CHAPTER 2

Analysis of the National Budget for FY2013-14

This chapter is based on the immediate reactions on the National Budget for FY2013-14 presented by the Centre for Policy Dialogue (CPD) at a media briefing which was telecast live on 7 June 2013, the day after the Budget was placed before the National Parliament. Later the CPD-IRBD Team presented an analysis of the budget proposals by highlighting nine issues which were thought to be critical for the post-budget discussion at a dialogue held on 15 June 2013. The report of this dialogue is included in this volume as Annex 1.

2.1

INTRODUCTION

The Budget for FY2013-14 is the final one prepared by the outgoing government which was to be implemented by two successive governments (in the absence of any election time government). This is also the last opportunity for the incumbent government to fulfil, or make progress towards, fulfilling the election pledges in the run-up to the forthcoming national elections. It is worth mentioning that this Budget has been prepared in the backdrop of macroeconomic developments in FY2012-13 which experienced enhanced public investment, moderated inflation, significant surplus in balance of payments (BOP) and stable inflow of remittances. At the same time, there was a backdrop of a number disquieting features – a slippage in the gross domestic product (GDP) growth, falling private investment, significant shortfall in revenue mobilisation, reliance on bank borrowing for financing fiscal deficit, and lower domestic demand. Overall the economy appears to have moved towards a lower level equilibrium where stability has been more or less maintained, whilst the objective of enhancing economic growth has been compromised. In this backdrop, the objectives of the Budget for FY2013-14 appears to be to undertake fiscal consolidation backed up by high growth of revenue, reversing the downturn trend in private investment, further taming of inflation and revitalising the economic growth momentum.

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The target for GDP growth rate in FY2013-14 has been set at 7.2 per cent which was registered 6.0 per cent in FY2012-13. One may recall that, the respective target set by the Sixth Five Year Plan (SFYP) was 7.6 per cent. Indeed, to cover the present gap between SFYP target and the GDP growth performance trends, a GDP growth of 9.6 per cent will be required in FY2013-14. One of the implications of GDP growth being below target is that the road to lower middle income country status has now likely to become somewhat longer.

Private investment as a share of GDP, being 19 per cent, is 3.7 percentage points below the SFYP target of 22.7 per cent. In this context, the target for private sector credit in FY2013-14 (16 per cent) was kept well above the present level (12.7 per cent in March 2013). Indeed, the projected growth at the end of FY2012-13 is reported to be 18.5 per cent. Public investment as a share of GDP on the other hand was one percentage point higher in FY2012-13 (7.9 per cent) than SFYP target (6.9 per cent). The Budget was prepared with an expectation that export receipts will increase by 15 per cent in FY2013-14 over the anticipated growth of 12 per cent in FY2012-13.[1] Import on the other hand is anticipated to grow by 10 per cent in FY2013-14 over a projected growth of 3 per cent in FY2012-13.[2] The Budget also predicts inflation rate to come down to FY2013-14 at 7.0 per cent. The target for average inflation for FY2012-13 was 7.5 per cent.[3] It is also seen that the medium term outlook proposed by the government has foreseen a very optimistic scenario in line with the SFYP target, e.g. 8.0 per cent GDP growth in FY2014-15 and 9.1 per cent in FY2017-18. According to the budget targets, on the one hand GDP growth will accelerate while inflation will systematically be brought down. On the other hand, the budget deficit will reduce (as a share of GDP) while the financing will be more from foreign sources. Regrettably, the basis of such an optimistic medium term outlook was not made clear.

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[1] Up to April 2013, 10.1 per cent growth was attained.

[2] The growth of import payments was (-) 6.1 per cent during the first nine months (July-March) of FY2012-13.

[3] In April 2013, average inflation was 7.9 per cent.

2.2

PUBLIC FINANCE FRAMEWORK

Revenue income has to grow faster than the public expenditure to achieve the targets for the expenditure-GDP ratio of 18.7 per cent and revenue-GDP ratio of 14.1 per cent

In the National Budget for FY2013-14, an estimated expenditure package of Tk. 222,491 crore has been proposed. The expenditure is planned to grow by 17.5 per cent higher than the Revised Budget for FY2012-13.[4] Revenue earning was projected to grow at 19.9 per cent of Revised Budget for FY2012-13[5] indicates that the revenue income has to grow faster than the public expenditure to achieve the targets for the expenditure-GDP ratio of 18.7 per cent and revenue-GDP ratio of 14.1 per cent. The corresponding figures were 18.2 per cent and 13.5 per cent respectively in the Revised Budget for FY2012-13. However, in the backdrop of the actual outcome of expenditure and income in FY2012-13 one may find the targets to be overambitious.[6]

The proposed Budget also envisaged that the development expenditure will grow faster (25.1 per cent) than the non-development revenue expenditure (10.3 per cent). The proposed Annual Development Programme (ADP) budget of Tk. 65,870 crore for FY2013-14 is found to be 29.6 per cent of the total public expenditure which was about 27.7 per cent in the Revised Budget for FY2012-13.

Projected sales from National Savings Bond have to increase by 2.5 times

Overall budget deficit has been projected at 4.6 per cent of GDP in FY2013-14 which was estimated to be around 4.8 per cent in the Revised Budget for FY2012-13. In the Budget for FY2013-14, it is expected that balance in financing the budget deficit will be restored through high foreign financing, decreased net bank borrowing and increased non-bank borrowing. Targeted net foreign financing (including foreign grants) for FY2013-14 of Tk. 21,068 crore is 22.6 per cent higher than the Revised Budget of FY2012-13. However, government's net bank borrowing is projected to decrease by (-) 8.8 per cent compared to the Revised Budget for FY2012-13 which underscores a continuing effort to reduce dependence on the banking sources. It has also been projected that the non-bank borrowing will be doubled compared to that for Revised Budget of FY2012-13. The projected sales from National Savings Bond (NSD) have to increase by 2.5 times compared to that of the Revised Budget of FY2012-13 to achieve this target.

A review of the public finance framework of the Budgets (for the period of FY2008-09 to FY2013-14) passed during the term of the present government reveals a number of interesting trends.

Revenue was expected to be mobilised slightly better than public expenditure in Budget FY2013-14

i. Public expenditure in the Budget for FY2013-14 was higher by 2.2 times compared to the first Budget which was passed in FY2008-09 during the tenure of the present government. Revenue was expected to be mobilised slightly better (by 2.4 times in FY2013-14 compared to that in FY2008-09) during the corresponding period.
ii. Allocation for ADP has been projected to increase by 2.6 times in FY2013-14 from that in FY2008-09. The allocation is expected to rise at a higher pace than that of public expenditure and revenue earnings. This testifies to the present government's desire to achieve the goals set in its development agenda.

[4] Actually it is 27.7 per cent higher than the expenditure incurred in FY2012-13 (the amount of expenditure in FY2012-13 is Tk. 174,273 crore).

[5] A shortfall in actual revenue earnings in FY2012-13 may push the growth targets to over 30 per cent.

[6] Actual expenditure-GDP and revenue-GDP ratio in FY2012-13 were 16.8 per cent and 13 per cent respectively.

iii. The budget deficit has been confined well below the prescribed limit of 5.0 per cent of GDP during the period. Regrettably, this is due to the government's inability to spend the envisaged budgetary expenses.[7] However, the government faced difficulty in terms of the sources it resorted to towards financing of the deficit. The financing options relied disproportionately on both foreign and domestic borrowing during the aforementioned timeframe.

2.2.1 Revenue Earnings

Financing options relied disproportionately on both foreign and domestic borrowing

FY2013-14 Budget has targeted revenue earnings of Tk. 167,459 crore. Thus an additional Tk. 24,977 crore will need to be mobilised in FY2013-14 compared to that of the Revised Budget for FY2012-13. This implies that, revenue-GDP ratio and tax-GDP ratio are expected to increase to 14.1 per cent and 11.9 per cent respectively in FY2013-14 from previous year's revised matched figures of 13.5 per cent and 11.3 per cent. The planned revenue collection structure is prepared with almost unchanged revenue income structure (100 per cent) among the three heads – National Board of Revenue (NBR) tax (81.3 per cent), non-NBR tax (3.1 per cent) and non-tax revenue (15.7 per cent).

NBR Components

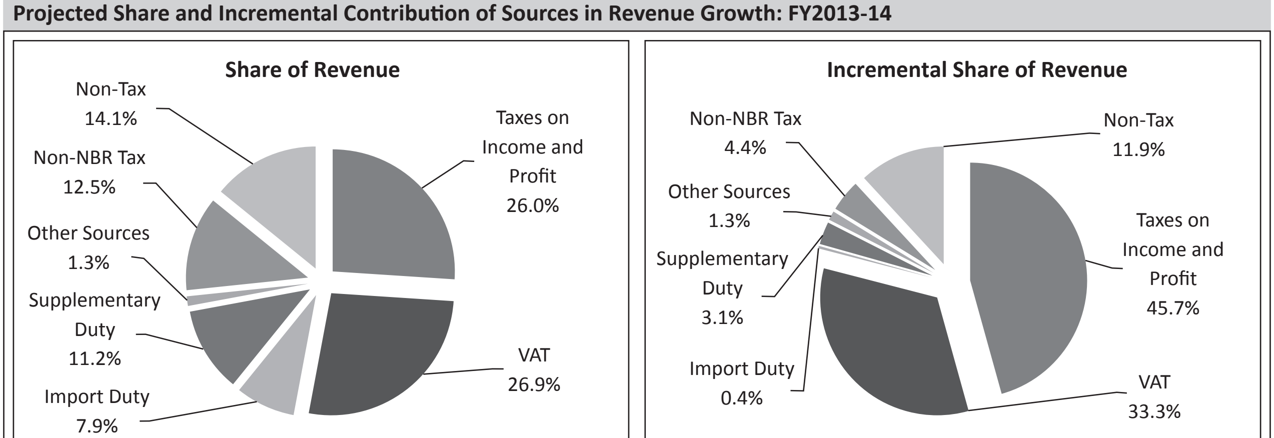
Highest amount of revenue of Tk. 49,956 crore will be obtained from VAT

In order to achieve the aforementioned revenue earning targets, NBR will need to take the lead role by providing the largest incremental share of the revenue earnings (83.7 per cent). Within the incremental shares, 45.7 per cent of revenue has to come from income tax which is the highest in the history (Figure 2.1).[8] To achieve the target in FY2013-14, income tax sources will have to grow at double the pace (at 36.8 per cent) of that of the overall revenue growth (of about 18.1 per cent) when compared to the Revised Budget for FY2012-13.

On the other hand, highest amount of revenue of Tk. 49,956 crore (one-third of the incremental revenue allocation) will be obtained from value added tax (VAT) (collected from local and import stages). Overall, the NBR growth target for FY2013-14 has been set at 21.2 per cent higher than the Revised Budget for FY2012-13.

Figure 2.1

Projected Share and Incremental Contribution of Sources in Revenue Growth: FY2013-14



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

[7] In FY2012-13, the government spent 90.9 per cent of its planned public expenditure.

[8] In the Budget for FY2012-13, incremental share of revenue from 'Income and Profit' head was planned at 29.2 per cent.

Non-NBR Components

In keeping with the past trends, non-NBR revenue growth was likely to remain at a subdued level in FY2013-14. The growth targets for non-NBR tax and non-tax revenue for FY2013-14 were set at 12.4 per cent and 14.9 per cent respectively. Growth targets in the Revised Budget for FY2012-13 compared to actual earnings in FY2011-12 were 25.7 per cent and 17.4 per cent respectively. Within Tk. 26,240 crore of revenue earnings targeted from non-tax revenue sources, 38 per cent or Tk. 9,973 crore was expected to come from 'Other Non-Tax Revenue and Receipts'.

Revenue earnings for FY2013-14 may incur a shortfall to the tune of Tk. 10,000-13,000 crore

An analysis of the revenue targets reveals that the targets set out for Budget FY2012-13 will remain unchanged for the Revised Budget for FY2012-13. Revenue collection data published up to the budget announcement time (for FY2013-14) indicates that the shortfall will possibly be of a bigger margin. The full fiscal data[9] unveils the limited capacity of the revenue authority and may prove the targets set for FY2013-14 to be perhaps unattainable. In all possibilities, the revenue earnings for FY2013-14 may incur a shortfall to the tune of Tk. 10,000-13,000 crore. Hence, this may be referred to as the weakest link in the FY2013-14 budgetary framework.

2.2.2 Public Expenditure

As is noted, public expenditure (development and non-development) has increased by Tk. 33,165 crore or 17.5 per cent in the Budget for FY2013-14 from the Revised Budget of FY2012-13 (Table 2.1). Most likely, keeping in the purview that this was

Table 2.1

Sector-wise Distribution of Total Expenditure

Sector	Share in FY2014 (B)	Share in FY2013 (RB)	Change in FY2014 (B) over FY2013 (RB)	
	%		Crore Tk.	%
Public Services	14.4	6.8	19297.0	150.8
Fuel and Energy	5.1	5.3	1358.0	13.6
Transport and Communication	9.3	7.0	7358.0	55.6
Interest Payments	12.5	12.3	4396.0	18.8
Social Security and Welfare	5.6	6.0	1097.0	9.7
Local Government Rural Development (LGRD)	6.7	7.9	-204.0	-1.4
Education and Technology	11.7	11.4	4532.0	21.0
Health	4.3	4.8	340.0	3.7
Public Order and Safety	4.7	5.1	824.0	8.5
Defence Services	6.5	7.1	955.0	7.1
Industrial and Economic Services	1.4	1.4	469.0	17.1
Housing	0.8	0.7	386.0	27.7
Recreation, Culture and Religious Affairs	0.8	0.9	-14.0	-0.8
Agriculture	7.9	10.5	-2371.0	-11.9
Others (Memorandum Items)	8.4	12.7	-5258.0	-21.9
Total Expenditure	**100.0**	**100.0**	**33165.0**	**17.5**

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

Note: Througout the chapter 'B' denotes Budget and 'RB' denotes Revised Budget.

[9]As of June 2013, available NBR data related to information up to April 2013; for 'Other Sources' data related to up to December 2012. Recently published full fiscal revenue data from Ministry of Finance (MoF) shows a shortfall in actual revenue earnings of Tk. 10,876 crore for FY2012-13 compared to what was planned for the Revised Budget for FY2012-13. The shortfall for NBR component is reported to be Tk. 8,921 crore. However, the corresponding figure reported by the NBR shows Tk. 3,644 crore shortfalls. Significant difference in the estimates provided by these two sources often creates confusion in analysing data.

an election year budget, allocation for Public Services was increased by about 2.5 folds. The amount of allocation is the highest both in terms of sector-wise allocation and incremental change. 58.2 per cent of incremental allocation was envisaged for this sector. A significant amount is allocated to cover the election expenses during FY2013-14. The Others expenses include part of subsidy, unexpected expenditures and development programmes financed from the revenue budget, etc. On top of that, Tk. 5,592 crore was earmarked to bear the expenses under public-private partnership (PPP) framework. A similar amount was also allocated in the Budget for FY2012-13. However, realisation has been found to be low, which was reflected in reduced allocation in this sector for the Revised Budget for FY2012-13.

Similarly, Transport and Communication sector also received significant importance in terms of its allocations and spending in recent years. While allocations for Education sector and Interest Payments have increased proportionately, allocation for Agriculture decreased in absolute term. Allocation for Agriculture sector was Tk. 17,471 crore in the Budget FY2013-14, which was Tk. 19,842 crore in the Revised Budget for FY2012-13. The share in allocation dropped by 2.6 percentage points from the Revised Budget for FY2012-13.

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Non-Development Expenditure

Total Augmented Non-Development Revenue Expenditure in the Budget for FY2013-14 attained a growth of 10.4 per cent from the Revised Budget for FY2012-13 (Table 2.2). Under Augmented Non-Development Revenue expenses head, Subsidies and Current Transfers accounted for 36.2 per cent of the total allocation in the Budget for FY2013-14. Interest Payments enjoyed the second highest allocation. Incremental share of Interest Payments was found to be 39.3 per cent of the total allocation. With no change in Budget for foreign interest payments, all the incremental expenses will be used up to pay domestic interests. The domestic interests have seen growth of 20.4 per cent in the Budget for FY2013-14 compared to that from the Revised Budget for FY2012-13.

A significant increase in allocation for non-development capital expenditure was seen in the Budget for FY2013-14. The capital expenditure in FY2013-14 has increased 2.7 times compared to that of the Revised Budget for FY2012-13. The

Table 2.2

Economic Analysis of Non-Development Expenditures

Component	Growth in FY14 (B) over FY13 (RB) (%)	Share FY14 (B) (%)	Share FY13 (RB) (%)	Incremental Share FY14 (B) (%)	Change in FY14 (B) over FY13 (RB) (Crore Tk.)
Pay and Allowances	10.4	20.9	20.9	20.9	2337
Goods and Services	14.3	13.3	12.8	17.7	1981
Interest Payments	18.8	23.3	21.6	39.3	4396
Domestic	*20.4*	*21.8*	*20.0*	*39.4*	*4399*
Foreign	*-0.2*	*1.5*	*1.6*	*0.0*	*-3*
Subsidies and Current Transfers	0.9	36.2	39.6	3.6	399
Block Allocation	346.1	1.6	0.4	13.1	1464
Acquisition of Assets and Works	12.0	4.7	4.7	5.4	601
Total Augmented Non-Development Revenue Expenditure	**10.4**	**100.0**	**100.0**	**100.0**	**11178**

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

incremental allocation was compensated mainly from revenue expenditure and Loans and Advances budget. The Budget kept provisions of Tk. 5,000 crore for recapitalisation of investments and Tk. 7,334 crore for share capital, with a view to rejuvenating the investment scenario in the country. Allocation for Loans and Advances has been reduced by Tk. 5,261 crore. The allocation was essential to fulfil a part of subsidy requirements provided to the state-owned enterprises (SoEs). It is expected that, back-to-back price adjustments in FY2011-12 (which has continued up to first half of FY2012-13) will hold back the surging demand for subsidy in FY2013-14.

Back-to-back price adjustments in FY2011-12 will hold back the surging demand for subsidy in FY2013-14

Subsidy Requirements

A consolidated subsidy demand is not readily available in the national budget documents. However, partial subsidy demands originating from various heads are listed under 'Subsidies and Current Transfers'. The subsidies provided to SoEs are reported as net lending under 'Loans and Advances'. Total subsidy demand for the Revised Budget of FY2012-13 had increased by 29.8 per cent mainly due to Bangladesh Petroleum Corporation (BPC) and agriculture subsidy. However, it is expected to have gone down in the Budget for FY2013-14. An estimated subsidy demand for FY2013-14 will be around Tk. 28,695 crore (2.4 per cent of GDP) while actual demand for subsidy in FY2012-13 was Tk. 40,655 crore. Subsidies for agriculture and BPC are expected to decrease in FY2013-14 (Tk. 9,000 crore and Tk. 7,950 crore respectively) while Bangladesh Power Development Board (BPDB) subsidy may see a 6.4 per cent (Tk. 5,500 crore) growth. Curiously, subsidy allocation for SoEs is found to be lower than the limit provided by the Extended Credit Facility (ECF) programme of the International Monetary Fund (IMF).

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On the other hand, contingent liabilities seem to have increased perceptibly in recent times. As of March 2013, contingent liabilities stood at Tk. 69,339 crore (Table 2.3). In terms of share in GDP, the figure rose from 4.2 per cent in June 2010 to 6.7 per cent in March 2013. Among the SoEs, BPC singly owed the highest amount which was to the tune of 43.4 per cent of total liabilities.

Table 2.3
Contingent Liabilities

Item	June 2010	June 2011	March 2012	March 2013
Contingent Liabilities (Tk. Crore)	29192	36445	64562	69339
of which BPC (Tk. Crore)	*8500*	*12599*	*34012*	*30120*
Contingent Liabilities as % of GDP	4.2	4.6	7.1	6.7
Contingent Liabilities as % of Budget	28.7	28.4	42.4	36.6

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

Annual Development Programme (ADP)

As is noted earlier, the proposed budget has envisaged that the development expenditure[10] will grow faster (25.1 per cent) than non-development revenue expenditure (10.3 per cent). A total amount of Tk. 65,870 crore (which is 5.5 per cent of GDP), allocated for 1,046 projects, has been proposed for financing the ADP for FY2013-14. The amount is 25.8 per cent higher than the Revised Annual Development Programme (RADP) for FY2012-13 and 31.7 per cent more than the actual ADP expenditure in FY2012-13. A separate budget of Tk. 8,114 crore for

[10]A major share of development budget is spent under ADP. Some development expenditures are also carried out from non-development expenditure.

self-financed development budget of the autonomous bodies and corporations has also been attached with the ADP, for the first time, in FY2013-14. Adding this amount together, government's total development programme stood at Tk. 73,984 crore in FY2013-14. Tk. 3,437 crore (which is 5.2 per cent of the original ADP allocation for FY2013-14) has been allocated as unapproved block allocation. The amount will be disbursed if any unapproved project is sanctioned by the Executive Committee of National Economic Council (ECNEC) during the implementation period of FY2013-14. ADP for FY2013-14 have included 662 such projects.

Lower intake from project aid sources is inevitable in recent years

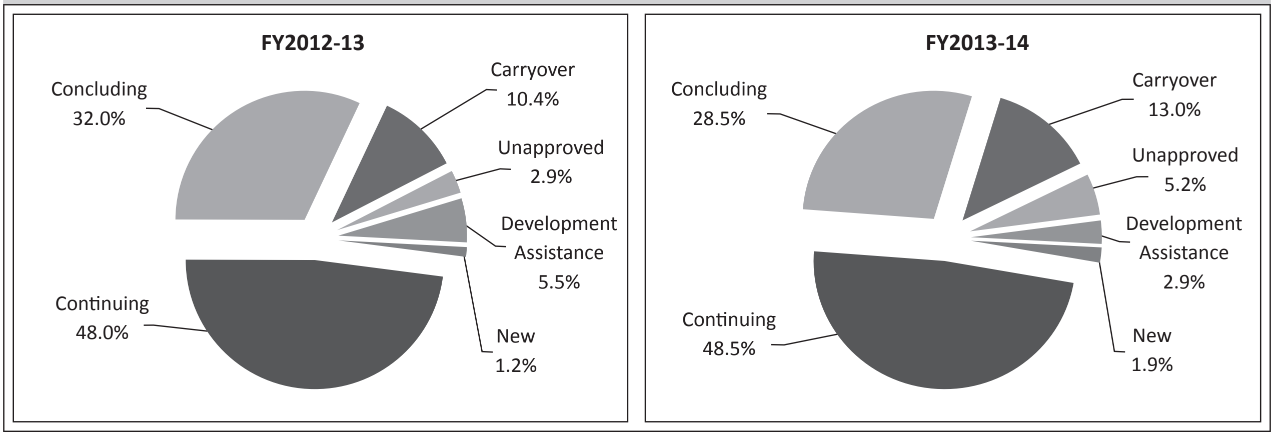
Among the two financing options of ADP, the share of project aid component will be 37.3 per cent in FY2013-14 (which was 35.3 per cent and 39.1 per cent respectively in RADP and original ADP for FY2012-13) whereas Taka component accounts for the rest 62.7 per cent of the total allocation. Relatively lower intake from project aid sources is inevitable in recent years. Thus it would require, as has been seen in case of recent budgets, a downward revision of the project aid components while formulating the revised budget for ADP.

It is going to be quite a daunting task to implement the ADP for FY2013-14 successfully amidst the political uncertainties surrounding the upcoming elections to be held during the corresponding period

In the ADP for FY2013-14, 50 new projects were included with an allocation equivalent to 1.9 per cent of the aggregate allocation (Figure 2.2). It is worth mentioning that in addition to 50 new projects in ADP FY2013-14, 157 other new projects were actually carried over (these were included in the RADP for FY2012-13).[11] Moreover, 305 carryover projects accounted for 13 per cent of the total allocation in the current budget (10.4 per cent in FY2012-13), while 415 projects with 28.5 per cent of total allocation are expected to be concluded in FY2013-14 as per their completion timeline. Combining these two sets of projects, the ADP for FY2013-14 required a total of 720 projects (69 per cent of the projects; or 41.5 per cent in allocation terms) to be completed by FY2013-14. However, it is quite conceivable from the previous experience that many of these projects may fail to meet their deadlines. In this respect, Planning Commission has identified some 305 of projects to be completed in FY2013-14 among which 110 projects (36.1 per cent) have been carried forward to this list from 'expected to be completed' list for ADP FY2012-13. Hence, it is going to be quite a daunting task to implement the ADP for FY2013-14 successfully (with so many completing projects) amidst the political uncertainties surrounding the upcoming elections to be held during the corresponding period.

Figure 2.2

Structure of ADP: FY2012-13 and FY2013-14



Source: Calculated from the Implementation Monitoring and Evaluation Division (IMED) data.

[11] The RADP for FY2012-13 was adopted in April 2013; just two months before the formulation of the ADP for FY2013-14.

Table 2.4

Allocation for Top Five Sectors in FY2013-14 ADP

(in Per cent)

Sector	No. of Projects FY14 (ADP)	Share FY13 (ADP)	Share FY13 (RADP)	Share FY14 (ADP)	Growth of FY14 (ADP) over FY13 (RADP)
Top Five Sectors	**581**	**63.5**	**61.4**	**68.7**	**29.0**
Transport	203	14.8	14.5	23.3	85.1
Power	54	14.4	15.0	13.7	5.7
Education and Religious Affairs	105	13.4	11.6	13.3	32.6
Rural Development and Institutions	86	11.4	11.8	10.1	-1.3
Physical Planning, Water Supply and Housing	133	9.6	8.5	8.3	11.7
Unapproved*	**662**	**2.9**	**NA**	**5.2**	**115.5**
Development Assistance	**NA**	**5.6**	**4.0**	**3.0**	**-15.2**
Total ADP	**1046**	**100**	**100.0**	**100.0**	**15.3**

Source: Calculated from the Implementation Monitoring and Evaluation Division (IMED) data.
Note: *The 662 unapproved projects are not included in the ADP.

Sector-wise analysis of ADP projects reveals that, top five sectors in terms of their respective ADP allocation in FY2013-14 received 68.7 per cent of the total allocation (Table 2.4). Transport sector received highest allocation among all the 17 sectors for financing 203 projects which shares almost one-fourth of the total ADP allocations for FY2013-14. It is worth mentioning that 83.4 per cent of incremental allocation towards Transport sector is for Padma Multipurpose Bridge Project (PMBP).

PMBP will absorb about 55.6 per cent of the total incremental allocations of ADP for FY2013-14

Total allocation for PMBP in FY2013-14 is Tk. 6,852 crore which accounted for 33.4 per cent of the total project cost[12] of PMBP and almost eight times higher (which is about Tk. 804 crore) than the allocation approved in the ADP for FY2012-13. Project aid allocation of Tk. 1,600 crore has been kept for PMBP which is expected to come from the Indian line of credit (approximately USD 200 million is to be provisioned from there). Indeed, PMBP will absorb about 55.6 per cent of the total incremental allocations of ADP for FY2013-14. Thus, non-PMBP incremental allocation will remain only Tk. 4,822 crore for financing other priority sectors such as health, education and agriculture.

ADP for FY2013-14 included only a few new projects

The ADP for FY2013-14 included only a few new projects. However, the practice of allocating symbolic allocation (the minimum to keep the project in the ADP list) still remains pervasive. Twenty-five 'investment' projects received only Tk. 1 lakh allocation for FY2013-14, among which 16 projects belong to 'Transport' sector and six projects to the 'Physical Planning, Water Supply and Housing' sector. On the other hand, 55 more 'investment' projects had allocation of only Tk. 1 crore in ADP for FY2013-14, 50 per cent of which were included under the head of this 'Transport' and 'Physical Planning, Water Supply and Housing' sectors.

2.2.3 Budget Deficit and Financing

The Revised Budget for FY2012-13 predicted an overall deficit (excluding grants) of Tk. 49,656 crore (which is 4.8 per cent of GDP). With the possibility that the ADP is not attaining its revised target, the final budget deficit figure for FY2012-13 is

[12]Total revised project cost of the PMBP is Tk. 20,507 crore.

Table 2.5

Budget Deficit and Financing

Description	FY2014 (B)		FY2013 (RB)		Growth
	Crore Tk.	% of GDP	Crore Tk.	% of GDP	FY2014 (B) over FY2013 (RB)
Revenue Collection	167459	14.1	139670	13.5	19.9
Total Expenditure	222491	18.7	189326	18.2	17.5
ADP	65870	5.5	52366	5.0	25.8
Non-ADP	156621	13.2	136960	13.2	14.4
Overall Deficit (excl. Grants)	55032	4.6	49656	4.8	10.8
Financing					
Foreign Grants	6670	0.6	5280	0.5	26.3
Foreign Loan (Net)	14398	1.2	11903	1.1	21.0
Foreign Loan	23729	2.0	19951	1.9	18.9
Amortisation	9331	0.8	8048	0.8	15.9
Domestic Borrowing	33964	2.9	32473	3.1	4.6
Bank Borrowing (Net)	25993	2.2	28500	2.7	-8.8
Non-Bank Borrowing (Net)	7971	0.7	3973	0.4	100.6
Total Aid Requirement (Net) (in bln USD)	21068 (2.7)	1.8	17183 (2.2)	1.7	22.6
Total Aid Requirement (Gross) (in bln USD)	30399 (3.8)	2.6	25231 (3.2)	2.4	20.5

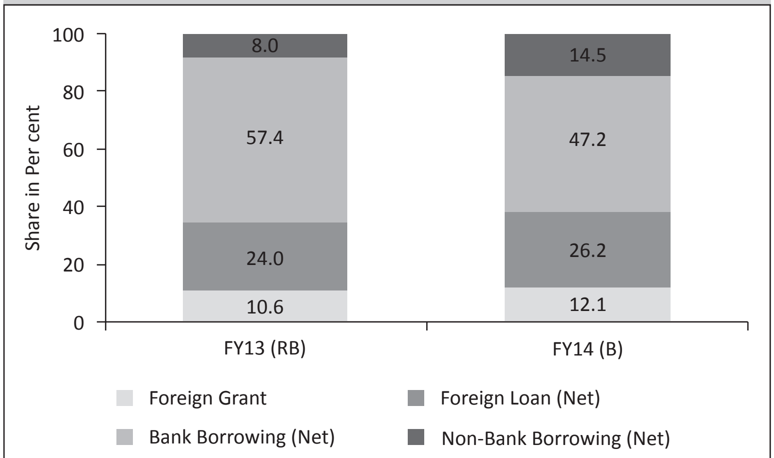
Source: Calculated from the Ministry of Finance (MoF) data.

likely to be lower than the revised targets.[13] For FY2013-14, a deficit of Tk. 55,032 crore has been projected which is expected to be contained within 4.6 per cent of the GDP (Table 2.5).

With regard to financing of the deficit, as projected in the Budget for FY2013-14, it may be noted that about Tk. 33,964 crore which is 61.7 per cent of the total deficit (65.4 per cent in the Revised Budget for FY2012-13) is earmarked to be financed through domestic borrowing (from bank and non-bank sources), of which Tk. 25,993 crore (47.2 per cent of total deficit) is expected to come from the banking system (57.4 per cent for the Revised Budget of FY2012-13) and Tk. 7,971 crore (14.5 per cent) was to be mobilised through non-bank instruments (8 per cent for the Revised Budget of FY2012-13) (Figure 2.3).

Figure 2.3

Sources of Financing Deficit



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

The remainder 38.3 per cent is supposed to come from foreign sources that included foreign loans and grants. Gross foreign aid requirement was envisaged to

[13] Full fiscal data from iBAS, MoF reveals that the actual budget deficit in FY2012-13 stood at Tk. 45,451 crore which was lower than that of the Revised Budget for FY2012-13 target. The figure is reported to be 3.8 per cent of the GDP (base: FY2005-06). It needs to be mentioned here that, the targeted 4.8 per cent of GDP is estimated taking FY1995-96 as the base year. However, in absolute term the deficit remains lower than the target.

be about USD 3.8 billion (USD 3.2 billion in the FY2012-13 Revised Budget) which will be a challenging target.

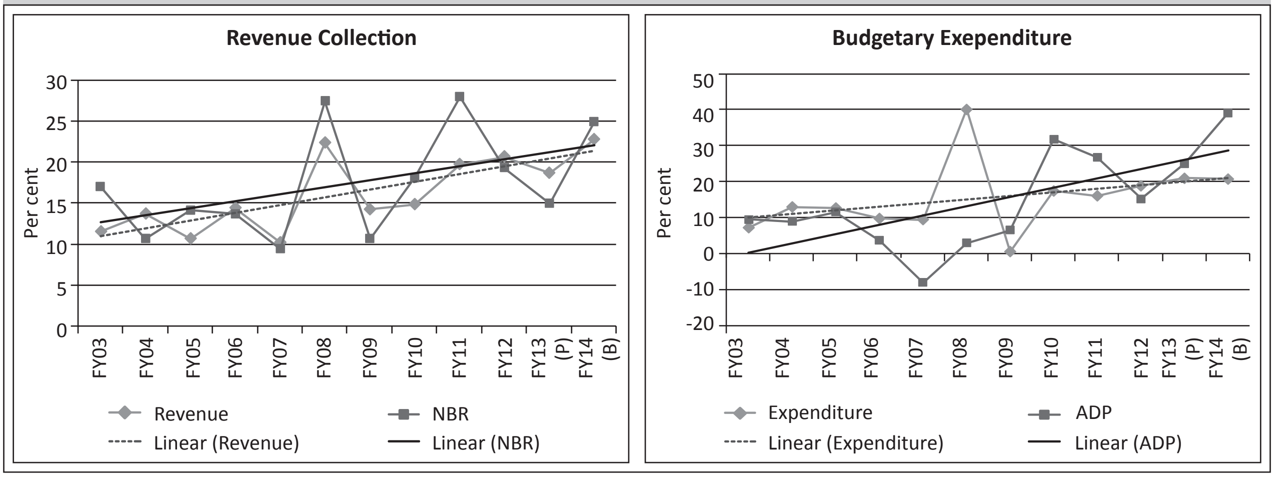
2.2.4 Defining Factors for the Public Finance Framework

Only in two unconventional years NBR achieved this high mark of growth – once in FY2007-08, and the other in FY2010-11

The success of public finance framework articulated in the Budget for FY2013-14 largely relies on the implementation outcomes of NBR revenue and ADP expenditure. These are two major sources of resource allocation and budgetary expenditure. To ensure successful implementation of the Budget, targeting of these key indicators needs to be made in a realistic manner. Revenue from NBR source in FY2012-13 is most likely to suffer a setback, and incur shortfall. The growth target of 18.1 per cent for NBR in FY2012-13 may not be realised. If a plausible growth of 15 per cent is attained for FY2012-13[14], the growth for NBR in FY2013-14 will actually turn out to be about 24.9 per cent. Only in two unconventional years NBR achieved this high mark of growth – once in FY2007-08 (27.4 per cent growth), and the other in FY2010-11 (28 per cent) (Figure 2.4). This was, in part, thanks to international price hike that helped to mobilise additional resources. Other than that, in all possibilities, attaining this target would be a highly challenging task in view of economic and political reality anticipated during FY2013-14.

Figure 2.4

Growth Pattern of Revenue Collection and Budgetary Expenditure



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

Note: P denotes Projected.

In a similar vein, ADP implementation was likely to reach about 90 per cent of RADP for FY2012-13, if the reported trend continues.[15] In view of this, total implementation will also be lower. This will push the expenditure targets upward and these could be difficult to attain. Indeed, a number of symbolic allocations may not be realised anywhere near their targets (e.g. for PMBP and PPP projects).

A number of symbolic allocations may not be realised anywhere near their targets

As it appears, once again, fiscal targeting could lead to weak fiscal management. In this regard, implementation of the plan will remain the key. A successful outcome in view of the fiscal framework thus critically depends on the favourable answers to the following questions:

[14]Up to July-April FY2012-13, NBR achieved 16.1 per cent growth. Eventually, NBR sources achieved only 14.2 per cent growth at the end of FY2012-13.

[15]Up to July-April FY2012-13, 59.1 per cent of RADP had been implemented. End of fiscal, 91 per cent of RADP was indeed implemented.

i. Can ADP implementation capacity be enhanced significantly, particularly the foreign aid component? What will be the fate of allocation for PMBP?
ii. Can subsidy requirement be kept under the programmed level?
iii. Do we need another set of upward price adjustment?
iv. What will be the expenditure for PPP allocation?
v. Considering the possible shortfall in FY2012-13, will the revenue income targets be fulfilled?
vi. Will it be possible to attract people to invest in non-bank borrowing instruments?
vii. Do we have to rely on bank borrowing once again for financing the deficit?

What will be the fate of allocation for PMBP?

2.3

OVERVIEW OF FISCAL MEASURES

Will the revenue income targets be fulfilled in FY2013-14?

2.3.1 Direct Tax Measures

Personal Income Tax

Some changes were brought about in the personal income tax thresholds in the Budget for FY2013-14. General threshold for personal income tax was increased from Tk. 200,000 to Tk. 220,000. The applied tax rates on the taxpayers' income for FY2013-14 is presented in Table 2.6.

Table 2.6
Applicable Rates of Tax on Taxpayers' Income for FY2013-14

Total Income	Tax Rate (%)
On first Tk. 220,000 of taxable income	0
On next Tk. 300,000 of taxable income	10
On next Tk. 400,000 of taxable income	15
On next Tk. 300,000 of taxable income	20
On the balance of taxable income	25

Source: National Board of Revenue (NBR) data.

Tax threshold for women and senior citizens has been increased from Tk. 225,000 to Tk. 250,000; physically challenged persons will also enjoy higher income threshold of Tk. 300,000 which was Tk. 275,000 previously. Minimum taxes for individual taxpayers living in pourashavas and upazilas have been reduced from Tk. 3,000 to Tk. 2,000 and Tk. 1,000 respectively.

On the negative side, upward trend in inflation is likely to offset the benefits emerging from these higher thresholds. Recent political unrest has badly affected the supply chain of essential goods such as food items. As a result, inflation in urban areas is significantly higher than that in rural areas. Since, majority of the taxpayers live in urban areas, their real benefit from the increased threshold will not be significant.

Recent political unrest has badly affected the supply chain of essential goods such as food items

While renewing the registration or fitness certificate of a motorcar, the owner has to pay income tax at a fixed rate. Income tax rate for owning a motorcar have remained as before in the Budget for FY2013-14. However, if someone owns more than one car, then s/he will have to pay 50 per cent extra on the mentioned tax rate for each of the cars except the first one. This is an appreciable measure of progressive taxing which will also generate public income.

Surcharge

10 per cent additional surcharge has been imposed on individuals who have assets worth of between Tk. 2 crore and Tk. 10 crore. The surcharge is applicable on the amount of the income tax the individual has to pay on his taxable income. The surcharge is 15 per cent on income tax for individuals who have assets worth more than Tk. 10 crore. This step needs to be welcome from the point of equity.

The surcharge is 15 per cent on income tax for individuals who have assets worth more than Tk. 10 crore

Corporate Tax

Three major changes were brought in the existing corporate tax structure. Not all three, however, was called for. The increase in the tax rate for publicly traded mobile phone companies, from 35 per cent to 40 per cent, appears not to be a justified one as it has created a disincentive for mobile phone companies since the spread between listed and non-listed companies has been reduced from 10 per cent to 5 per cent. It looks like one company in particular will be affected by this decision. For both the publicly traded and non-publicly traded cigarette manufacturing companies, tax has been increased. However, the increase was more severe for the publicly traded companies as it was increased from 35 per cent to 40 per cent while the same for non-publicly traded companies increased only from 42.5 per cent to 45 per cent. Considering the welfare of the workers in the bidi industry, no change had been brought in tariff value and tax structure on bidi in the last four years; however, this has been revised in the current Budget. This will raise the price of bidi. It may be recalled here that the prices of cigarette and bidi in Bangladesh were one of the cheapest in the world. Bangladesh is also one of the largest tobacco consuming countries in the world. Thus, discouraging tobacco consumption, on health ground, is a policy initiative that should be welcome.

Discouraging tobacco consumption, on health ground, is a policy initiative that should be welcome

Tax Deducted at Source (TDS)

There have been some important changes in the rates of Tax Deducted at Source (TDS). TDS rate for fuel bill above Tk. 200,000 has been reduced from 0.75 per cent to 0.6 per cent. For professional or technical fees receivers, who do not hold Tax Identification Number (TIN), TDS rate was 15 per cent against 10 per cent applicable for their counterparts who have TIN. For handmade cigarettes and bidis, TDS rate on band-role value has been increased from 6 per cent to 10 per cent. The same at a rate of 3 per cent has been imposed on soft drinks manufacturers. The Security Printing Corporation (Bangladesh) Ltd. was to collect it. TDS rate for tea auction houses and land/real estate businessmen has been increased. The provision for product distributors has been revised so that no company can escape the TDS by selling the products directly to the distributors.

There have been some important changes in the rates of Tax Deducted at Source

2.3.2 Indirect Tax Measures

Value Added Tax (VAT)

The definition of service sector has been revised. Ninety-nine broad service sectors have been identified which will be treated as taxable (VAT) services from now on. Exemption of VAT on edible oil will continue till 30 June 2014. Except some products as mentioned in the Statutory Regulatory Order (SRO) No. 172 of National Board of Revenue (NBR), VAT and supplementary duty (SD) have been removed from the cottage industry. VAT exemption for edible oil will continue till 30 June 2014. By SRO No. 167/Ain/2013/671 of NBR, VAT has been exempted on a number of products, at different stages, such as import stage, import and production stage, production stage and business stage. Several services have been exempted from VAT too.

The previous uniform trade VAT rate of 4 per cent at all levels of wholesale and retail sales have now been abolished. The present VAT rates for commercial importers, wholesalers and retailers are presented in Table 2.7.

Table 2.7

New Trade VAT Rate

Applicable Area	VAT Rate (%)	Minimum Amount of VAT to be Paid
Dhaka and Chittagong City Corporation areas	15	Tk. 11,000
Other city corporation areas	15	Tk. 8,000
Pourashavas of district city areas	15	Tk. 6,000
Other areas of the country	15	Tk. 3,000

Source: National Board of Revenue (NBR) data.

According to the SRO No. 233/Ain/2013/689 of the NBR, the above mentioned rates have been activated from 6 June 2013.

Import and Supplementary Duty

Few major initiatives have been imposed to incentivise the sluggish investment scenario of Bangladesh. Customs duties (CD) for capital goods and raw materials have been reduced from 3 per cent to 2 per cent and from 12 per cent to 10 per cent respectively. This is envisaged to trim down the investment cost and working capital cost, which should help private investment.

Customs duties for capital goods and raw materials have been reduced from 3 per cent to 2 per cent and from 12 per cent to 10 per cent respectively

The provision of 5 per cent regulatory duty (RD) will continue to be imposed on goods that are eligible for imposition of 25 per cent CD. As indicated in the Budget, this initiative has been taken with a view to protecting the interest of domestic industries by enhancing the effective rate of protection for import-substituting industries, and discouraging import of those commodities. For the same purpose, 5 per cent RD has been imposed on 43 items (at 8 digit level) (Table 2.8) that are eligible for paying 10 per cent CD but not treated as intermediate goods. On the other hand, RD has been exempted for eight items (at 8 digit level) which were to pay 25 per cent CD. However, these items are treated mainly as intermediate goods.

Table 2.8

Number of Product Lines with Duties Adjusted

Duty	Raised	Reduced	Waived
Customs Duty	23	51	0
Supplementary Duty	22	37	3
Specific Duty	6	0	0
Concessionary Benefit by SRO	36	3	0
Regulatory Duty	43	0	8

Source: National Board of Revenue (NBR) data.

Different sectors will be benefited from the revised duty structures of the National Budget of FY2013-14. Major sectors that will be benefited from the provisions include ship-building, poultry, textile and tourism. CD on several products related to ship-building industry has been reduced to 5 per cent from 12-25 per cent. For different intermediate goods and raw materials related to poultry feed, poultry and textiles industries, CD has been completely exempted. Tourism industry, highly capable of attracting foreign currency, has also been given special importance. Seventeen items which were expected to boost the country's tourism industry have been exempted from CD. Poultry industry is important from the perspective of maintaining food security. Ship-building industry has started to export in the global market and could emerge as a vital source of foreign currency. SDs on import of milk powder and ceramic bathroom fittings have been made zero. The domestic ceramics industry is a promising one and reducing import duties could hurt the industry.

Supplementary duties on import of milk powder and ceramic bathroom fittings have been made zero

In the Budget, import duty on newsprint paper was proposed to be increased from 3 per cent to 25 per cent, which was set at 10 per cent later. But in November 2013, the government further reduced the duty to 5 per cent.

2.3.3 Tax Rebates, Holidays and Exemptions

Tax Rebate on Investment

Highest investment limit eligible for tax rebate has been increased from Tk. 1 crore to Tk. 1.5 crore. As per cent of income, highest level of investment eligible for tax rebate has been increased from 20 per cent to 30 per cent. Investment-related tax rebate has been increased from 10 per cent to 15 per cent on approved investment. These incentives are intended to influence households towards more savings and investment.

Highest investment limit eligible for tax rebate has been increased from Tk. 1 crore to Tk. 1.5 crore

Tax Holidays

Any industrial firm established before 30 June 2015, will enjoy tax holiday facility. For industrial firms in Dhaka and Chittagong Divisions, tax holiday facility will be for five years, while for those in other Divisions and three mountainous districts, tax holiday will be applicable for seven years. Tax holiday benefit for physical infrastructure has been extended till 30 June 2015. Tax holiday will be for a period of 10 years from the beginning of commercial operation. All these are investment-friendly initiatives. New industries are likely to be benefited from these incentives. However, as one would recall, there have been some criticisms in the past as regards the misuse of such incentives. Some have also argued that this type of nursing measures impedes the industries' capacity to be competitive in the global market. Adequate attention will need to be accorded to ensure appropriate use of these incentives. Proper monitoring will thus be needed.

Tax holiday benefit for physical infrastructure has been extended till 30 June 2015

Tax Exemption for Different Sectors

Previously there was a provision of 5 per cent tax on earned income from fish farms and some other domestic animal farms. This provision has been extended till 30 June 2015, and the tax rate has been reduced to 3 per cent. Some other sectors such as horticulture, floriculture, mushroom farms, frog farms, etc. have now been included in the eligible list for this provision. This will undoubtedly gear up the employment situation. Availability of credit for such small businesses should also be made easier. Incentives for jute and yarn industry, that was to be expired in 30 June 2013, has now been extended till 30 June 2015.

Black Money Whitening

According to Budget for FY2013-14, holders of undisclosed money would be able to invest in the real estate sector by paying taxes that range between Tk. 700 and Tk. 7,000 (per square metre) depending on the location and size of apartments or houses. However, apartments or houses bought by undisclosed money cannot be used for commercial purpose. If a taxpayer already owns minimum one apartment or flat at any city corporation area of the country, then s/he will have to pay 20 per cent more tax on the rate stated in the Budget in order to enjoy the above mentioned incentive for whitening the black money. The provision on allowing undisclosed money in the capital market has not been extended.

The scope for whitening black money is not morally acceptable and economic benefits also remain questionable

The scope for whitening black money is not morally acceptable and economic benefits remain questionable. Only some particular sectors benefit from this type of incentives; revenue mobilisation also remains meagre. Since 1975, NBR has collected only Tk. 1,353 crore as tax from such provisions. Table 2.9 shows the historical figures of whitening black money, and the revenue that was generated from the initiative.

Table 2.9

Whitening of Black Money under Different Political Regimes

(Crore Tk.)

Regime	Total Declared	Total Tax Collected	Average Declared Amount (per Year)
1975-1982	70	10	10
H M Ershad (1982-1990)	850	185	106.25
Bangladesh Nationalist Party (BNP) (1991-1996)	No Provision	No Provision	No Provision
Bangladesh Awami League (1996-2001)	1,560	109	312
Bangladesh Nationalist Party (BNP) (2001-2006)	1,000	100	200
Caretaker Government (2006-2008)	9,682	911	4,841
Bangladesh Awami League (2009-2013)	1,305	38	326.25
Total	**14,467**	**1,353**	**438.39**

Source: Compiled by the CPD IRBD Team based on various media reporting.

2.3.4 Tax Administration

Modernisation of tax administration has been given special importance in the FY2013-14 Budget. This is indicated by several measures mentioned in the budget speech. Major ones are mentioned below:

- Increase of manpower, including senior officials and logistics support, was proposed in the budget speech. This is important in view of widely-spread taxpayers across the country. This will hopefully reduce tax avoidance.
- A survey will be carried out to determine the quality and quantity of the human resource which will be needed to provide efficient services to the taxpayers across the board. This is a step in the right direction.
- Automated System for Customs Data (ASYCUDA) World software has replaced the older version of the same software at different customs ports and stations including inland container depots (ICDs). Introduction of this software and regular update to its newer version has been very crucial regarding customs automation in Bangladesh. ASYCUDA is considered as a very effective tool to provide a harmonised platform for the entire tax department.
- Setting up the Management Information System for Taxation (MIST) is another good initiative of the government. As part of the initiative a number of Tax Information and Service Centres have already been set up.

Increase of manpower, including senior officials and logistics support, was proposed in the budget speech for modernisation of tax administration

- To improve tax compliance and taxpayer services, Alternate Dispute Resolution (ADR) has been introduced.
- Cooperation and coordination between the Customs, VAT and Income Tax departments need to be ensured to plug against tax avoidance and raise tax revenue. Measures will be taken to ensure transparency in tax administration too.

NBR has continued to undertake some needed policy reforms. These are critically important in view of the narrow tax base, widespread evasion of tax and weak tax administrators.

Overall allocation for agriculture and allied sectors has been lower in FY2013-14 than in the previous year though some of the sub-sectors within agriculture have received higher allocation

2.4

SECTORAL MEASURES

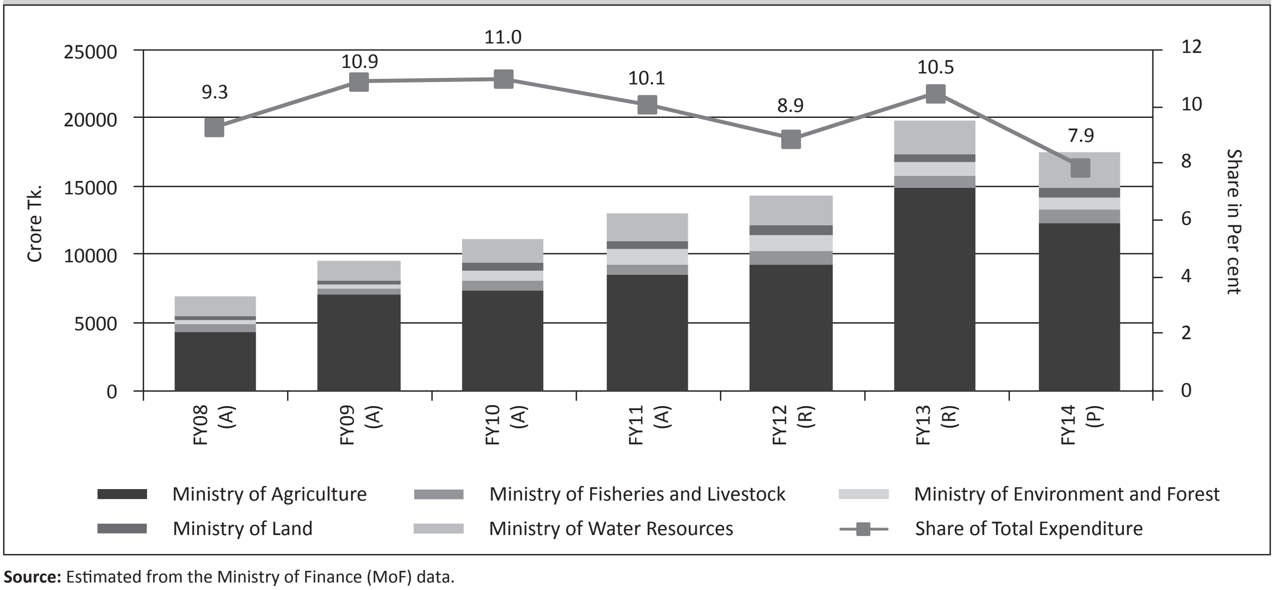
2.4.1 Agriculture

Lower Allocation for Agriculture and Allied Sectors

Overall allocation for agriculture and allied sectors has been lower in FY2013-14 than in the previous year though some of the sub-sectors within agriculture have received higher allocation. Allocation for agriculture and allied sectors in FY2013-14 National Budget (non-development and development) was 11.95 per cent lower than the Revised Budget of FY2012-13, but 22.77 per cent higher than the Revised Budget of FY2011-12. The overall agricultural allocation as a percentage of the total budget was 7.92 in FY2013-14, while it was 10.51 per cent in the Revised Budget of FY2012-13 and 8.93 per cent in FY2011-12 (Figure 2.5). Lower allocation for agriculture and allied sectors in FY2013-14 than in FY2012-13 was mainly due to lower allocation for the Ministry of Agriculture which was Tk. 12,270 crore in the

Figure 2.5

Total Budget and Budgetary Share (Development and Non-Development) of the Agriculture and Allied Sectors



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

Note: A denotes Actual; R denotes Revised; and P denotes Provisional.

proposed Budget as opposed to Tk. 14,878 crore in the Budget of FY2012-13. The Ministry of Environment and Forest also received lower amount (Tk. 797 crore) in the Budget of FY2013-14 compared to Tk. 910 crore in the Revised Budget of FY2012-13.

The decline in the allocation for agriculture sector may have adverse implications from the perspective of food security of the country and could undermine the government's goal of achieving food self-sufficiency if compensatory measures and initiatives are not put in place. However, allocations for the Ministry of Fisheries and Livestock, Ministry of Land and Ministry of Water Resources have been increased by 18.66 per cent in the Budget of FY2013-14 than the Revised Budget of FY2012-13. Allocation for the Ministry of Land in the proposed Budget was Tk. 750 crore which was 13.81 per cent higher than the Revised Budget of FY2012-13 and 18.11 per cent higher than that of FY2011-12. It is hoped that the increased allocation will be utilised to address various problems afflicting the Ministry. Improvement of land records system is a key issue. Allocation for the Ministry of Water Resources in the Budget of FY2013-14 was 3.68 per cent higher than the Revised Budget of FY2012-13. This would be helpful for improving access to drinking water and use of water for agricultural purposes.

Decline in the allocation for agriculture sector may have adverse implications from the perspective of food security of the country and could undermine the government's goal of achieving food self-sufficiency if compensatory measures and initiatives are not put in place

Lower Agricultural Subsidy

An amount of Tk. 9,000 crore was allocated as subsidy for fertiliser and other agricultural inputs in FY2013-14, which was 25 per cent lower than the allocation in the Revised Budget of FY2012-13 (Tk. 12,000 crore). As Bangladesh meets most of its fertiliser demand by importing from the international market, higher global prices could adversely affect the interests of the agriculture sector. CPD estimates show that if administered prices of fertilisers remain the same and international prices prevail at the level of May 2013, the government may require Tk. 8,315 crore as fertiliser subsidy to meet its projected fertiliser demand of 43.7 lakh metric tonnes (MT) in FY2013-14 (Table 2.10). Lower agricultural subsidy may end up in a situation where funds for irrigation, seeds and equipments could prove to be inadequate. If required, more funds should be allocated to be given in subsequent period depending on emerging situation.

Table 2.10

Estimation of Subsidy Requirement for Fertilisers in FY2013-14

Fertiliser	Source	Price in May 2013 (USD/MT)	Insurance and Freight Charge (USD/MT)	Imported Cost (USD/MT)	Cost (Tk./kg)	Administered Price (Tk./kg)	Demand for FY2014 (Lakh MT)	Subsidy Requirement (Crore Tk.)
DAP	China	491.6	50.0	541.6	43.7	27.0	5.0	1666.0
Urea	China	396.6	60.0	456.6	36.8	20.0	13.5	1681.0
	Bangladesh				9.5	20.0	10.0	-1050.0
TSP	Tunisia	435.0	100.0	535.0	43.1	22.0	7.3	2113.0
MoP	Belarus	390.8	100.0	490.8	39.6	15.0	7.1	2456.0
Others		410.0	80.0	490.0	39.5	25.0	0.8	1450.0
Total							**43.7**	**8315.0**

Source: CPD IRBD Team estimation based on the data from Commodity Market Review, The World Bank and the Ministry of Agriculture.

Note: DAP: Diammonium Phosphate; TSP: Triple Super Phosphate; MoP: Muriate of Potash.

2.4.2 Climate Change and Disaster Management

There is no new allocation for environmental safety, climate change adaptation, and disaster management in the Budget of FY2013-14. During the period from

FY2009-10 to FY2012-13 a total of Tk. 2,355 crore was allocated for the Bangladesh Climate Change Trust Fund (BCCTF). Until February 2013, this fund was distributed for 194 projects of which 112 projects have made satisfactory progress. In the last fiscal year, Tk. 400 crore was allocated for the BCCTF of which Tk. 255 crore was actually utilised. In order to increase the utilisation rate of climate funds allocated under the BCCTF, capacity of concerned departments and closer involvement of union and upazila level stakeholders should be ensured. Moreover, a rigorous process of project selection should be followed by an appropriate implementation design, and a monitoring and evaluation strategy. Active involvement of stakeholders in designing these strategies is likely to enhance the utilisation rate of project allocation. Development of a legal and institutional framework for disaster management as proposed in the Budget is a timely initiative. It is expected that it will enhance efficiency and bring discipline in disaster management activities. Approval of National Disaster Management Plan 2010-2015 is also commendable.

Development of a legal and institutional framework for disaster management as proposed in the Budget is a timely initiative

2.4.3 Manufacturing Sector

The National Budget for FY2013-14 proposed a number of fiscal and budgetary measures to support both domestic and export-oriented manufacturing industries. The impact and implications of the proposed measures are somewhat difficult to measure if only their direct effects on different activities were considered. This is because a number of ongoing and upcoming changes and challenges also have direct and indirect effects on these. The evolving political scenario, availability of business-related physical and infrastructural facilities, consumers' purchasing capacity, and the dynamics and changes in external demand for Bangladesh's products are few of the major challenges confronting the economy. Proper implementation of the fiscal-budgetary measures will determine to what extent these will be able to facilitate the functioning of the manufacturing sector.

Proper implementation of the fiscal-budgetary measures will determine to what extent these will be able to facilitate the functioning of the manufacturing sector

Changes in Fiscal Measures for the Manufacturing Sector: Tax Holiday and Various Kinds of Duties

The National Budget for FY2013-14 has proposed continuation of the tax holiday facility for two more years for 17 industrial undertakings. These include physical infrastructure, jute goods, fabrics and dyeing, poultry, fisheries, shrimp and fish processing, etc. Given the mixed reactions about the effectiveness of tax holiday facilities as an incentive to promote industrialisation in developing countries, this decision of the government should perhaps be interpreted as a support for domestic industries. CPD has earlier recommended that an assessment of the effectiveness of this fiscal instrument should be undertaken and suggested in favour of continuation of the existing facilities for at least some limited time period. Tax holiday facility should be provided to potential and strategically important industries for which the selection of industries, setting up of timelines for such benefits, monitoring the effectiveness and ensuring their timely withdrawal will need to be strategically designed.

Local industries will get support through a number of proposed changes in fiscal instruments

According to the new Budget, local industries will get support through a number of proposed changes in fiscal instruments. These include: (a) imposition of CD/SD on imports; (b) withdrawal/reduction of SD on domestic production; and (c) reduction of CD in imported inputs. Relevant sectors will be benefitted through the following specific measures including: i) imposition of 60 per cent SD on imported potato chips; ii) increasing CD to 10 per cent on imported milk powder and reduction of CD over milk tankers; iii) exemption of CD over raw materials of paper and reduction of CD over acrylic yarn; iv) increased SD over float glass and reduction of CD over cobalt dioxide for glass industry; v) reduction of CD for

Table 2.11

Changes in Total Tax Incidence of Selected Products

HS Code	Description	Change	HS Code	Description	Change
04021099	Milk and cream in granules or solid forms <=1.5% fat, conc. or sweetened, nes	19.0	19053100	Sweet biscuits	-33.2
25171010	Flint/grinding pebbles imported by VAT registered ceramic products manufacturing	-26.2	19053200	Waffles and wafers	-33.2
28220000	Cobalt oxides and hydroxides, commercial cobalt oxides	-20.1	19054000	Rusks, toasted bread and similar toasted products	-33.2
72082730	Imported by vat regd. iron/steel product & transformer manufacturer industry	-0.8	20052000	Potatoes, preserved other than by vinegar or acetic acid, not frozen	169.6
85131010	LED lamps including rechargeable LED lamps	-20.1	52081100	Unbleached plain woven fabrics of cotton with >=85%cotton, =<100g/m2	-32.4
85447000	Optical fibre cables made up of individually sheathed fibres	-23.2	55020010	Artificial filament tow imported by VAT registered manufacturing industries	-0.8
73110010	Containers for compressed or liquefied gas, of iron/steel, >5000l, ckd	27.9	85423910	SIM card	-16.2

Source: CPD IRBD Team calculation based on data from the National Board of Revenue (NBR).

Note: HS: Harmonized Commodity Description and Coding System.

raw materials of ceramic industry; vi) increased specific duty on billet (adverse impact on real estate sector); vii) exemption of CD on alloy steel and exemption of RD on CR coils; and viii) imposition of CD for liquefied petroleum gas (LPG) cylinder, and reduction of import duty on generator parts. Analysis of the fiscal measures relating to selected sectors found that total tax incidence varied from as low as (-) 26.2 per cent (related to ceramic products) to as high as 169.6 per cent (related to agricultural products). Some fiscal measures are likely to have adverse impacts on a number manufacturing industries. This refers to reduction of SDs on some consumer goods such as sweet biscuits, waffles, wafers, rusks and toasted bread, as also on imported SIM cards, which may put the related local industries in an unfavourable situation vis-à-vis imported products. The changes in total tax incidences are mentioned in Table 2.11.

In view of the weakened situation of market competitiveness due to the attack of avian influenza particularly affecting small-scale poultry firms, CPD has recommended a comprehensive support package for the industry. The National Budget for FY2013-14 has come forward with a package of fiscal and budgetary measures in this regard. This includes extension of tax exemption facility for another two years, ADP allocation of Tk. 3.65 crore for poultry farmers of 22 districts and Tk. 1.52 crore for Highly Pathogenic Avian Influenza (HPAI) vaccination against the avian influenza, etc. These support measures will hopefully help the sector to regain some of its lost ground and raise its competitiveness in the domestic market.

In view of the weakened situation of market competitiveness due to the attack of avian influenza particularly affecting small-scale poultry firms, CPD has recommended a comprehensive support package for the industry

ADP Allocation for the Industrial Sector

The National Budget for FY2013-14 has allocated Tk. 2,313.9 crore for different projects belonging to the industrial sector. This allocation in terms of nominal term is about 20.8 per cent and 12 per cent higher compared to those of the RADP and the original ADP of FY2012-13, respectively. It appears that the distribution of the allocated fund is not a well-balanced as out of the total 40 projects to be implemented in the upcoming fiscal year, one single project, i.e. the Shahjalal Fertilizer Project, accounts for two-thirds of the total allocation in the industrial sector. Shahjalal Fertilizer Project has set a rather ambitious target for completing about 43 per cent of its total work during FY2013-14 despite the snail-paced progress of work over the previous years. New projects are rather few in number in the ADP for FY2013-14. The plan envisages establishment of BSCIC (Bangladesh Small and Cottage Industries Corporation) Industrial Park in Bhairab. There is a tendency in recent years for setting up new industrial estates for the development of small and medium enterprises (SMEs), which in itself is not a bad idea. However, in view of past experiences of the limited success of industrial estates, a comprehensive assessment is required before going for new projects. Such an assessment should particularly look at capacity utilisation of the existing industrial estates, their operational efficiencies, and the competitiveness of the firms in domestic and international markets. Due to the poor work progress over the previous years, the time period for nine projects has been extended. The ongoing initiatives to reform the public procurement system with support of the World Bank needs to be completed in time with a view to improve procurement process and ensure better transparency and accountability in the system.

In view of past experiences of the limited success of industrial estates, a comprehensive assessment is required before going for new projects

A number of projects, which are currently at different phases of implementation, need more attention considering their importance for the development of the industrial sector. These projects include strengthening and modernising of the Bangladesh Standards and Testing Institution (BSTI) and South Asian Regional Standards Organisation (SARSO). Modernisation of BSTI by upgrading its standard to the international level, particularly to make it compatible for markets in neighbouring countries (i.e. India), is needed on an urgent basis in order to reduce the hassle faced by exporters as regards compliance with standardisation and certification processes. Some projects will require more allocation for faster implementation. These include Sirajganj Industrial Park (47 per cent to be completed in the current fiscal year; project to be ended in FY2014-15), Gopalganj Industrial Estate (82 per cent to be completed; project to be ended in FY2013-14), and Mirsarai Industrial Estate (81 per cent to be completed; project to be ended in FY2013-14). However, concerns remain over lack of progress in the implementation of a number of projects including the Comilla Industrial Estate (0.98 per cent completed; project ends in FY2013-14) and BSCIC Special Economic Zone (15 per cent completed; project ends in FY2014-15). Curiously, while various ongoing projects for establishing new industrial estates have slowed down due to inadequate allocation of funds, the government is nevertheless taking in new projects that relate to setting up new estates in some of the other areas. Taking into account the poor operational performance of a number of existing BSCIC estates, due to their unplanned development and lack of proper assessments, the government should be cautious in taking this type of projects.

Curiously, while various ongoing projects for establishing new industrial estates have slowed down due to inadequate allocation of funds, the government is nevertheless taking in new projects that relate to setting up new estates in some of the other areas

Sector-specific Measures

Small and Medium Enterprise (SME)

In pursuance of the development of SMEs, a number of fiscal and budgetary measures have been proposed in the National Budget for FY2013-14. The government has proposed to raise the annual turnover ceiling from Tk. 70 lakh to Tk. 80 lakh for tax purposes, which is likely to reduce the tax burden and make positive contribution towards the competitiveness of SME products in the domestic market. Likewise, a rise in the investment ceiling for small and cottage industries from Tk. 25 lakh to Tk. 40 lakh is likely to facilitate setting up of SME business and help to expand business operations of firms. However, the government has proposed an upward revision of the eligibility for VAT on the basis of firm turnover. This is unlikely to have any significant adverse impact on small traders, wholesalers and shopkeepers as the hike is not very significant.

The government has proposed an upward revision of the eligibility for VAT on the basis of firm turnover

Light Engineering

A number of supportive fiscal measures have been proposed for the light engineering sector which will reduce production cost of related items. These measures include exemption of CD and RD on alloy pig iron, non-alloy pig iron, flat rolled products and carbon filter, etc. These measures are expected to make these products more competitive particularly in the domestic market. However, a longstanding demand for a separate light engineering village, as in India, has yet to get the attention of the Finance Minister.

Glass and Ceramics

Glass and ceramics industries are the emerging local industries which have stable domestic and rising international demand. The National Budget for FY2013-14 has proposed to raise SD on the import of float glass from 30 per cent to 40 per cent which would make the imported glass costlier in the local market. This measure is likely to improve competitiveness of local products in domestic market against those of the imported finished products. In similar consideration, the reduction of CD from 25 per cent to 10 per cent on imported machinery parts of ceramics industry, keeping the RD at same level (5 per cent), is likely to raise competitiveness of the local ceramics industry.

Reduction of customs duty from 25 per cent to 10 per cent on imported machinery parts of ceramics industry, keeping the regulatory duty at same level (5 per cent), is likely to raise competitiveness of the local ceramics industry

Textiles and RMG

Textiles and RMG, the major export-oriented manufacturing industries of the country, have been enjoying various kinds of fiscal benefits which have made significant contribution towards reducing the production cost of export items of these industries. With a view to promote diversified RMG products as well as to improve the skill base of production workers, the FY2013-14 Budget has proposed a number of measures. Import duties on various items related to textiles and RMG industries have been reduced further. For example, acrylic yarn products including sweater received full exemption from the 5 per cent CD, which is applicable to artificial filaments under certain conditions. Since domestic textile industry depends on imported non-cotton raw materials, proposed measure is likely to encourage production of acrylic yarn products. Reduction of SD (from 45 per cent to 20 per cent) for a number of woven/knit fabrics would reduce leakages through bond facilities and also reduce smuggling. Besides, extending the time period (from June 2013 to June 2015) of the prevailing provision of charging a lower tax rate (15 per cent) would help maintain competitiveness of the local textile industries.

Import duties on various items related to textiles and RMG industries have been reduced further

In contrast, the slow implementation of a number of ADP projects related to textiles and RMG sector is delaying development of the local manufacturing industries. A number of ongoing ADP projects including establishment of ten vocational institutes, strengthening of knitting and textiles college and support to the RMG sector under Better Works Programmes in Textiles and Garments of the United Nations Industrial Development Organization (UNIDO) should be implemented as per the revised timeline.

Slow implementation of a number of ADP projects related to textiles and RMG sector is delaying development of the local manufacturing industries

Jute

Proposed extension of timeline for the exemption of 15 per cent of income tax for jute industries till June 2015 will support newly set up industries. Since the domestic supply chain of the jute manufacturing sector is not well developed, relevant projects demand faster implementation to improve competitiveness of local products. In contrast, a number of projects related to this sector have made a rather slow progress. Implementation of a number of projects are well below the target, including project for the production of high-yield varieties (HYVs) of jute and seed (only 36 per cent to be completed by FY2013-14), and completion of the applied jute research project (52.5 per cent was completed till March 2013).

Leather

Leather sector has long been struggling to develop an environmentally safe manufacturing base. The pioneering project of relocating the leather estate from Hazaribag to a Savar leather city with facilities to ensure environmentally safer production has been advancing only at a snail pace. Implementation of this project was stalled a number of times due to various legal and bureaucratic impediments. As a result, only 28 per cent of the work has been completed till FY2012-13 although the timeline for completion of the project has been crossed long since (30 June 2012). Recently the Ministry of Industries has resolved the legal issues and this will hopefully expedite the project implementation process. Government should allocate sufficient funds based on the revised cost estimates towards faster implementation of the project. The proposed fiscal measure such as the reduction of CD on selected inputs (e.g. chromium and casein) is likely to reduce the cost of production in this sector.

The pioneering project of relocating the leather estate from Hazaribag to a Savar leather city with facilities to ensure environmentally safer production has been advancing only at a snail pace

Pharmaceuticals

Development of backward linkage industries for the pharmaceutical sector has not made the expected progress due to slow implementation of the Active Pharmaceutical Ingredients (API) Industrial Park. Although the initial timeline for project completion has been revised and extended till 2015, the allocation for FY2013-14, even if fully utilised, would go towards completion of only 48.5 per cent of the total work. It was, thus, almost impossible to complete the work in accordance with the revised timeline. Considering its importance, government should allocate the needed amount of fund for quick completion of the project. However, reduction of duty on cartridge/membrane filters used in the pharmaceutical sector is likely to reduce the import cost of high-tech machinery, and thereby will benefit the local firms.

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Ship-Building

In order to sustain the recent impressive performance of the ship-building sector, a number of fiscal measures have been put in the Budget for FY2013-14. These include exemption of CD, SD and VAT for vessels above 5000 DWT (deadweight tonnage) capacity. Similarly exemption of duty and taxes above 5 per cent on anchor chain, lifeboat, rafts will also support local ship-building industry. However, the sector is still struggling due to fluctuation in production orders for newly built ships, particularly originating in Europe.

Ship-building sector is still struggling due to fluctuation in production orders for newly built ships, particularly originating in Europe

Information and Communication Technology (ICT)

Development of the ICT sector is well behind what is mentioned in the National ICT Policy because of insufficient allocation of funds for various important projects related to building nation-wide infrastructure. The ADP allocation for the ICT sector in FY2013-14 was Tk. 757.6 crore which was 56.6 per cent higher than that of the original ADP of FY2012-13 and 153.2 per cent higher than the RADP for FY2012-13. This apparent jump in ADP allocation is mainly due to significant downward revisions of the original allocation last year, in the RADP (a reduction of 63 per cent from the original ADP allocation). The proposed allocation is for a number of new and ongoing projects. For example, Tk. 50 crore has been allocated for the new ICT Skill Trust Fund to train 10 thousand professionals in next two years. SASEC (South Asia Subregional Economic Cooperation) Information Highway, Software Technology Park, and Connection to the Second Sub-marine Cable projects will call for allocation of more fund for timely completion. Equally, implementation of High-Tech Park project in Kaliakoir will be further delayed due to allocation of insufficient funds (revised timeline for completion of the project has now been set for FY2015-16). According to the National ICT Policy, a Tk. 700 crore ICT Development Fund is to be created for the purpose of supporting various ICT-related projects; unfortunately, no budgetary allocation has yet been made in support of this.

CPD had earlier suggested in favour of development of the national e-governance architecture under A2I Programme; however, this did not get reflected in the budget speech

A number of fiscal measures announced in the Budget are likely to support ICT-related activities. For example, reduction of CD on several computer accessory items such as web camera and server rack will benefit those dealing with web-based operations. Similarly, reduction of CD on optical fibre and its raw materials is likely to ensure availability of quality products at lower costs. On the other hand, reduction of SD on SIM cards was likely to have limited impact on the telecommunication sector; rather this would adversely affect SIM production at the local level. CPD had earlier suggested in favour of development of the national e-governance architecture under A2I Programme; however, this did not get reflected in the budget speech.

Capital Market

Complete withdrawal of fiscal measures which is interfaced between capital market and tax administration is generally perceived to be a no good measure

Capital market of the country had failed to restore the confidence of the investors despite the fact that some significant reform measures have been undertaken following the collapse of the market in 2010. However, a number of major weaknesses in management, operations, financial reporting and other activities are yet to be adequately addressed. Thus, further reforms are required in regulatory and legal areas in continuation of the previous initiatives. Despite the limited positive impact (and sometimes even adverse impact) of various budgetary measures in support of secondary market-based operations, the government could not ignore the demand coming from the stakeholders to provide fiscal and budgetary support. Budget for FY2013-14 has withdrawn the 3 per cent tax over extra-premium on listed-company shares' face value and source taxes. However, complete withdrawal of fiscal measures which is interfaced between capital market and tax administration is generally perceived to be a no good measure. Withdrawal of 0.05 per cent tax at source in case of the transfer of bonds is likely to reduce transaction cost; similarly, 15 per cent tax rebate on investment in private mutual funds is likely to encourage investment in secondary markets. Besides, the threshold limit for tax-exempted dividend income was increased from Tk. 5,000 to Tk. 10,000 which was likely to raise earnings of small retail traders. This measure would partly reduce the loss of capital of the small shareholders due to collapse of market price. Furthermore, continuation of the existing provision of exempting gains tax will increase investors' income. However, the government has ignored the pressure of continuing the facility to allow investment of undisclosed money in the capital market; the provision came to an end in June 2013. The above mentioned initiatives, despite having some sobering impact on retail operations in the secondary market, were unlikely to have long-term desired impact in the market.

Rebuilding market confidence and long-term sustainability in the capital market require more initiatives from the regulators towards effective regulation of the market

Rebuilding market confidence and long-term sustainability in the capital market require more initiatives from the regulators towards effective regulation of the market. In this connection, the Draft Financial Reporting Act of 2013 needs to be finalised on an urgent basis. Passing the necessary law for demutualisation of the stock market is a positive initiative; however, effective functioning of demutualised stock exchanges is much more important. With a view to building confidence among institutional investors, the Securities and Exchange Commission (SEC) should prepare a code of conduct for institutional investors to encourage them to go for long-term investment in the capital market. The Budget for FY2013-14 has not mentioned about refinancing the Tk. 900 crore scheme which was proposed earlier.

Industrial Workers: Addressing Concerns regarding Safety, Security and Skill Development

Fresh allocations have been made in several projects for industrial workers two years after their inclusion in the ADP; this was proposed earlier by the CPD

The recurrence of accidents in the industrial sector, more specifically, in the export-oriented RMG sector of the country underscores the need to put more emphasis on work place safety and security. The proposed ADP has included a number of projects addressing these issues. They include projects as regards reform and modernisation of Worker Welfare Centres and Directorates for the inspection of factories. A total of 11 projects are expected to be implemented under the labour and employment sector with a total allocation of Tk. 370.1 crore. This allocation is about 31 per cent higher than that of the RADP FY2012-13. Given the importance for industrial workers, fresh allocations have been made in several projects two years after their inclusion in the ADP; this was proposed earlier by the CPD. These projects include reform and modernisation of three industrial relations and 22 Workers Welfare Centres, five zonal and four regional offices of factory inspection authorities. Workers' safety and security issues have been further addressed in the Budget for FY2013-14 through reduction of CD on fire extinguishers. The measure of raising allowances for working lactating mothers to Tk. 400 per month and increasing the number of beneficiaries by 10 per cent are praiseworthy initiatives by the government in support of female workers.

Poor compliance in country's RMG factories concerning working conditions, work place safety and security has given rise to the need for prompt approval and implementation of the proposed projects with required fund allocations

Poor compliance in country's RMG factories concerning working conditions, work place safety and security has given rise to the need for prompt approval and implementation of these projects with required fund allocations. The suspension of GSP (Generalized System of Preferences) facility for Bangladesh by USA demands that further steps were needed towards labour welfare. For this to happen, speedy implementation of projects including the ones relating to reconstruction of the Dhaka divisional labour office for multipurpose usage (Labour Tower) and re-establishment and modernisation of eight Labour Welfare Centres (which do not have any Labour Directorate). These projects should be allocated with necessary funds.

A number of projects for skill development of workers have been included in ADP; but many of those are not being properly implemented. The implementation level varies ranging from 28 to 59 per cent in terms of funds used. Addressing the workers' basic needs is highly needed – these include re-introducing the operation of food rationing facilities for industrial workers in major industrial clusters. This was suggested earlier by the CPD. Government should promote building dormitories for industrial workers, e.g. in industrial zones, which could be done under PPPs.

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Power and Energy

ADP allocation for the power and energy sector is one of the highest in the FY2013-14 (17.2 per cent of total ADP) following transport and communication and local government and rural development. A total of Tk. 9,053 crore has been allocated for 54 projects, which was 14.6 per cent and 5.7 per cent higher compared to those in the ADP and RADP of FY2012-13 respectively.

Power

Projects for establishing five power generation plants were expected to be completed in FY2013-14 with a total capacity of 1,480 mega watts (MW). At the same time, private sector projects for setting up four power plants with a generation capacity of 300 MW were likely to be completed in FY2013-14. These projects include 50 MW plant in Chittagong (Mohra), 100 MW plant in Chittagong (Patenga), 100 MW plant in Narsingdi (Ghorasal) and 50 MW plant in Ashuganj. Close monitoring for timely implementation of both private and public sector projects will be necessary.

As per the Power Sector Master Plan, the quick rental power plants ought to be closed down in a gradual manner which will be replaced by independent power producers (IPPs). Regrettably, the National Budget for FY2013-14 did not clearly spell out what would be the exit strategy for the quick rental power plants. This was mainly due to the slow progress in the implementation of a number of large-scale IPPs. Consequently, the significant subsidy burden originating from this costly method of power generation is likely to continue in near-term future, for several years. The provisional estimate of subsidy for the power sector in FY2013-14 was to the tune of Tk. 5,500 crore.

Regrettably, the National Budget for FY2013-14 did not clearly spell out what would be the exit strategy for the quick rental power plants

It is to be noted that, the plan for fuel use in power generation for the period of FY2012-13 to FY2015-16 was provided along with budget-related documents (Table 2.12). However, the plan did not indicate any significant deviation in the fuel use pattern over the next few years although a change was originally envisaged in 2010. Gas will continue to be the major source of fuel for power generation in the coming years while use of liquid fuel is to be reduced in the coming years. Imported electricity particularly from India and other neighbouring countries was expected to be an important source in the medium to long-term.

Table 2.12

Plan for Fuel Use in Power Generation

(in Per cent)

Year	Gas	Coal	Liquid Fuel	Water	LNG	Import
FY2012-13	76.4	2.9	18.7	2.1	-	-
FY2013-14	77.0	1.9	16.7	1.9	-	2.5
FY2014-15	79.4	1.7	12.5	1.7	-	4.8
FY2015-16	79.3	6.9	6.1	1.5	1.6	4.5

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

Note: LNG: Liquefied Natural Gas.

As part of reducing the current overdependence on non-renewable sources of electricity, National Budget for FY2013-14 has proposed reduction of CD on solar lantern and LED lamp. These measures are likely to encourage use of low consuming energy lights.

Gas

Further attention should be paid to strengthen the BAPEX in order to enhance its capacity to explore potential gas resources of the on-shore blocks

Development of gas sector has critical importance in terms of ensuring adequate supply of gas for major economic activities. The ADP allocation for the energy sector was about Tk. 2,255 crore which was 40.2 per cent and 62.7 per cent higher compared to those in the ADP and RADP for FY2012-13 respectively. A number of projects concerning gas exploration is to be implemented during the current fiscal year, primarily by the international oil companies (IOCs). Completion of those projects is likely to add 300 million cubic feet (mmcf) gas to the national grid. Further attention should be paid to strengthen the Bangladesh Petroleum Exploration & Production Company Limited (BAPEX) in order to enhance its capacity to explore potential gas resources of the on-shore blocks.

2.4.4 Local Government

In the FY2013-14 Budget, 'Devolving Power to the Local Government' was cited as one of the three major areas that were to be given attention on a priority basis. The other two were 'Special Initiatives' and 'Administrative Reform Programmes.' The Budget has proposed an allocation of Tk. 12,961 crore for the Local Government Division (LGD) which was only 5.8 per cent of the total budget. Furthermore, this was a decrease from the Revised Budget for FY2012-13 (of Tk. 13,220 crore) by 1.96 per cent (Table 2.13). It may be noted that over the previous three years (including original and the revised budget), the LGD allocation, as percentage of total budget, was generally above 6 per cent, while this year it declined to 5.83 per cent of total budget (Table 2.14).

Allocation for LGD in ADP for FY2013-14 has remained stagnant, with the share declining from 21.5 per cent to 17 per cent of ADP for FY2012-13 (Table 2.15). Similar trend was also observed in case of the development assistance which has come down from 5.56 per cent to 2.95 per cent as a share of total budgetary allocation.

Some important acts have been passed in recent years. These include *Local Government (Union Parishad) Act 2009*; *Local Government (Municipality) Act 2009; Local Government (City Corporation) Act 2009*; and *Upazila Parishad (Amendment) Act, 2011*. Such initiatives are good steps towards decentralisation of governance. However, it is to be seen how real empowerment of the people will

Table 2.13

Growth Rate of Allocated Total LGD Budget

(in Per cent)

Division	FY2014 (B) over FY2013 (RB)	FY2013 (RB) over FY2013 (B)	FY2013 (B) over FY2012 (RB)	FY2012 (RB) over FY2012 (B)
Local Government Division	-1.96	6.33	19.63	-4.73

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

Table 2.14

Allocation for LGD in the Total Budget: FY2011-12 to FY2013-14

Fiscal Year	LGD Budget (Crore Tk.)	Share of Total Budget (%)
FY2014 (B)	12961	5.83
FY2013 (RB)	13220	6.98
FY2013 (B)	12433	6.48
FY2012 (RB)	10393	6.45
FY2012 (B)	10909	6.67

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

Table 2.15

Allocation for LGD in ADP: FY2012-13 to FY2013-14

Fiscal Year	LGD Budget (Crore Tk.)	Share of Total ADP (%)
FY2014 (B)	11195	17.0
FY2013 (RB)	11274	21.5
FY2013 (B)	10815	19.7

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

follow from such initiatives. Transfer of tasks to the upazila parishads would need increased coordination of activities. This is yet to become visible. Appointment of administrators at the district level could enhance citizens' involvement in development activities if appropriately implemented. However, how this will fit with overall Local Government system is not yet clear. The Budget also proposed that about 11 lakh government officials are to be transferred to district level. However, much will depend on how the administrative machinery will be set up, and how these cadres will be placed to help attain the goods and objectives of decentralisation.

The government has included the district budget for Tangail on a pilot basis in FY2013-14 Budget

2.4.5 District Budget

The government has included the district budget for Tangail on a pilot basis in FY2013-14 Budget. No doubt, planning of decentralisation and the implementation of rural development plan at the district level is in line with the spirit of the national development objectives of meeting the aspiration of people at the grassroots level. Towards this, a development oriented administrative structure has to be built up at the district level with the dual function of planning and implementation of rural development programmes. In the FY2013-14 Speech it was stated that a powerful District Council was an important need of the time (the report attached with the district budget shows that among the South Asian countries Nepal has put in place a system of district budget).

The government must ensure transparency and accountability of the district budgets

In the Budget for FY2013-14 Tk. 1,673 crore has been proposed for Tangail district, this was 0.75 per cent of the total national budget. Out of the 56 ministries, expenditures of 39 ministries got reflected in the Tangail district budget. Table 2.16 will provide a glimpse of allocations (in accordance with major areas of expenditure) for Tangail district budget.

Table 2.16

Major Areas of Expenditure and their Percentage of Total District Budget (FY2013-14) for the Tangail District

Area of Expenditure	Share of Total District Budget (%)
Education	17.06
Primary and Mass Education	11.40
Disaster Management and Relief	8.76
Local Government	8.71
Health and Family Welfare	8.32
Food	6.61
Cumulative share of the top six areas	**60.86**
Total Development	**33.16**
Total Non-Development	**66.84**

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

No doubt, district budget is an innovative and welcome initiative by the government. The challenge for the government is to be able to craft district budgets as per the needs of the particular district when the Tangail experiment will be replicated in all 64 districts. The government must also ensure transparency and accountability of the district budgets. This will include availability of budget documents/reports/statements, completeness of the information, facilitating understanding and interpretation of the information, timeliness of the information, audit and performance assessment, scope for legislative scrutiny, putting in place practices relating to budgeting for disadvantaged sections, and best practices relating to fiscal decentralisation.

2.5

SOCIAL SECTOR

2.5.1 Education

Budget FY2013-14 refers to various initiatives that have been taken to eradicate illiteracy in the country by 2014

In FY2013-14, the social sector received 23.17 per cent of total budget, of which 19.6 per cent was proposed for human resources (education, health and other related sectors). Education sector received Tk. 25,093 crore which was equivalent to 11.28 per cent of the total budget. Allocation for the education sector was higher in FY2013-14 than FY2012-13. In the ADP, only one new project has been added out of 106 ongoing projects in the area of education and religion in FY2013-14.

The Budget refers to various initiatives that have been taken to eradicate illiteracy in the country by 2014. These include raising the teacher-student ratio, setting guidelines for inclusive education for all, implementing Primary Education Development Program-3 (PEDP-3), and establishment of Primary Training Institutes (PTIs) (for teachers). There is another initiative to bring more than seven lakh children under 'Education for All' programme between 2013 and 2017, and finally establish model schools at the upazila level. The government has successfully implemented initiatives such as distribution of 100 per cent free books at the primary level, nationalisation of 26,193 registered private, community and other primary schools, schooling programme for the urban working children and enactment of *Private University Act, 2009*. Additionally, it has introduced 100 per cent stipend in slums and *monga*/cyclone/river erosion areas, enacted *Prime Minister's Education Assistance Trust Act 2012*, established *Prime Minister's Education Assistance Foundation* and initiatives to nationalise the jobs of more than one lakh primary school teachers.

Higher allocation for the education sector is commendable since it will help Bangladesh achieve not only the education-related MDGs, but will contribute to poverty alleviation

Higher allocation for the education sector is commendable since it will help Bangladesh achieve not only the education-related Millennium Development Goals (MDGs), but will contribute to poverty alleviation. It is hoped that allocated resources will be utilised for infrastructures, as well as to improve the quality of education through recruiting qualified teachers and training them.

2.5.2 Health

One of the mentionable initiatives of the government in the Budget is the implementation of e-health programme and internet connections to 800 government hospitals and medical centres

In FY2013-14, an allocation of Tk. 9,470 crore or 4.26 per cent of the total budget has been made to the health sector as opposed to Tk. 8,150 crore (4.3 per cent of the total budget) in FY2012-13. This allocation is about 0.79 per cent of GDP which was lower than previous year's share. In the ADP for FY2013-14, only three new projects have been included for the Health, Nutrition, Population and Family sector. Out of 45 projects, 35 were investment projects, eight technical assistance projects and two projects were under the Japanese Debt Cancellation Fund. One of the mentionable initiatives of the government in the Budget is the implementation of e-health programme and internet connections to 800 government hospitals and medical centres. It is expected that this will be able to improve the quality of health services. More hospitals should be covered under such programmes.

2.5.3 Gender Budget

The size of the gender budget in FY2013-14 was Tk. 61,567 crore which was 5.18 per cent of GDP. Gender-related expenditure has increased to 27.67 per cent of total budget in FY2013-14 compared to 26.26 per cent in FY2012-13. However, allocation for the Ministry of Women and Children Affairs has been reduced to 0.65 per cent of total budget in FY2013-14 as opposed to 0.7 per cent in FY2012-13. A significant increase is visible in the number of ministries which prepared gender budget in FY2013-14. In FY2013-14, 40 ministries have submitted gender budget as opposed to 25 in FY2012-13. However, except for ministries such as Education, Health and Rural Development, development of women is only vaguely related to the priority spending programmes.

A few measures for women are worth mentioning. There has been an allocation of Tk. 80 crore in Women Development Fund for female entrepreneurs. An amount of Tk. 364 crore has been allocated towards allowance in support of 10 lakh widows and divorced/abandoned women. This amount is 10 per cent higher than that of FY2012-13. Tax-free income threshold for women has been increased in the current Budget to Tk. 250,000 from Tk. 225,000 in the Budget for the previous year.

There has been an allocation of Tk. 80 crore in Women Development Fund for female entrepreneurs

2.5.4 Social Safety Net Programmes

An amount of Tk. 25,371 crore has been allocated for social safety net programmes (SSNPs) in FY2013-14; this is 11.4 per cent of the total budget and 2.13 per cent of GDP (Table 2.17). Though the amount of allocation for SSNPs has increased in FY2013-14, its share in the total budget and GDP was lower than that of FY2012-13. Total beneficiary coverage (lakh-person) under SSNPs programmes in FY2013-14 decreased by 4 per cent.

Table 2.17

Trends in Social Safety Net Programme Allocation: FY2008-09 to FY2013-14

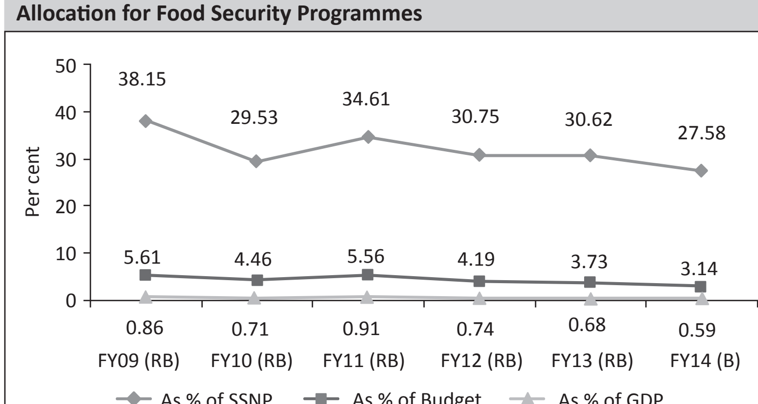
Component	FY2009 (RB)	FY2010 (RB)	FY2011 (RB)	FY2012 (RB)	FY2013 (RB)	FY2014 (B)
Allocation for SSNPs (Crore Tk.)	13845.27	16705.81	20893.52	21975.23	23097.52	25371.35
SSNP as % of Budget	14.71	15.12	16.07	13.63	12.20	11.40
SSNP as % of GDP	2.25	2.42	2.64	2.40	2.23	2.13
Social Empowerment as % of Budget	2.64	2.95	3.18	3.18	2.97	2.49
Social Empowerment as % of GDP	0.40	0.47	0.52	0.52	0.54	0.47
Social Protection as % of Budget	12.07	12.16	12.89	12.89	9.23	8.92
Social Protection as % of GDP	1.85	1.95	2.12	1.88	1.68	1.67

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

Besides, only five new programmes have been added, and five were slashed down. However, 33 ongoing programmes received lower allocation than in FY2012-13. As the government aims to increase allocation for SSNP to 3 per cent of GDP by 2015 there is a need for more allocation. Additionally, various SSNPs should be consolidated for efficient implementation of such programmes.

Figure 2.6

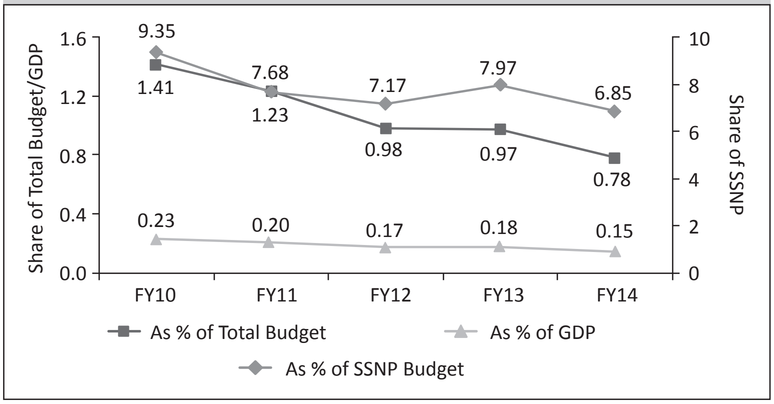
Allocation for Food Security Programmes



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

Allocation for food security programmes in FY2013-14 was Tk. 6,998 crore, which was 3.14 per cent of the total budget, 27.58 per cent of the total SSN budget and 0.59 per cent of the GDP (Figure 2.6). However, Open Market Sales (OMS) ((-) 10.98 per

Figure 2.7
Allocation for Employment Generation Programmes



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

cent), Vulnerable Group Development (VGD) ((-) 0.91 per cent) and Food for Work (FFW) ((-) 2.39 per cent) programmes received lower budgetary allocation when compared to that of FY2012-13 (in part, due to stable market price of rice).

In the Budget FY2013-14, allocation under 10 major Employment Generation Programmes (EGP) was Tk. 1,739 crore which was less than 1 per cent in total budget and 0.14 per cent of GDP (Figure 2.7). Total EGP's coverage decreased by 33.64 per cent in FY2013-14 when compared to FY2012-13. Among all EGPs, *Employment Generation for Ultra Poor* was the most prominent in terms of allocation (Tk. 1,400 crore). It needs to be mentioned that there was no allocation for *Employment for Ultra-Poor in Northern Region* programme in FY2013-14 Budget (Tk. 15.31 crore in FY2012-13). Eleven programmes had no allocation in FY2013-14. While lower allocation for employment generation programmes was worrisome, efficiency of these programmes has also come under scrutiny as allegations have been raised regarding recruitment and utilisation of the funds. However, close attention should be given to factors which will raise the efficacy of these needed programmes.

2.6

ELECTION PLEDGES AND REFORMS

When it assumed power, the current government had placed a set of election pledges before the nation in the light of its Vision 2021

When it assumed power, the current government had placed a set of election pledges before the nation in the light of its *Vision 2021*. Taking into account the politico-socio-economic crises that afflicted the years prior to election, the 14 Party Alliance had identified five priority areas. These were:

i. Maintenance of economic stability and control over commodity price hike through monitoring of market, elimination of profiteering syndicates, and establishment of institution for commodity price control and consumer protection. Moreover, in the face of global economic meltdown, initiatives to promote investment, secure energy, retain and enhance domestic demand, safeguard value of money, assist exports and continue export of manpower would be taken.

ii. Combating corruption by initiating measures to eliminate bribery, extortion, rent-seeking and corruption by taking action against loan defaulters, tender manipulators and black money owners. Moreover, widespread computerisation could ensure transparency, which in turn minimises the extent of corruption.

iii. Improvement of power and energy sector by adopting long-term policy on electricity and energy including economic usage of oil, gas, coal, hydro power, wind power and solar energy. One of the most notable targets set in this regard was to increase the electricity production to 7,000 MW by 2013.

iv. Eradication of poverty and inequity by bringing vibrancy in agriculture and rural life, extending social safety net for the ultra poor, generating employment.

v. Establishment of good governance by ensuring independence and impartiality of the judiciary, strictly controlling terrorism and religious extremism, reforming programme of the Election Commission and electoral system, making the administration pro-people and freeing it from politicisation.

Other important programmes in the election manifesto included strengthening the local government, agriculture and rural development, protection of environment from adverse effects of global warming, development of human resources, and empowerment of children and women welfare.

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2.6.1 Review of Implemented Policies/Programmes and Ongoing Reforms in Economic and Legal/Institutional Sector

In line with its commitment, the government has implemented a number of reform measures. However, many others are still in the process of implementation and some were not implemented at all.

Implemented Programmes

The total number of programmes which have been implemented by the government was 335. The implemented programmes can be broadly classified into two categories: i) Economic Reforms and ii) Legal and Institutional Reforms.

Total number of programmes which have been implemented by the government was 335

Majority of the reform programmes were related to the sphere of economics. The number of economic reforms was 217 while 118 legal and institutional reforms were implemented during the past four budget periods.

Majority of the reform programmes were related to the sphere of economics

Implemented Economic Reforms

The most notable economic reforms that were implemented were the following:

i. Budget and Planning

- Establishment of Budget and Planning branches in all ministries/divisions
- Establishment of macroeconomic model and macroeconomic database
- Successful tackling of the global recession through various measures

ii. Financial Sector

- Revision of the Corporate Governance Guidelines

iii. Power and Energy

- Adding 3,385 MW of electricity to the national grid by February 2013
- Adding of 510 mmcf of additional gas to the national grid

iv. Integrated Agriculture and Rural Development

- Achievement of self-sufficiency in food production
- Formation of Agricultural Research Foundation and Trustee Board to conduct agricultural research

v. Overall Education Sector

- Distribution of books free of charge at secondary level *vi. Physical Infrastructure*

- Completion of construction of Mirpur-Airport flyover and Banani rail-crossing overpass

vii. Climate and Environment

- Creation of Bangladesh Climate Change Resilience Fund

Reduction of tax exemption and tax holiday facilities

viii. Revenue Administration

- Reduction of tax exemption and tax holiday facilities
- Launching of Alternative Dispute Resolution (ADR)

Implemented Legal and Administrative Reforms

A list of noteworthy legal and institutional reforms is mentioned hereunder:

i. Financial Sector

Enactment of Money Laundering Prevention Act

- Enactment of Money Laundering Prevention Act, 2012
- Enactment of Anti-Terrorism (Amendment) Act, 2012

ii. Business Environment

- Enactment of Competition Act, 2012

iii. Power and Energy

- Formulation of Renewable Energy Policy
- Issuance of Mine and Mineral Rules, 2012

iv. Integrated Agriculture and Rural Development

Issue of National Education Policy

- Enactment of Bangabandhu Poverty Alleviation and Rural Development Academy Act, 2012
- Enactment of Bangladesh Water Act, 2013

v. Overall Education Sector

- Issue of National Education Policy
- Formulation of Creative Talent Hunt Policy, 2012

vi. Physical Infrastructure

Approval of Industrial Policy

- Enactment of Real Estate Development and Management Act, 2010
- Amendment of Private Real Estate Land Development Rules, 2004

vii. Industrialisation

- Approval of Industrial Policy, 2010
- Issue of National Skill Development Policy, 2012

viii. Climate and Environment

- Formulation of Biosafety Rules, 2012
- Enactment of Wildlife (Conservation and Control) Act, 2012
- Issue of Saw Mill (License) Rules, 2012
- Formulation of Brick Manufacturing Control Act, 2013

ix. Good Governance

- Enactment of Upazila Parishad (Amendment) Act, 2011
- Appointment of administrators in 61 district councils

Enactment of VAT and Excise Duty Act, 2012

x. Revenue Administration

- Enactment of VAT and Excise Duty Act, 2012
- Amendment of Customs Act, 1969

Ongoing Reform Initiatives

However, the number of ongoing reforms is still large. There are 260 ongoing reform initiatives which are yet to be implemented. Of these 235 were in economic areas and 25 were related to legal and institutional areas. Various studies show that whilst some reform measures have been implemented successfully, in case of others the quality of implementation leaves much to be expected.

The number of ongoing reforms is still large; there are 260 ongoing reform initiatives which are yet to be implemented

Major Missing Programmes

There are several programmes which should have been completed by 2013. The list of major missing programmes along with their current implementation status is provided in Table 2.18.

Table 2.18

Current Implementation Status of Major Missing Programmes

Programme	Implementation Progress
Amendment of the Company Act, 1994	Work in progress
Digitisation of Land Registration	Initial preparations completed
Establishment of Economic Zones	Establishment of five Economic Zones are underway
Establishment of Competition Commission	Work in progress
Strengthening of the Trading Corporation of Bangladesh (TCB)	Work in progress
Formulation of Coal Policy	Waiting for the opinion of the Technical Committee
National Agricultural Policy, 2012	Formulation of policy is in progress
Formation of Accreditation Council to monitor education standard of the private universities	Formation process of the council is underway in the Ministry of Education
Construction of Dhaka Elevated Express Way Railway Sector Project	Work in progress
Construction of Dual Gauze Double Lines between Dhaka-Tongi-Joydebpur and Dhaka-Narayanganj	A project in this regard has been approved in the ECNEC and further work is in progress
Construction of Elevated Express Way from Hazrat Shahjalal International Airport to Chandra, Dhaka	Pre-feasibility study of the 38 km long Elevated Express has been completed
Approval of Anti-Corruption (Amendment) Bill 2011	Anti-Corruption (Amendment) Bill 2011 is awaiting for approval of the Parliament

(Table 2.18 contd.)

(Table 2.18 contd.)

Programme	Implementation Progress
Construction of Tunnel in the Karnaphuli River, Chittagong	Feasibility survey report will be completed by June 2013
Construction of Bangabandhu International Airport	Initiative has been taken
Amendment of Bangladesh National Building Code	Work in progress
Strengthening of the BSTI	Programme ongoing
National Environmental Policy 2013	Framing draft underway
Refinancing facilities to SME sector	Under the refinancing scheme, an amount of Tk. 500 crore has been refinanced to 7,124 women entrepreneurs through four types of fund of Bangladesh Bank
Strengthening of local government by decentralisation of the central government	Union Parishad Governance Project is being implemented with financial assistance from the United Nations Development Programme (UNDP), United Nations Capital Development Fund (UNCDF), European Union (EU), and Swiss Agency for Development and Cooperation (SDC)
Enforcement of Performance-based Evaluation System	Training is being provided to field and ministry level officials
Formulation of Civil Service Act	Work in progress
Formulation of Public Servants Act 2013	Awaiting for approval of the Cabinet Committee on Administrative Development
Formulation of Financial Reporting Act and establishment of Financial Reporting Council	Work in progress

Source: Compiled from various sources by the CPD IRBD Team.

2.7

KEY CHALLENGES OF IMPLEMENTATION OF BUDGET FY2013-14

FY2013-14 will be operationalised at a time when multiple governments are expected to successively take charge of implementing the budgetary proposals. A key deciding factor from the perspective of implementation of Budget FY2013-14 will be whether the budget will be front-loaded or back-loaded, and how much effort the outgoing government will put in its residual tenure. The current political uncertainties will likely to continue till a compromise is reached as regards holding of the parliamentary elections. This will seriously undermine the possibility of taking advantage of the various proposals in FY2013-14 Budget to stimulate investment in the economy.

A key deciding factor from the perspective of implementation of Budget FY2013-14 will be whether the budget will be front-loaded or back-loaded, and how much effort the outgoing government will put in its residual tenure

Bangladesh has not been able to attain more than 7 per cent GDP growth in the past. Attaining the targeted growth of 7.2 per cent will critically hinge on raising the investment-GDP ratio and lowering capital-output ratio. Both of these will be a challenge and will call for important departure from business-as-usual scenario. This will call for significant breakthrough in terms of resource generation, resource allocation, efficacy of resource use and efficacy of development administration. The critical question is whether there will be a appetite for all these in an election year.

Performance of Bangladesh economy is still predominantly dependent on stimulating domestic demand (about 85 per cent of GDP). This will critically hinge on robust performance of domestic market-oriented activities, which in turn will depend on stimulating domestic demand and investment. The global economic recovery is expected to be slow in 2013 and 2014 with consequent adverse implications for outward-oriented investment during FY2013-14. Stimulating domestic investment becomes critically important in view of this scenario.

Public sector investment has performed well in FY2012-13. Further improvement in this regard will require significant effort on the part of government machinery towards better coordination, higher efficacy of implementation and coordination between fiscal and monetary policies and measures. The issue of Padma Bridge financing and the generation of the required resources and its likely implications for fiscal-monetary management will remain a continuing distraction in FY2013-14. Target for revenue mobilisation by the NBR has been set at high levels (particularly considering current year's actual likely performance). In view of expected slow pace of import take-off and the lower tax incidence emanating from tax measures, it will be a challenge to attain the target. Emphasis will need to be put on raising efficacy of tax administration, on broadening tax base, and gearing up income tax mobilisation efforts.

Energy and infrastructure will remain the keys to attracting private sector investment

In agriculture sector, keeping consumers happy and providing farmers the required incentives will call for raising the efficacy of support measures in terms of input delivery, productivity enhancement and marketing support. Energy and infrastructure will remain the keys to attracting private sector investment. In spite of the progress made in the power sector, consumers and producers are having to bear the cost of accumulated inefficiencies. This will need to be addressed through accelerated restructuring of sources of power generation and diversity of primary energy sourcing. Appetite for making tough political decisions will be tested in this regard (coal mining, off-shore/on-shore exploration).

The fiscal framework may need to be revisited to undertake mid-course corrections if at some point key targets appear to be off the mark

A major challenge will be mobilising the required USD 3.8 billion of foreign aid for underwriting the deficit financing. The second challenge here will be ensuring that the development administration has the capacity to use this significantly higher amount of resources. The increasing share of bank borrowing in deficit financing could crowd-out private sector borrowing, and is likely to further raise interest burden in the economy, particularly at a time of high non-performing loans are afflicting the banking system. The government will have to undertake a number of measures in line with the IMF-ECF conditionalities. Raising power tariff, ceiling on borrowings, reducing subsidies are only a few. It will need to be seen how the government accommodates the attendant tensions in this regard. The fiscal framework may need to be revisited to undertake mid-course corrections if at some point key targets appear to be off the mark.