Annex

A Set of Proposals for the National Budget FY2012-13*

*This set of proposals was released to the media by the Centre for Policy Dialogue (CPD) on 7 May 2012.

1. THE MACROECONOMIC FRAMEWORK

Bangladesh economy entered into a difficult period from the perspective of macroeconomic management in FY2011-12. The fiscal management came under serious pressure due to unprecedented rise in subsidy requirement. Conversely, the expenditures under the Annual Development Programme (ADP) remained lacklustre. The growth in revenue collection failed to keep pace with the incremental growth of public expenditures. Although the size of the fiscal deficit may remain in the safe zone due to a possible cut of development expenditure, its financing emerged as a major concern. Throughout the fiscal year, borrowing from banking system remained the only reliable source of financing budget deficit. The economy continued to experience inflationary pressure, for both food and non-food items, and the contractionary monetary stance of the central bank made a little impact. The deteriorating balance of payment situation has contributed to depreciation of the domestic currency, adding further tension in the price situation. The investment scenario, as well as the economic growth prospect, has also suffered a setback in FY2011-12.

The national budget for FY2012-13, to be announced on 7 June 2012, will be the penultimate budget of this government's present tenure. As a matter of fact, this is the last national budget which will be completely implemented during the present government regime. In the backdrop of present macroeconomic scenario and political realities, the design of the forthcoming national budget is under the spotlight. The government is at a stage where it may have to choose among a number of alternatives. The forthcoming budget may try to restore macroeconomic stability at the cost of economic growth. Alternatively, it may try to promote structural reforms to make a qualitative difference in economic governance for achieving higher level of inclusive growth. Or, even in the face of the growing adverse circumstances, the budget may resort to a set of populist measures that have little significance for strengthening growth fundamentals of the economy. Regrettably, at present the government has very little policy spaces to consolidate these alternative choices.

1.1 Structure of the Budget

- The indications received thus far suggest that the size of the budget (or its expenditure side) will be about Tk. 190,000 crore (16.1 per cent higher than the budget for FY2011-12). As a share of the gross domestic product (GDP), the size of the public expenditure thus may not change to any significant margin.

- The total size of public expenditure is experiencing a significant increase in FY2011-12 due to substantial rise in subsidy payments. The estimation of subsidy requirement had serious miscalculatation in its initial submission; and it became clear within three months of placement of the national budget for FY2011-12 that subsidy estimates were severely underestimated. Accordingly, on 13 September 2011, a revised estimate of subsidy requirement was prepared which revealed that the actual requirement was almost 2.75 times higher than the original budget figure, Tk. 47,385 crore as against Tk. 17,261 crore. An amount of Tk. 4,500 crore was allocated for the current fiscal year for agriculture, but the figure is expected to reach up to Tk. 10,000 crore in the revised budget. In course of the fiscal year the government revised the administered prices of fuel and power a number of times to reduce the subsidy burden. The government has already issued bonds worth Tk. 2,700 crore for the Bangladesh Petroleum Corporation (BPC) to clear its liabilities with the state-owned commercial banks. The total subsidy bill on various accounts for the current fiscal will be Tk. 40,000 crore, of which Tk. 29,000 crore will be provided from the current fiscal year's budget, and the rest will be carried forward to the next fiscal year. Hence the forthcoming budget will not only have to cater its own requirement, but will also have to carry this year's burden. While the government is expected to release the revised figures regarding subsidy allocation for FY2011-12, the composition and actual allocation of subsidy requirement for the forthcoming fiscal year also needs to be released. The Finance Minister has already announced his plan to reduce subsidy expenditure in FY2012-13. Indeed if the government complies with the conditionality of the Extended Credit Facility (ECF) offered by the International Monetary Fund (IMF), an automatic adjustment mechanism for retail petroleum prices will be adopted to ensure full pass-through of international prices by December 2012. If this will be the case, a serious implication can be expected on cost of production and commodity price levels. In this context, a detailed disclosure of information regarding the estimated requirement and subsidy policy are warranted in the forthcoming budget.

- ADP for FY2012-13 may be around Tk. 54,300 crore, of which only 36.9 per cent will be financed from the project aid. In FY2011-12 the share of project aid in original ADP was 40.6 per cent which may come down to 36.6 per cent in the Revised ADP (RADP). It implies that the reliance on domestic sources for ADP financing may continue in the coming fiscal year. The expenditures in productive sectors as envisaged under the ADP, thus far, have not shown any breakthrough in terms of either quantity or quality. Hence, the implementation capacity of the government needs to be improved significantly to achieve the goal.

- Project-wise action plans should be prepared for timely completion of all the ongoing projects. To start with, the government may put emphasis on preparing action plans for a number of important projects. Power and infrastructural projects should get the highest priority while preparing the list. These action plans should be prepared by the respective project authorities and be approved by the head of their implementing agencies.

- The revenue mobilisation target for the National Board of Revenue (NBR) may be set at Tk. 112,350 crore which is 22.3 per cent higher than the target for FY2011-12. The revenue collection trend during the first three quarters of this fiscal year suggests that NBR may surpass its collection target for the second consecutive year in FY2011-12. Considering the recent performance of NBR, changes in tax structure and ongoing reforms according to the modernisation plan for NBR, the target for FY2012-13 may be achievable. On the other hand, non-tax revenue in FY2011-12 has been blessed with spectrum fee from the telecom companies, which augmented around Tk. 4,000 crore for the national exchequer. To receive a similar boost this year under the non-tax revenue, the licensing process of 3G for telecom industry needs to be expedited.

- The economy is growing but the government assets are not paying enough returns. There is a need to revisit decades old government rates including the various fees, rents, stamp duties, etc. Public properties including land and waterbodies should be leased in a competitive manner to tap potential revenue.

- Performance of dividend and profit from state-owned enterprises (SoEs) is also below par. The efficiency of public enterprises needs to be revamped particularly considering government's decision in favour of any new privatisation effort. A more comprehensive plan needs to be in place in order to estimate the reinvestment requirement for these enterprises and give a clear indication to the prospective private investors.

- The budget deficit is expected to be within 5 per cent of GDP. Although the size of the fiscal deficit remains in the safe zone, its financing is emerging as a major concern. The government, in the face of low offtake of committed foreign aid, has been resorting to heavy borrowing from the banking sector. Under the revised target, the government may borrow about Tk. 27,900 crore from the banking system against the original budgetary target of Tk. 18,957 crore in FY2011-12. The government needs to reduce its dependence on banking system for its budget deficit financing in next fiscal year. The much delayed upward revision of the yield rates of the National Savings Bond (NSD) certificates did not lead to any major improvement of non-bank financing of the fiscal deficit. The government has also sought budgetary support of USD 300 million from the Asian Development Bank (ADB). To maintain macroeconomic balance, the government will have to intensify mobilising foreign resources to finance its budget deficit.

- Coordination among relevant parts of the government coupled with policy leadership by the Ministry of Finance (MoF) is required for effective macroeconomic management and implementation of economy-wide policies.

2. GENERAL FISCAL MEASURES

2.1 Value Added Tax (VAT)

- The proposed *Value Added Tax (VAT) Act 2012* is a positive initiative. The Act is expected to improve VAT collection through enhanced efficacy and higher transparency. It is expected that the new VAT Act will be passed by the parliament during this budget session and will come into force in July 2015. The new VAT Act is likely to introduce a single VAT rate of 15 per cent for all products. In this connection, the government may consider keeping provisions for differentiated rates for strategic interventions in the economy. At the same time, appropriate preparatory measures should be undertaken well in advance, before implementing the VAT Act. The Act itself should be implemented in a phased manner.

- Unification of tax administration is necessary in order to avoid duplication, harassment, reduce corruption and improve transparency and efficiency in the process of tax collection. This requires a modern information technology (IT)-based tax administration which will have online integration of the various components including the VAT, income tax and customs duty departments.

- Evasion of customs duty could be reduced significantly if data on revenue collection could be passed on to the NBR monitoring cell on a regular basis through online network between the customs points and the NBR. The forthcoming budget for FY2012-13 should allocate funds to digitise all the customs points.

2.2 Income Tax

- Given the inflation fixation of last year, the level of tax-free income rates deserves a review and revisiting. Thus, tax exemption limit may be revised upward to Tk. 200,000 for individuals (from Tk. 180,000), Tk. 220,000 for female assessees (from Tk. 200,000) and Tk. 275,000 for assessees with disability (from Tk. 250,000) considering the current high rate of inflation in the economy. The minimum threshold of tax could be raised to Tk. 2,500 at the same time (from Tk. 2,000).

2.3 Transfer Pricing

- The government is considering to introduce a separate chapter in the present *Income Tax Ordinance 1984* to deal with the issue of transfer pricing. This is a welcome initiative. According to estimates made in a recent UNDP study, Bangladesh loses equivalent of USD 1.8 billion per year due to transfer mispricing.

- It is good to note that the Ministry has created a position for looking at the issues of transfer pricing and money laundering. Additionally, NBR has created a Transfer Pricing and Anti Money Laundering Cell/Task Force. Allocation of required funds and building the needed expert human resources should be prioritised in the forthcoming budget.

- Recent incidents suggested, in addition to transfer mispricing and trade mispricing, misdeclaration of imported products is also causing substantive revenue losses. NBR needs to be strengthened to avoid these losses.

- The consolidated direct tax law is a welcome step since the present tax measures are being implemented on the basis of the 1984 Ordinance. The proposed Draft Direct Tax Act provides opportunities for transfer pricing legislation, but misses some essential components of a standard legislation. A recent CPD study identified a number of missing components, and cited the example of the Direct Tax Code of India with a view to designing a comprehensive Act (Annex Box 1). In addition to the changes in the present ordinance, the forthcoming Direct Tax Act needs to accommodate transfer pricing provisions.

Annex Box 1

Suggestions for Inclusion in the Proposed Direct Tax Act 2012

Area of Transfer Pricing Legislation	Related Sections of Direct Tax Code, India	Related Sections of Draft Direct Tax Act, Bangladesh
Scope	105, 106	202, 203
Definition of terms	113	missing
Reference to transfer pricing officer	130, 284	missing
Transfer pricing documentation	83	missing
Furnishing information/filing	149	missing
Administrative procedures	160	missing
Assessment procedure	162	missing
Penal provision	226	missing

Source: Rahman *et al.* (2011).[1]

2.4 Legalisation of Undisclosed Income

- NBR has already expressed its intention to offer opportunity to legalise undisclosed income provided a payment of 10 per cent tax is made. This proposal may have been considered in light of the stagnated investment environment and with a view to attracting new money for investment purposes. However, this runs counter to the principle of rewarding conscientious taxpayers and punishing tax evaders and people with undisclosed income. At the same time, one would recall that such initiatives in the past had little success in mobilising additional revenues and in attracting investment. If at all, income may be allowed only with payment of a certain percentage of additional tax as a penalty.

3. AGRICULTURE AND FOOD SECURITY

3.1 Crop

- There is no doubt that input subsidies and price support schemes put pressure on government's fiscal expenses; on the other hand, rationalisation of related administered prices and cash subsidies is likely to raise production cost for the farmers. It has been assured from the top policy making body that subsidising agricultural production (particularly foodgrain production) will be continued in FY2012-13.

[1] Rahman, M., Ahmed, M.S. and Khan, T.I. 2011. *Adopting Transfer Pricing Regime in Bangladesh: Rationale and the Needed Initiatives.* CPD Working Paper No. 94. Dhaka: Centre for Policy Dialogue (CPD).

It is important that the Finance Division undertakes a comprehensive study to assess the impact, distributional justice, distribution of allocation within the sector (for different inputs including fertiliser and irrigation, and for price subsidy of output) and currently practiced distributional mechanism relating to the subsidies given in the agriculture sector. The study will be able to guide the future subsidy policy of the government with a view to raising allocative efficiency.

- Evidence suggests that Bangladesh has been successful in adopting new technologies in agriculture including high-yielding varieties (HYV), chemical fertilisers and irrigation. Technological diffusion is also warranted to support crop production in unfavourable zones (including submersible, flood-prone and drought-prone areas). In this context, special allocation should be made to innovate and promote improved salt and submergence-tolerant varieties in the southern districts, and water efficient varieties and other high-value crops including maize, spices, oilseeds, pulses and orchards in the northern districts. This is particularly pertinent because of the adverse impact of climate change and its possible implications for agro-practices.

- For ensuring fair price both at the consumer and at the farmers' levels, funds should be allocated for strengthening the Department of Agricultural Marketing (DAM) to provide improved marketing services such as ensuring fair returns to the growers, improving market condition, reducing cost of marketing and ensuring fair market practices. In this regard, to attain the Sixth Five Year Plan (SFYP) targets, funds should be allocated for setting up an Agricultural Price Commission, under the umbrella of DAM, to forecast price of agricultural commodities.

- Till now, crop insurance, planned to be initiated on a pilot basis in a number of upazilas to protect farmers from shocks, was able to make only insignificant progress. This initiative should be given due priority and other sub-sectors such as poultry, livestock and fisheries should also be brought under its ambit. Appropriate funds need to be allocated for this.

- More funds should be allocated for research on improved variety of seeds for wheat and jute, to identify international market opportunities and to examine emerging consumer preferences. In this regard, research organisations such as Bangladesh Agriculture Research Institute (BARI) should be further strengthened through higher allocation to enable it to undertake research and coordinate the related activities.

- Low disbursement of farm credit could result in harming the cause of ensuring food security in the medium-term, and could adversely affect farm productivity. Unutilised funds should be disbursed to support small infrastructure facilities in the agriculture sector. Funds should also be allocated to support the increasing cost of doing business in the thrust sectors with the help of microfinance institutions.

- Construction of cold storages for potato and potato seeds in the bumper producing areas should be given priority. To encourage community-based storage, fund should be allocated for training and technical assistance to the farmers to implement improved methods of storage.

- To encourage export of agricultural commodities, crop diversification should be one of the major prioritised areas for allocation. Women farmers can be targeted for high-value production such as fruits, vegetables, oilseeds, legumes and spices which have export potentials with appropriate training on insect and pest management. Loans may be offered to those who also want to graduate into commercial farming to support the supply chain of export-oriented industries.

- Overexploitation of ground water for irrigation of Boro rice farming has led to overshooting of the capacity of annual recharge of aquifers causing rapid depletion in the ground water level. In this regard, funds should be allocated for re-excavation of canals and ditches to increase the navigability and also for renovation of dams to hold the surface water to be used for irrigation purpose.

- Discrepancies in the data provided by Department of Agricultural Extension (DAE) and Bangladesh Bureau of Statistics (BBS), particularly for minor crops, create confusion for researchers and policymakers. Valid methodology will need to be developed by these institutions to service the requirements at field and monitoring levels. Funds should be allocated to enhance the strength and capacity of these organisations.

- Integrated research fund, with the support of major donors, should be allocated for new projects such as *Support to Research for Climate Change Adaptation in Bangladesh* for developing and disseminating successful indigenous technologies among the coastal farmers to develop their capacity to adapt to the changing situation originating from climate change.

3.2 Livestock and Poultry

- At present income from poultry is exempted from tax up to 30 June 2013, subject to investing at least 10 per cent of the exempted income that exceeds Tk. 150,000, in government securities or bonds. Because of spread of avian influenza virus attack, a large number of poultry farms had to be shut down. The tax exemption may be extended up to 2015 for helping the revival of this sub-sector. Poultry feed mills may be considered for inclusion in tax exemption list along with poultry farms. Credit may be offered to bird flu affected farms at a concession rate.

- At present bird flu detection kits are not allowed to be used at farm-level. Farms should be allowed to use these kits and duty on this item should be waived off, so that avian influenza can be detected as early as possible at the farm-level. Funds should be allocated to Department of Livestock Services (DLS) for undertaking training of poultry farmers in the use of the detection kit. Along with these, government should allow zero duty on medicines and vaccines used in poultry, livestock and fisheries sector.

- To encourage local producers, existing 25 per cent custom duty on import of chicks and eggs should be continued.

- Maize is one of the important elements for poultry feed. Current 5 per cent advance tax on maize import may be considered for elimination.

- Due to the scarcity of grazing land, the area devoted to fodder cultivation for livestock is rather insignificant at present. The problem of feed shortage will be more acute in the coming days unless steps are taken to increase the fodder supply. More funds will be required for research to develop feed technologies and improve the extension services to transfer germplasm to farmers. In this regard, Bangladesh Livestock Research Institute (BLRI) and DLS will need to be further strengthened.

3.3 Fisheries

- Strengthening of fish preservation, processing and marketing infrastructure needs due consideration. Capacity of Bangladesh Fisheries Development Corporation needs to be enhanced further to preserve and process fish during harvesting season which is to be marketed during lean period.

- Export-oriented shrimp farms should receive technical support and training for detecting waterborne virus outbreak. This will prevent huge loss suffered by the farms due to lack of timely detection of diseases. Funds should be allocated for training of shrimp farmers.

- Due to the alarming level of pollution of the open waterbodies in Bangladesh, ecosystem of the rivers, canals and ditches are now under great risk. Urgent actions are needed in this context. Establishing industrial waste treatment plant should be made mandatory and pollution tax should be imposed on violators to address this problem.

3.4 Agro-based Industries

- Seasonal surpluses of perishable items demand that agro-processing industries be developed in adequate number to prevent post-harvest losses and ensure farmers' profitable return. Agro-processing units based on domestic production of potato, tomato, vegetables and fruits should get cash incentive to encourage them to go for export. All exportable agricultural products can be given a unique number to identify the origin of the product and its grower to ensure modern agricultural practice. This number will be helpful to ensure compliance requirement, particularly when the products go to export market.

- Government has recently lifted the three years ban from aromatic rice export in view of the good stock and taking into cognisance its export potential in the markets of United States of America (USA), England, Italy and Saudi Arab. Number of specialised aromatic rice mills in Bangladesh is very few. Large scale specialised mills such as rubber roller mills in the bumper producing areas may help to increase production of export quality rice. Private entrepreneurs should be encouraged to do this through availability of credit.

- The existing 3 per cent customs duty on capital machineries used by the agro-processing industries may be considered for waiver to promote establishment of these industries.

4. INDUSTRY

FY2012-13 will be a challenging time for the industrial sector in view of the ongoing developments which are likely to continue over the next year (e.g. uncertainties in the global economy and the recession and its likelihood in many OECD (Organisation for Economic Co-operation and Development) countries; tightening credit market with high interest rate; high inflation; excessive government borrowing from the banking sector; devaluation of Bangladeshi Taka (BDT) against United States Dollar (USD); contractionary monetary policy). Furthermore, emergence of new issues and concerns has also added to these emergent challenges (rising political instability is one). National budget for FY2012-13 should take specific fiscal and budgetary measures to help address these tasks and stimulate the industrial sector.

It is hoped that the Finance Minister will announce the framework for a Comprehensive Trade Policy in the National Budget 2012-13 as the present trade policies (export policy, import policy order) are going to expire in June 2012. In order to seize new opportunities emerging in the domestic and global markets in addition to addressing the existing challenges, there is a strong rationale to enact a Strategic Trade Policy for Bangladesh. The new trade policy should highlight the following issues: putting in place trade supportive macro policies; ensuring better governance of trade-related activities; improving business processes; undertaking initiatives for product and market diversification; strengthening linkages with global value chains; strengthening trade-investment linkages through promotion of foreign direct investment (FDI); improving trade facilitation; ensuring better trade diplomacy; enhancing the capacity and efficiency of trade institutions; and addressing new issues related to trade.

The announcement of fiscal and budgetary measures in the national budget for FY2012-13 targeted to different manufacturing and services sectors should take into account the ongoing and emergent issues and concerns.

4.1 Readymade Garments (RMG), Textiles and Leather

- Allocation of necessary funds for speedier completion of the *Garments Palli* project is required. Establishment of this *Palli* will help to set up new state-of-the-art factories and also to relocate factories from the Dhaka city.

- Government may consider allocation of fund for setting up dormitories for industrial workers in major industrial clusters of Dhaka, Gazipur, Savar, Narayanganj and Chittagong.

- In view of rising cost of living due to high inflation, government should reintroduce operation of food rationing facilities for industrial workers in major industrial clusters. In this context, discussion for the revision of minimum wage for industrial workers may need to be initiated in the next year.

- In view of the difficulties faced by the backward linkage textile industries and to help these maintain their competitiveness against imported fabrics, this industry may need to be supported. Reduction of VAT on certain utility items may be considered in this context.

- Establishment of *Leather Industry City* remains well behind the stipulated timeline. Development works for this project should be expedited with adequate allocation of funds in the next budget.

- In order to reduce industrial pollution, government should allocate adequate funds to the concerned authorities (i.e. Ministry of Environment) to strengthen their monitoring and law enforcement activities.

4.2 Jute

- Government may consider establishment of a *Technology Upgradation Fund (TUF)* to support productivity increasing and efficiency enhancing efforts in the jute manufacturing sector. The proposed fund will help enterprises to undertake restructuring and reform initiatives and access loans at reduced rate. Indian jute and textile mills are benefitting from this type of fund.

- In order to create skilled workforce in the jute manufacturing sector, adequate budgetary allocation is required for the establishment of a *Skill Development Fund* which could be used to train workers.

- In order to reduce ambiguity between jute and textile sectors, machineries and spare parts used in the jute mills should have separate Hermonised Systemed (HS) codes which are at present put under the same HS codes that are applied for textiles sector.

- Improvement of quality of jute seeds and jute fibre are considered to be one of the major factors for better productivity and product quality. Government should consider increased budgetary allocation for research and development (R&D) activities in the jute sector. Dedicated efforts are also needed to take forward Bangladesh's achievements in decoding the jute plant draft genome.

- Government should consider jute manufacturing industry as agro-based industry which has been recommended by the Jute Commission.

4.3 Ship-Building Industry

- Buyers operating in the ship-building sector prefer to provide Payment Guarantee to the manufacturers which is endorsed/reconfirmed by international banks. Such a practice raises manufacturers' cost burden due to payment of charges both to local and international banks. Bangladesh Bank should explore the possibility to introduce alternate mechanism for endorsement of Payment Guarantee in order to reduce the cost imposed on the manufacturers.

- Government should take initiative to formulate a policy for the ship-building sector with a view to provide future policy directions to the entrepreneurs.

- There should be a special zone for the ship-building industry with adequate infrastructural and logistic facilities.

4.4 Pharmaceuticals

- Establishment of the Active Pharmaceutical Ingredient (API) Park has fallen behind the projected timeline (31 December 2011). Since about half of the development work is yet to be completed, necessary allocation of fund for the project and its speedy implementation are urgently needed.

- Appropriate storage facilities in the form of temperature controlled area for life saving drugs and vaccines should be set up at country's international airports.

4.5 Small and Medium Enterprise (SME)

- Allocation for the Equity Entrepreneurship Fund (EEF) needs to be increased in order to expand its coverage beyond the existing sectors (e.g. agro, agro-processing, information and communication technology (ICT), silk, flowers and herbs) to cover other potential labour-intensive sectors (e.g. light engineering, plastic, melamine and electronics).

- At present import duty on capital machineries is zero for 100 per cent export-oriented industries, but 3 per cent for other industries. Domestic market-oriented industries will be benefitted if this rate is reduced, perhaps to 1 per cent.

- Finance Minister may like to continue with the commitment to attain the target of 15 per cent of SME loans to be disbursed to women entrepreneurs, as was set out in the *Industrial Policy 2010*.

- In order to provide better financial access to SMEs, government may take the initiative to launch flexible loan sanction policy for SMEs under the authority of the Bangladesh Bank.

4.6 Light Engineering

- Government should take initiative to set up a separate industrial park for the light engineering industries. This has been a longstanding demand of the entrepreneurs. This park could be established under the public-private partnership (PPP) arrangement.

- In order to be competitive, local manufacturers should put more focus on R&D, machinery upgradation and skill development activities. As in India (Opportunities Venture Fund), a special fund could be introduced in this regard to provide low interest credit facility to the manufacturers.

4.7 Information and Communication Technology (ICT)

- Completion of some of the important ICT projects are well behind the stipulated timeline including *Establishment of SASEC Information Highway* and *Hi-tech Park at Kaliakair*. Adequate allocation of fund and speedier implementation of these projects are urgently required.

- In order to ensure wider accessibility, VAT charged over the use of internet service (15 per cent) could be reduced.

- Import duty on computer parts and accessories that are mostly used in academic institutions, such as connecting cables, cooling fan, webcam, CD/DVDs, multimedia projectors, etc. could be reduced to zero.

- NBR should consult the stakeholders to resolve the ambiguity in the HS codes applicable for computer accessories. Necessary initiatives should be taken in this regard.

- A separate VAT code could be useful for IT and IT-enabled services. NBR should take initiative in this regard.

- Efforts should be made to set up a separate ICT Authority and ICT Development Fund as per the *ICT Policy 2009*.

- A PPP model should be used to introduce 3G in Bangladesh. 3G data solution will also promote other areas of development such as remote healthcare.

- The government should give more attention to developing the software industry, in particular where investors and institutions can collaborate to support needs of the industry.

- Incentives should be given to non-resident Bangladeshis (NRBs) to invest in the country's ICT sector. Bangladesh Bank has also called for the establishment of a fund for research on banking sector software and security system.

- The government should establish training centres for computer literacy to strengthen human resource for the ICT sector. On that note, the recent release of the locally manufactured Doel laptop by state-owned Telephone Shilpa Sangstha (TSS) is commendable. Government assistance to TSS in diversifying its product is recommended.

4.8 Real Estate

- In the face of the ongoing slump in the housing sector, government may put directives for reinstating 'housing loan' at low interest rate for individual buyers buying homes, particularly in peripheral areas/in the outskirts of the Dhaka city.

- Import of safety equipments such as fire alarm, fire extinguisher, etc. should be allowed without any duty.

4.9 Capital Market

- Submission of Tax Identification Number (TIN) should be made mandatory for all Beneficiary Owner (BO) accountholders in the capital market in order to bring transparency in the transactions as well as to ensure proper reporting of earnings from the secondary market trading in individual's tax return.

- Introduction of capital gain tax on individual accountholders should be taken into consideration in order to discourage short-term trading activities.

- Government may consider issuance of Infrastructure Bond in order to support big infrastructure projects with the provision for participation of foreign investors.

- In order to modernise the operation of the Securities and Exchange Commission (SEC) by strengthening human resources and improving technical capacities, necessary allocation of fund is required for the organisation, both under revenue and development budgets.

- The Finance Minister should announce specific timeline for preparation and enactment of important bills (Financial Reporting Act, Controlling the Insider Trading and Demutualization of Stock Exchanges). Enactment of these bills is important in order to improve the governance in the capital market.

5. ENERGY AND POWER

- In view of the ongoing power crisis in Bangladesh, the government should place greater importance on medium (100-200 MW) and large (500 MW) base load power plants in lieu of smaller oil-based rental and quick rental power plants (RPPs) to reduce the huge subsidy burden and to secure long-term power supply.

- To achieve the target proposed in the *Power System Master Plan 2010* timely, there is a need to initiate more coal-based power plants instead of gas or oil-based ones. The Coal Policy needs to be finalised on an urgent basis.

- Aged power plants lose generation capacity and efficiency over time. Accordingly, adequate allocation for regular upgrading and renovation of aged power plants is necessary for generating maximum capacity from the existing plants.

- To secure long-term energy security, cross-border electricity trade would be an option; but power pricing, transmission and distribution mechanisms require more effective methods and efficient technologies. Regional energy cooperation could be an important strategy in this context.

- Rationalisation policy of power tariff at end-user level should be adjusted, keeping in mind the consequences of power tariffs on the economy and at consumer levels.

- Rural electrification should be enhanced through various alternative energy technology, i.e. bio gas.

- Adequate budgetary allocation is necessary for building capacity of the Bangladesh Petroleum Exploration & Production Company Limited (BAPEX) to carry out onshore gas exploration (old and new fields) and to conduct seismic surveys (2D and 3D) in order to meet the increasing demand.

- As the price of liquefied petroleum gas (LPG) is higher than fixed retail price and availability is low, retail price and supply of LPG should be regulated.

- The upcoming budget should continue tax exemption declared in the last budget for renewable energy and energy efficient technologies and apparatus.

- Coal-based power plants are the most cost effective option for power generation and there are huge proven coal reserves in Bangladesh. In this regard, there is a need to design an integrated coal policy which will also deal with extraction of local coal.

- Development of terminals and pipelines for import of gas will require additional funding from the budget.

- Allocation of funds is needed to enhance the storage capacity of BPC to secure fuel supply for oil-based power plants.

- The Government of Bangladesh (GoB) has plans to import electricity from the SAARC (South Asian Association of Regional Cooperation) countries, especially Bhutan, India, Nepal and Myanmar. Establishing regional energy cooperation, in this regard, will be a vital policy imperative to enhance cross-border power trade for maintaining long-term energy security of Bangladesh. The standards for fixation of power tariffs, wheeling charges, property rights, transmission and distribution systems, as well as operation and maintenance services will have to be considered thoroughly.

- Since the hydropower potential of the country is low compared to that of the other countries, bilateral cross-border hydropower trade with Bhutan and Nepal will help mitigate Bangladesh's power deficit. In addition, appropriate steps should be taken to import gas from Myanmar.

- Promoting the use of energy efficient technologies in industrial and residential sectors can significantly reduce the demand for electricity.

- Establishing Bangladesh Energy Research Council should be a priority and adequate funds should be allocated towards this.

- The Bangladesh Infrastructure Facilitation Fund (BIFF) of Tk. 1,600 crore should be utilised via private partnerships as soon as possible.

6. TRANSPORT, CONNECTIVITY AND CONSTRUCTION

6.1 Roads and Highway

- Development of the road network is particularly urgent. All major roads need to be expanded to four lanes and be able to bear load capacity up to 15-18 tonnes, compared to current capacity of 8-10 tonnes. Budgeting for rural roads, regional highways and feeder roads must be synchronised with the long-term sectoral master plans.

- Revenue for repair work can be generated by charging tolls as well as fines for speeding and other violations. The government may look into the harmonised scheme for road transport charges introduced by members of the Common Market of Eastern and Southern Africa in 1991.

- The combination of country's heavy rainfall and irregular maintenance of roads is responsible for the poor condition of the roads. Additional money should be allocated for routine maintenance, especially of the major highways, as well as for R&D of construction technology to improve the durability of the roads. Low-cost year-round maintenance is also a cost effective measure to curb road accidents compared to large-scale restoration projects.

- Better feasibility exercise will help maintain longevity of bridges which suffer from river erosion and other adversarial environmental factors.

- Enforcement of road regulations as well as tracking of invalid licenses must be taken into consideration when planning the road and highway budget. Non-compliance, such as speeding and plying of heavy vehicles that exceed the load capacity of the road, is a major factor behind the deteriorating condition of the roads. The Meghna Bridge, a crucial link between Dhaka and

Chittagong, is a case in point. The government must invest in better driving schools to ensure that individuals are qualified to drive on the road.

- The number of highway police and monitoring personnel in the country is inadequate to maintain safety. In addition, cautionary signals are essential in dangerous locations. The Accident Research Centre has identified 209 such 'black spots', including 38 in the Dhaka-Aricha highway and 35 in the Dhaka-Chittagong highway. Budgetary allocation is needed to address this problem.

6.2 Traffic

- Isolated projects will not improve the traffic situation; rather coordinated and strategic planning is needed to resolve the ongoing problems.

- Traffic jams can be alleviated by imposing mandatory bus services at all schools, which are the epicenters of traffic during rush hour.

- The public transportation network and facilities should be strengthened to reduce the number of private cars on the road. City planners should expedite the establishment of a Bus Rapid Transit, as was envisioned in the Strategic Transport Plan in 2008. Though this new system is perhaps not possible to be introduced immediately, funds should be channeled gradually towards implementation of the plan.

- The drivers of small unauthorised vehicles, which the government is trying to clamp down in order to reduce traffic, must be compensated, preferably in the form of alternative employment.

6.3 Railway

- Since Bangladesh is a land-scarce country, 70 per cent of transit traffic should be carried through rail routes, 15 per cent through water, and the rest by roads. This calls for improvement of the country's railway system on an urgent basis.

- Aside from fund shortage, the government also has not increased train fare since 1992, as a result revenue generation for development of the railway sector has been rather insignificant. The recent proposal by the Bangladesh Railway to hike the train fares needs serious consideration, but it is advisable to introduce the new fares gradually and in phases.

- Integration of the railway with road and water transport systems as well as the development of facilities for transit purposes will allow for smoother movement of traffic. This will need careful consideration and appropriate budgetary allocation.

6.4 Waterway

- The major barriers to inland waterway transit include high level of siltation, bank erosion, inadequate navigational aids, and insufficient facilities and equipment. Bangladesh needs to spend a significant amount of money to dredge rivers in order to reduce siltation and make waterways suitable for transportation. Adequate budgetary allocation will be needed for this. These investments should be taken into consideration when fixing fees on transport movement to ensure cost recovery.

- Unauthorised trading of sand and illegal structures are responsible for narrowing down of traditional waterways. Enforcement agencies should be enhanced and be given greater incentives to monitor the important routes.

- The Chittagong and Mongla Ports, country's two existing ports, are currently operating below their capacities. More funds should be channeled toward the development of these two ports to enable them to handle increased future cargo and business originating from possible transit trade.

- The underdeveloped Chittagong and Mongla Ports, along with the low capacity of the Ashuganj-Akhaura road, are hindering operation of the Ashuganj River Port, a potential focal point for trade between India and Bangladesh. Investment by the private sector should be encouraged to develop the necessary infrastructure in Ashuganj and the connecting road to Akhaura. Appropriate fees should be fixed to ensure good returns on investment. Here PPP could play a key role.

6.5 Airway

- More investment is necessary to strengthen the Civil Aviation Authority of Bangladesh (CAAB), which was downgraded from Category 1 to Category 2 by the US Federal Aviation Administration. As a result, Bangladeshi airlines cannot operate flights to the USA.

- The capacity of the present airport in Dhaka will need to be significantly expanded if Dhaka is to become a regional air traffic hub.

6.6 General

- Comprehensive feasibility studies covering the aforesaid transportation modes needs to be conducted. Feasibility and preliminary studies should be systematic so as to avoid overlooking important details. This will require considerable funding and the involvement of relevant government ministries. The government may consider inviting tenders for transportation projects through Design-Build system, which will free the government from spending its own money.

- The government should allocate funds for the integration and harmonisation of the different modes of transportation in order to facilitate a more efficient and fluid movement of traffic.

- While regional connectivity is still being considered, these steps towards international standards will also facilitate improved trade within the country.

7. SOCIAL SAFETY NET

- Detailed information on the safety net programmes (including implementation status of the last year) should be made public during the announcement of the national budget proposals. These should include information about allocations and coverage (district-wise and phase-wise, where applicable), for at least the major programmes.

- Bangladesh should gradually move towards a more comprehensive social safety net with a view to designing a social security programme in future. For this consolidation and coordination will be required.

- The government took a step to build a database of safety net beneficiaries in order to avoid duplications. Pilot project was taken at Shibalaya upazila of Manikganj district. A nationwide programme should be taken to list all the beneficiaries.

- Geographic distribution of poor and ultra poor has changed remarkably between 2005 and 2010, as indicated by the Household Income and Expenditure Surveys (HIES 2005 and HIES 2010). However, geographical distribution of safety net coverage maintained its trend of focusing more on the western regions. To facilitate a review of the existing structure of safety nets in Bangladesh, a district-level survey of poverty prevalence needs to be carried out.

- The second phase (March-April 2012) of the Employment Generation Programme for the Poorest (EGPP), which is currently being implemented, is to cover all the 64 districts of the country. The programme should focus only on the highly poverty-stricken areas rather than the entire country, and widen the beneficiary coverage in those areas.

- For EGPP in FY2012-13, the current geographical distribution of poverty pockets should be included in targeting the beneficiaries. It is to be noted in this connection that, according to HIES 2010, significant improvements were achieved in terms of poverty reduction in those areas of the country that were found to be lagging behind in HIES 2005.

- Daily wage rate for the EGPP were increased by Tk. 25 each year and now stands at Tk. 175. Given that the average non-agriculture labour wage in the market is above Tk. 200 at present, daily wage rate for the EGPP in FY2012-13 may be adjusted upward taking into account the current inflation rate.

- In FY2011-12 allocation for safety net programmes was increased by about 16 per cent over FY2010-11. However, to achieve a resource allocation to the tune of 3 per cent of GDP by 2015, as stipulated in the SFYP, higher annual growth in allocations will be necessary in the next three fiscal years. From the current (FY2011-12) safety net allocation (equivalent to 2.5 per cent of GDP), the programmed safety net allocation for FY2014-15 will be over 77 per cent higher. To achieve the goal, required annual average growth in safety net allocations for the next three years will be around 21.1 per cent. From these estimates, a safety net budget of around Tk. 27,300 crore will be needed in the budget for FY2012-13.

8. INSTITUTIONAL CAPACITY FOR DELIVERY

8.1 Building Professional Capacity

- One of the major factors influencing the delay in implementation of the development projects, and subsequently the sharp decline in foreign aid disbursement, is lack of adequate and appropriate capacity of the line ministries. It is proposed that in line with the Medium Term Budgetary Framework (MTBF), ministries should delegate some responsibilities to directorates and offices under them by establishing a result-based monitoring and evaluation (M&E) system.

- Weak institutional capacity is evident from the fact that the project aid utilisation is low, despite availability of foreign aid in the pipeline. The technical capacities of the MoF and the Planning Commission will need to be significantly strengthened through proper staffing and training to ensure timely implementation of the ADP projects. Steps should be taken to ensure that project-related forms (e.g. Draft Project Proforma) can be completed in a timely manner.

- The MTBF has restricted ministries' space for undertaking independent initiatives by setting limits on their future spending. It is suggested that ministries should be permitted some degree of flexibility in putting forward their budget proposals to the Planning Commission. This will allow them to go for higher budgets in view of emergent needs in the relevant sectors.

8.2 Decentralising Fiscal Structure

- Budgetary transfers from the centre are the most important sources of financing for most local governments in Bangladesh, accounting for about 50-60 per cent of local government income. The FY2012-13 Budget should come with a more transparent system for inter-governmental fiscal transfers which will make these more predictable. In particular, fiscal transfers through ADP will need to be made more transparent and based on rational criteria (e.g. poverty incidence).

- There is a wide variation in terms of revenue composition of individual cities. The upcoming budget should consider offering incentives to reward high performers (e.g. Chittagong). It could empower leading performers by increasing their sources for generating own revenues, thereby increasing their autonomy in public expenditures.

- The FY2012-13 Budget could propose a timeline and institutional framework for designing modalities with the objective of moving towards a District Budget, by taking into cognisance the performance variation of local bodies in terms of revenue generation.

8.3 Reinvigorating PPP

- The PPP, as a model for attracting new resources, is yet to make any significant impact to showcase its potential. The absence of profit-sharing provisions in the *Policy and Strategy for Public-Private Partnership (PPP) 2010* should be considered by the upcoming budget, since private sector's interest in participating in such arrangements has tended to remain further mute.

- To promote private participation in the budget implementation stage, the upcoming budget could consider the PPP arrangement for establishing a result-based M&E framework. A block allocation may be earmarked for the Office of the PPP to execute the M&E framework for ongoing projects. This proposal is in conjunction with the objective of the SFYP where such arrangements are called for monitoring development outcomes.

- Though the PPP Act was enacted in 2010, the institutional set up is yet to be completed. The Office of the PPP is in operation headed by a Chief Executive Officer and four managers. It is proposed that necessary steps be taken to expedite operation of a full-fledged PPP office/secretariat.