A major sub-sector in the social arena is education. Various line ministries under the education sub-sector has received a total allocation of Tk. 19,806 crore in the budget for FY2011-12 which is about 12.1 per cent of the total proposed budget for FY2011-12 and 2.2 per cent of the GDP (Figure 2.7). This allocation, however, is lower than the amount of the previous year. On a positive note, the budget has earmarked Tk. 1,000 crore for *Prime Minister's Education Assistance Foundation*, which is a commendable initiative. This proposed initiative should, however, be extended to post-graduate level, particularly for students coming from resource-poor families.

Figure 2.7

Allocation for Education in Various Years



Source: Budget Documents (various years), Ministry of Finance (MoF).

Amongst the other measures proposed in the budget speech, a laudable one has been the expansion of both coverage and allocation of additional funds for the *School Feeding Programme*. The decision to establish directorates of education at district level is a well thought out measure. However, no indication has been provided whether the existing education offices at district headquarters will be upgraded to the level of directorates.

The government has also proposed to initiate a *Talent Hunt* programme to identify bright minds to provide leadership in nation building in the 21st century. However, no allocation has been made for this purpose in the budget. There is no denying that implementation of such an endeavour will call for significant additional resources in many areas including setting up of institutions, delegation and development of human resources, etc. In addition to putting in place the above programme, the government has also proposed to revisit the entire Monthly Pay Order (MPO) system in the education sector. Though this is a bold step, the challenge will be to implement this without any undue partisan influence. On previous occasions, the MPO system has been criticised for nepotism and discrimination in institution selection process. It remains to be seen how the proposed reforms are carried out in the coming days.

2.5.3 Women Development

With a view to bring down gender-based discrimination and establish equal rights in all sectors of the economy, this year as well the government has continued with the tradition of preparing separate Gender Budgeting Report. This was the third consecutive year that the government has attempted to prepare a gender budget. The Gender Budgeting Report presented the gender disaggregated budget allocation and employment status for 20 ministries. In the previous year (FY2010-11), the gender reporting was presented for 10 ministries. Allocation for women's development has increased in 12 ministries and reduced in eight ministries in the budget for FY2011-12 when compared to FY2010-11. It is interesting to note that allocation for the Ministry of Women and Children Affairs is 0.76 per cent of the total budget for FY2011-12, which is 0.32 per cent lower than that of FY2010-11. It may be mentioned that the government has recently formulated the *National Women Development Policy 2011*. Clearly, the success of the women development policy will depend on adequate resources and their efficient utilisation. The budget for FY2011-12 has proposed a number of important measures towards women's development. Some of these are highlighted in Table 2.12.

Table 2.12
Some Commendable Programmes under Gender-Sensitive Budget

Measure	FY2010	FY2011	FY2012	Implications of FY2012 Budget
Gender equity expenditure	24.6 per cent of the total budget	25.9 per cent of the total budget	26.4 per cent of the total budget	Increase gender sensitivity by 2.3 per cent
Resource allocations for Gender Budget	Covering four ministries	Covering 10 ministries	Covering 20 ministries	10 more ministries reported; positive initiative
Women entrepreneur	Committed to ensure separate banking arrangements, loan and technical facilities	Directive has been issued to establish a 'Dedicated Desk for Women' in each bank and financial institutions for receiving easier loans	A programme has been introduced under PPP for marketing the products of women entrepreneurs	Name of the programme not mentioned
Daycare centres	No mention regarding this subject (18 daycare centres already exist increase in Dhaka city)	Decided to establish 10 more daycare centres (seven for lower income and three for middle income)	No new announcement for increase the number of the centres	Considering the increasing amount of working women, number of daycare centres should be increased

Source: Budget Documents for FY2009-10, FY2010-11 and FY2011-12, Ministry of Finance (MoF).

Some Other Measures

Creating Women-friendly Working Environment: Observing the demand at both local and foreign markets for female labour, in recent times a number of new training programmes have been initiated for women. These included housekeeping, mobile servicing and English language courses. The proposed budget for FY2011-12 also states that for promoting women entrepreneurship, a special marketing programme for products made by women entrepreneurs at the grassroots level has been initiated as part of PPP. This is a good initiative; however, there is no mention of the name or specific allocation, for this programme.

The share of ministry-wise gender equity expenditure in total budget has increased from 26.3 per cent to 26.4 per cent. The number of targeted beneficiaries for the scheme of *Maternity Allowances for Poor Working Mothers* has been proposed to be increased by 15 per cent for the rural areas and 15.8 per cent for the urban areas. The proposed total allocation for the scheme is Tk. 42.5 crore and Tk. 32.6 crore for rural and urban areas respectively. The increase in coverage and a separate budget allocation are positive initiative in support of working mothers; however, the allowance should be adjusted in view of the current inflationary pressure.

In the previous budget for FY2010-11, a decision had been taken to establish 10 more child daycare centres for lower income and middle income mothers. Of those, seven are already in operation and three centres are at the final stage of opening. In the proposed budget for FY2011-12, the government has decided to continue the programme 'well beyond its current remit' and does not mention establishment of any new centres. However, as the number of working women is increasing each year, the demand for daycare centres will be on the rise and there should be appropriate plans to cater to this rising demand.

Eliminating Violence against Women and Children: Total elimination of the violence against women and children is one of the declared priority concerns of the government. In line with this objective, the government has enacted relevant laws, i.e. *Family Violence (Prevention and Protection) Act 2010*. In the budget for FY2011-12, to support the existing laws and as part of the *Rehabilitation Programme for the Acid Burnt Women and Physically Disabled*, an amount of Tk. 11.95 crore is proposed to be allocated for social voluntary organisations under the Social Welfare Council. In addition with this initiative, for preventing the violence against women, National Forensic (DNA) Screening Laboratory with modern technology, which has already been established in six divisional medical colleges, is promised to be extended throughout the country from the year 2012.

Caring Maternal and Child Health: According to the available data from the Bangladesh Bureau of Statistics (BBS), the maternal mortality ratio per thousand live births is 3.37. That is why a significant reduction of the maternal and child mortality rate is one of the prime objectives of the government. Various projects have already been taken under ADP to improve maternal and child care. Moreover, two important programmes such as *Maternal Health Voucher Scheme* and *National Nutrition Sector Development Programme* have been included in the HNPSP from the FY2011-12, and an allocation of Tk. 271 crore is proposed to be allocated for this purpose.

Income Tax Limit: The income tax limit for individuals above 65 years and women has been raised from Tk. 180,000 to Tk. 200,000. This decision will hopefully benefit the cause of women entrepreneurship.

2.6

SOCIAL SAFETY NET PROGRAMME

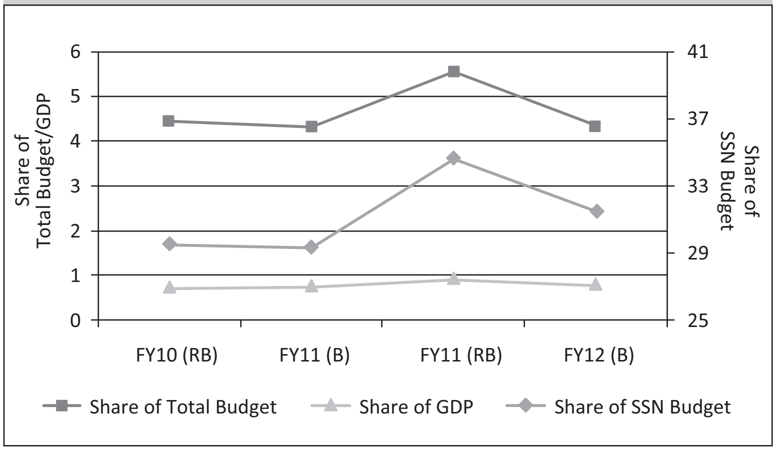
Social safety net programme is a protection shield for the poorest segments of the society against the threat of poverty. In the national budget for FY2011-12, this sector has received an allocation to the tune of Tk. 22,556 crore (13.8 per cent of total budget). The social safety net for this year includes 84 programmes; this excludes the five programmes which were discontinued though these were part of the previous budget of FY2010-11. Besides, two new programmes have been introduced in this year's budget. These are: *Universal Pension Scheme* and *Construction of Sweeper Colony*. Unfortunately, total number of beneficiaries for all the programmes under the safety net has come down by about 5 per cent (from 8.08 crore to 7.68 crore) in FY2011-12. Although the reduction in poverty levels may have induced this, it contradicts the declared commitment of the government to ensure social security for all. Increase in both allocation and coverage for various maternity allowances is, however, a commendable initiative.

It is discomforting to see that the budget for FY2011-12 has listed the programme titled *Vulnerable Group Development for Ultra Poor (Women)* twice in the document. Whilst in the first instance, under *Running Development Programmes* (D.1.18), there has been an allocation of Tk. 2.12 crore for FY2011-12; the same programme was once again listed under *New Development Programmes* (D.2.5) with an allocation of Tk. 121.93 crore. There is no clear indication whether these two programmes are different from one another. Apart from this, as in the previous budget, expansion of *Ghore Fera* programme has been announced without any allocation of earmarked funds. This raises question as to whether this programme will be actually implemented.

With regard to social safety net programmes to ensure food security for the poor and vulnerable community of the society, the budget for FY2011-12 has allocated Tk. 7,102.6

Figure 2.8

Share of Allocation for Food Security in Social Safety Net Programmes



Source: Budget Documents (various years), Ministry of Finance (MoF).
Note: SSN: Social safety net.

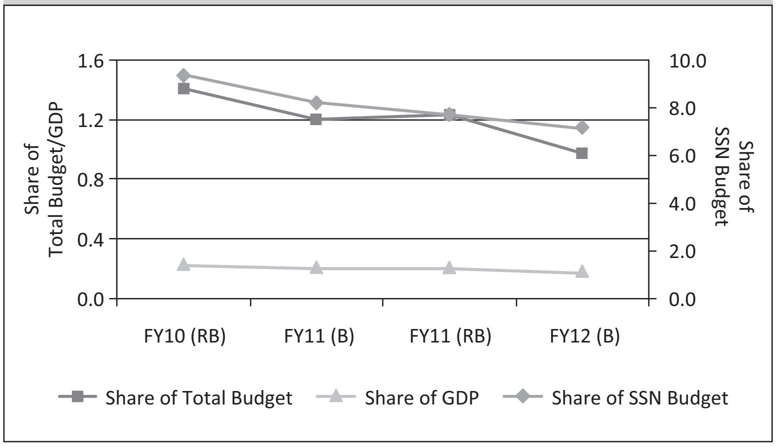
crore for various programmes. This amount is 4.3 per cent of the total budget, 31.5 per cent of the total social safety net budget, and 0.8 per cent as share of the GDP. It may be noted in this context that this year's allocation is on the lower side with respect to all the three indicators when compared to the revised budget for FY2010-11 (Figure 2.8).

Of particular concern in this context is the lower allocations for OMS and Food for Work (FFW), both of which would experience negative growth rates ((-) 16.3 per cent and (-) 1.4 per cent respectively), when proposed allocation for FY2011-12 is compared to the revised allocation for FY2010-11. It appears that this is a reflection of the government's understanding that there will be a fall in inflation and food prices in FY2011-12. If this does not come out to be so, effective benefits for the poor and the vulnerable will be lower than the last year.

Another key area in the social safety net programme is the Employment Generation Programmes for which the budget has allocated a total of Tk. 1,599 crore for FY2011-12. This total amount for the 11 programmes is less than 1 per cent of the total budget and less than 0.2 per cent as share of GDP for FY2011-12 (Figure 2.9).

Figure 2.9

Share of Allocation for Employment Generation Programmes



Source: Budget Documents (various years), Ministry of Finance (MoF).

Despite the increase in number of beneficiaries (from 54.9 lakh in the revised budget for FY2010-11 to 59.2 lakh in the proposed budget for FY2011-12), total allocation for the employment generation programmes is found to be about 0.4 per cent lower than that of the revised allocation for FY2010-11. In view of this, the question remains whether labour wage has decreased, or more small-scale projects are being taken up to implement these programmes. In either of the circumstances, the real income of per worker will be lower in FY2011-12. This certainly is not a desirable outcome, particularly since it is targeted towards benefit of the very poor people in the society. Hence, the government needs to look further into the matter and revise the allocations in this context.

2.7

CONCLUDING REMARKS

With regard to the implementation of the national budget for FY2011-12, the apprehension is that targets set out for non-ADP expenditure in the form of subsidy payments could overshoot. Revenue collection could be more than within the reach, but utilisation of foreign aid remains an area of nagging concern. Once again, full implementation of the ADP in quantitative and qualitative terms may fall short. The financing framework of budget deficit remains the key to reinstate the macroeconomic stability which has been the hallmark of Bangladesh in the recent past years. In its analysis, CPD has put forward four defining factors which will be critically important for a successful implementation of the budget for FY2011-12. *First* relates to the issue of financing of the budget deficit. While the flow of foreign aid has been low during the past few years, a number of large foreign-aided projects including the Padma Bridge have been earmarked for implementation in FY2011-12. Efforts to release foreign aid in the pipeline will need to be intensified. Ensuring good governance in the entire spectrum of activities in connection with the building of the Bridge will be crucial in this context. Government should also try to seek alternative sources of foreign aid in the form of grant and budgetary support to reduce the likely pressure on domestic credit market. *Second* is the maintenance of the macroeconomic balance. Prudent management of monetary and fiscal sectors will be necessary so that implementation of ADP can be ensured without crowding out the private sector. Adjustment of interest rate and management of exchange rate will also be necessary. *Third* concerns institutional strengthening. Strengthening of institutions that deal with development praxis will be critically important for effective management of the development administration. It will be essential to invest in development of the required human resources and capacity building, and raise the efficacy of all ministries and institutions related to ADP and budgetary implementation. In view of the increasing size of the ADP in recent years, this has acquired added importance. The *fourth* relates to the importance of maintaining political stability. A conducive political environment will be necessary to ensure that the budgetary proposals are implemented with efficacy and effectiveness.