State of the
BANGLADESH ECONOMY
in FY2012-13 and Outlook for FY2013-14

Centre for Policy Dialogue (CPD)

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CENTRE FOR POLICY DIALOGUE (CPD)
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The views expressed in this volume are those of the CPD IRBD 2013 Team members and do not necessarily reflect the views of the CPD.

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Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2013 Team.

PREFACE

With the publication of the present volume CPD continues its tradition of tracking the performance of Bangladesh economy through in-depth analysis of key macroeconomic performance indicators and important developments in the Bangladesh economy. As those who follow CPD's analytical work, will know that this pioneering exercise was initiated in 1995 under CPD's flagship programme titled *Independent Review of Bangladesh's Development (IRBD)*. This volume of the IRBD has focused on three areas: evaluation of the state of the economy in FY2012-13 with comments on near-term outlook, analysis of the National Budget for FY2013-14, and an analysis of the commitment and delivery of Rana-Plaza follow-ups.

Chapter 1 titled "State of the Economy in FY2012-13 and Early Signals of FY2013-14" undertakes an assessment of the performance of Bangladesh economy in FY2012-13 based on an analysis of some of the key macroeconomic parameters; in addition, the chapter also tries to forecast the performance over the next fiscal year by undertaking an interpretation of the early performance signals in FY2013-14. In view of the fact that, the period under review coincided with the period when Bangladesh was marching towards elections to the tenth National Parliament, an exercise was undertaken to understand the political-business cycle in the context of Bangladesh. The results of this interesting model-based analysis have been included in this chapter.

Chapter 2 titled "Analysis of the National Budget for FY2013-14" presents a close examination of the various projections and fiscal proposals laid out in the National Budget for FY2013-14. The chapter makes an assessment of the budget's fiscal framework and evaluates the feasibility of attaining key targets. The chapter attempts to capture the likely impact of the budgetary proposals and proposed resources allocations on the macroeconomic and sectoral performance in FY2013-14. A close examination of the Annual Development Programme (ADP) and its financing shows some interesting trends and reveals the investment priorities of the government.

Chapter 3 titled "First Independent Report on Monitoring the Rana Plaza Follow-ups – 100 Days of Rana Plaza Tragedy: A Report on Commitments and Delivery" dwells on three areas: (a) it provides the background of the independent monitoring exercise which was undertaken by the CPD, in partnership with several other organisations and distinguished individuals which include Institute of Architects Bangladesh (IAB), Ain o Salish Kendra (ASK), Dhaka Ahsania Mission, ActionAid Bangladesh, Campaign for Mass Education (CAMPE), Transparency International Bangladesh (TIB), The Daily Star, Naripokkho, Nijera Kori, Prothom Alo, Bangladesh Environmental Lawyers Association (BELA), Bangladesh Legal Aid and Services Trust (BLAST), Manusher Jonno Foundation, SHUJAN, *Professor Jamilur Reza Chowdhury*, Vice Chancellor, University of Asia Pacific and *Mr Habibullah N Karim*, Chairman, Terratech Limited, to track some of the key follow-up deliverables in view of the Rana Plaza tragedy; (b) it provides a profile of the victims of the Rana Plaza tragedy and the RMG workers who survived the tragedy; and (c) it presents a review of the commitments made by various stakeholders following the tragedy with an early assessment of what has been done to address the attendant concerns over the first hundred days. The demanding task of preparing this report within a very short time was carried out under the leadership of *Dr Khondaker Golam Moazzem*, Additional Research Director, CPD with substantial input from *Ms Meherun Nesa*, Research Associate (on leave), CPD.

Annex 1 of the volume captures the major messages voiced by the stakeholders who attended the dialogue CPD had organised to discuss the FY2013-14 Budget.

Acknowledgement

The excellent team work that had been a hallmark of successive IRBD works has not been an exception this time. All CPD colleagues deserve to be sincerely thanked, collectively and individually, for their hard and dedicated work in the course of this year's entire IRBD exercise. My sincere appreciation goes to all IRBD Team members. I would like to particularly express my deep appreciation of the leadership role played by *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD as the Team Leader of the IRBD exercise and for his intellectual contribution in the process of preparation of the IRBD volume. *Dr Fahmida Khatun*, Research Director, CPD has provided valuable guidance to the CPD IRBD Team. I would also like to put on record my deep appreciation to *Mr Towfiqul Islam Khan*, Research Fellow, CPD for his hard work, perseverance and dedication in carrying out his responsibilities as the Coordinator of the IRBD exercise.

CPD colleagues who have worked on the IRBD volume have benefitted greatly from the cooperation and support of many institutions and individuals who have given them access to data which were not readily available. Many individuals, too numerous to be named here, have shared their insights and knowledge, and we owe each of them our debt of gratitude. Officials of a number of institutions deserve special thanks for their support to IRBD Team members. These included the Bangladesh Bank, Bangladesh Bureau of Statistics (BBS), Bangladesh Export Processing Zone Authority (BEPZA), Bangladesh Energy Regulatory Commission (BERC), Bangladesh Garment Manufacturers and Exporters Association (BGMEA), Bureau of Manpower, Employment and Training (BMET), Board of Investment (BOI), Bangladesh Power Development Board (BPDB), Chittagong Stock Exchange (CSE), Department of Agricultural Extension (DAE), Department of Agricultural Marketing (DAM), Dhaka Stock Exchange (DSE), Enam Medical College & Hospital, Export Promotion Bureau (EPB), Ministry of Finance, Ministry of Food, Ministry of Labour and Employment, National Board of Revenue (NBR), Petrobangla, and Planning Commission. Print and electronic media of the country have enabled IRBD outputs to reach the broader audience and readership, and this is an opportunity to sincerely acknowledge their continuing support to CPD endeavours.

On behalf of the IRBD Team members, I would like to express special words of gratitude to participants of expert group meetings organised to discuss IRBD work in progress and stakeholders who attended the dialogues where some of the IRBD outputs were presented.

Colleagues at CPD's Dialogue and Communication Division have borne significant burden in arranging the expert group meetings and dialogues, and for taking the IRBD volume to the finishing line. *Ms Anisatul Fatema Yousuf*, Director, Dialogue and Communication has provided exceptional leadership in these activities. In this connection, I would also like to acknowledge the sincere work of *Mr Avra Bhattacharjee*, Deputy Director, Dialogue and Outreach, CPD and *Ms Nazmatun Noor*, Deputy Director, Dialogue and Outreach, CPD for their devoted work in giving final shape to the IRBD manuscript. *Mr Fazley Rabbi Faruque*, Publication and Print Associate, CPD and *Mr Md. Shaiful Hassan*, Programme Associate (DTP) have performed their responsibilities in preparing the pre-printing format of the volume with high quality. I would also like to sincerely acknowledge the contribution of *Mr A H M Ashrafuzzaman*, Deputy Director, IT, CPD for his technical support, and *Mr Md Hamidul Hoque Mondal*, Senior Administrative Associate, CPD for his valuable secretarial assistance.

It was *Professor Rehman Sobhan's* idea which set the IRBD exercise rolling many years back, and over all these years his contribution, guidance and support have been a continuing inspiration for all of us who have been involved with the IRBD initiative of the CPD. This is also an opportunity to express, on behalf of the entire IRBD Team, our sincere gratitude to *Professor Rehman Sobhan*.

March 2014
Dhaka

Professor Mustafizur Rahman
Executive Director
Centre for Policy Dialogue (CPD)

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ACRONYMS

ACC	Anti-Corruption Commission
ADP	Annual Development Programme
ADR	Alternative Dispute Resolution
API	Active Pharmaceutical Ingredinets
ASK	Ain o Salish Kendra
ASYCUDA	Automated System for Customs Data
BAPEX	Bangladesh Petroleum Exploration & Production Company Limied
BARC	Bangladesh Agricultural Research Council
BARI	Bangladesh Agricultural Research Institute
BBS	Bangladesh Bureau of Statistics
BCCTF	Bangladesh Climate Change Trust Fund
BDT	Bangladeshi Taka
BELA	Bangladesh Environmental Lawyers Association
BGB	Border Guard Bangladesh
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BILS	Bangladesh Institute of Labour Studies
BKMEA	Bangladesh Knitwear Manufacturers & Exporters Association
BLAST	Bangladesh Legal Aid and Services Trust
BNP	Bangladesh Nationalist Party
BOP	Balance of Payments
BPC	Bangladesh Petroleum Corporation
BPDB	Bangladesh Power Development Board
BRRI	Bangladesh Rice Research Institute
BSCIC	Bangladesh Small and Cottage Industries Corporation
BSTI	Bangladesh Standards and Testing Institution
BUET	Bangladesh University of Engineering and Technology
BoI	Board of Investment
CAMPE	Campaign for Popular Education
CD	Customs Duty
CDD	Centre for Disability in Development
CID	Criminal Investigation Department
CMH	Combined Military Hospital
CPD	Centre for Policy Dialogue
CRP	Centre for Rehabilitation of the Paralysed
DAP	Diammonium Phosphate
DC	District Commissioner
DIFE	Department for Inspection for Factories and Establishments
DNA	Deoxyribonucleic Acid

DWT	Deadweight Tonnage
ECF	Extended Credit Facility
ECNEC	Executive Committee of National Economic Council
ECR	Electronic Cash Register
EGP	Employment Generation Programme
EMCH	Enam Medical College and Hospital
EPB	Export Promotion Bureau
EU	European Union
FBCCI	Federation of Bangladesh Chambers of Commerce and Industry
FBI	Federal Bureau of Investigation (USA)
FDI	Foreign Direct Investment
FFW	Food for Work
GDP	Gross Domestic Product
GITI	Garments Industries Transparency Initiative
GSP	Generalized System of Preferences
G2G	Government-to-Government
HPAI	Highly Pathogenic Avian Influenza
HS	Harmonized Commodity Description and Coding System
HYV	High-Yield Variety
IAB	Institute of Architects Bangladesh
ICD	Inland Container Depot
ICT	Information and Communication Technology
ILO	International Labour Organization
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
INR	Indian Rupee
IOC	International Oil Company
IPP	Independent Power Producer
IRBD	Independent Review of Bangladesh's Development
IT	Information Technology
JICA	Japan International Cooperation Agency
LGD	Local Government Division
LGRD	Local Government Rural Development
LIC	Low-Income Country
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
LTU	Large Taxpayers Unit
L/C	Letter of Credit
MDG	Millennium Development Goal
MFIS	Mass Facility Identification System
MIST	Management Information System for Taxation
MNC	Multinational Company
MP	Member of Parliament
MPS	Monetary Policy Statement
MT	Metric Ton
MTMF	Medium Term Macroeconomic Framework
MTO	Money Transfer Operator
MW	Mega Watt
MoF	Ministry of Finance
MoP	Muriate of Potash

MoU	Memorandum of Understanding
mmcf	Million Cubic Feet
NBFI	Non-Bank Financial Institution
NBR	National Board of Revenue
NITOR	National Institute of Traumatology and Orthopaedic Rehabilitation
NPL	Non-Performing Loan
NRB	Non-Resident Bangladeshi
NSD	National Savings Bond
NTPA	National Tripartite Plan of Action
OHS	Occupational Health and Safety
OLS	Ordinary Least Square
OMS	Open Market Sales
PBC	Political Business Cycle
PDB	Power Development Board
PEDP	Primary Education Development Program
PKSF	Palli Karma-Sahayak Foundation
PMBP	Padma Multipurpose Bridge Project
PPP	Public-Private Partnership
PTI	Primary Training Institute
RADP	Revised Annual Development Programme
RAJUK	Rajdhani Unnayan Kartripakkha
RBSA	Regular Budget Supplementary Account
RD	Regulatory Duty
RMG	Readymade Garments
SARSO	South Asian Regional Standards Organisation
SASEC	South Asia Subregional Economic Cooperation
SCB	State-Owned Commercial Banks
SD	Supplementary Duty
SDC	Swiss Agency for Development and Cooperation
SEC	Securities and Exchange Commission
SFYP	Sixth Five Year Plan
SME	Small and Medium Enterprise
SRO	Statutory Regulatory Order
SSNP	Social Safety Net Programme
SoE	State-Owned Enterprise
TCB	Trading Corporation of Bangladesh
TDS	Tax Deducted at Source
TIB	Transparency International Bangladesh
TIN	Tax Identification Number
TSP	Triple Super Phosphate
TVET	Technical and Vocational Education and Training
UAE	United Arab Emirates
UK	United Kingdom
UNB	United News of Bangladesh
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organization
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
VGD	Vulnerable Group Development

CHAPTER 1

State of the Economy in FY2012-13 and Early Signals of FY2013-14

This chapter was originally presented at a CPD press briefing titled *Bangladesh Economy in FY2013-14: Three Months after the Budget, Three Months before the Election*, held at the CPD office on 22 October 2013.

1.1

INTRODUCTION

The present chapter has been prepared as a study under the Centre for Policy Dialogue's (CPD) flagship programme *Independent Review of Bangladesh's Development (IRBD)* which keeps the performance of the country's economy under continuous scrutiny. With a view to get an overview of the current state of the Bangladesh economy, the study seeks to address three aspects. *First*, it builds on the preceding studies produced under the IRBD programme including the Second Interim Report for the fiscal year 2012-13 (CPD 2013a) and CPD's immediate response to the National Budget for FY2013-14 (CPD 2013b). It considers the year closing figures of FY2012-13, reconsiders the starting benchmarks of FY2013-14, and anticipates their implications for budgetary targets for the fiscal year.

The present study focuses on the distinguishing features concerning the macroeconomic performance of Bangladesh economy in FY2013-14

Second, as the first reading of the early signals of FY2013-14, the present study focuses on the distinguishing features concerning the macroeconomic performance of Bangladesh economy in FY2013-14. It reviews the movements of a set of key indicators for the first quarter (Q1) of the current fiscal year and attempts to forecast an outlook for the rest of the year.

Third, an earlier study of CPD, conducted in April 2013, predicted that the persistent political impasse would leave an unfavourable footprint on the economic performance in FY2013-14 (Bhattacharya *et al*. 2013). As Bangladesh moves towards another democratic transition, the present paper analyses the relevance of political business cycle (PBC) in Bangladesh to understand its implication for macroeconomic prospects and performance.

As Bangladesh moves towards another democratic transition, the present paper analyses the relevance of political business cycle in Bangladesh to understand its implication for macroeconomic prospects and performance

Following this introduction, the subsequent three sections of the chapter have been fashioned around the three aspects mentioned above. The chapter closes with a set of summary observations.

1.2

RESETTING THE BENCHMARK OF FY2012-13

In the run-up to the National Budget for FY2013-14, on 3 June 2013, CPD released its Second Interim Report on Bangladesh's macroeconomic performance in FY2012-13 (CPD 2013a). The report, based on six to ten months data of FY2012-13, underscored that the apparent overall economic stability and growth performance are underpinned by weakening of certain key macroeconomic fundamentals. It was observed that economic growth decelerated to 6.0 per cent in FY2012-13 from 6.2 per cent in FY2011-12, and was off-track compared to the ambitious target of 7.2 per cent. The fall in crop sector's (and hence agriculture sector's) contribution to the gross domestic product (GDP) growth paralleled the stagnation, if not the decline in GDP rate. The deceleration of GDP growth in FY2012-13 was accompanied by one percentage point fall in private investment (as a share of GDP). Indeed, a wide variety of indicators including import of capital machineries and credit flow to private sector reconfirmed the picture of depressed private

The fall in crop sector's (and hence agriculture sector's) contribution to the GDP growth paralleled the stagnation investment demand. In contrast, public investment in FY2012-13 was expected to pick up the slack in private investment and elevate the total investment above the level of the preceding fiscal year. Domestic savings rate continued to remain subdued in FY2012-13.

Stagnation in private investment and weakening economic growth also got reflected in other macroeconomic correlates

Stagnation in private investment and weakening economic growth also got reflected in other macroeconomic correlates in FY2012-13 including slowdown in revenue collection by the National Board of Revenue (NBR) and decline in overall import payments. On the other hand, export receipts and remittance inflow remained quite robust during FY2012-13. Steady inflow of foreign direct investment (FDI) and buoyant net flow of foreign aid contributed to a substantial surplus in the balance of payments (BOP). Hence, Taka appreciated against all major currencies in the backdrop of significant rise in foreign exchange reserves. Inflation in FY2012-13 was also tamed to certain extent, largely thanks to stable price of rice, declining international commodity prices, stronger domestic currency and slackening of domestic demand.

Overall, the economy in FY2012-13 was found to be at a state, where, in the absence of necessary structural and institutional reforms, the country remained handicapped in transcending to a higher growth trajectory. CPD in its pre-budget review of the state of the economy maintained that these trends were unlikely to change during the remaining few months of FY2012-13 (for which data were not available then).

A review of the closing figures for FY2012-13 indicates that the observations made by CPD regarding the macroeconomy in the wake of annual national budget in June 2013 remain quite valid till date

Three months into the FY2013-14, with the final figures for FY2012-13 in hand, we are now able to take a fuller look at the elapsed fiscal year. A review of the closing figures for FY2012-13 indicates that the observations made by CPD regarding the macroeconomy in the wake of annual national budget in June 2013 remain quite valid till date. A comparative picture based on the data available at the time of the announcement of the budget and the final figures for FY2012-13 may be obtained from the Annex Table 1.1. Table 1.1, on the other hand, reports the new budgetary targets imputed from the relevant actual figures of FY2012-13.

What do the Final Figures of FY2012-13 Say?

Private Investment

Growth of credit to private sector secularly declined throughout FY2012-13

In the area of private investment, one does not observe any reversal of the prevailing sluggish trend during the last quarter (Q4) of the fiscal year. Rather, growth of credit to the private sector secularly declined throughout FY2012-13. At the end of June 2013, growth of private sector credit was only 11 per cent – as against the target of 18.5 per cent – which was the lowest in the last decade. This was a clear indication of lack of investment demand in the country on the part of the private sector. The sluggish investment demand was also demonstrated by the augmented excess liquidity in the banking system. At the end of FY2012-13, the banks had about Tk. 79,441 crore as investable liquidity. Curiously, despite having a large surplus liquidity in the banking system and falling inflation, the lending rate did not decline by any discernible margin during this period.[1] The lack of investment demand was also demonstrated by the fall in payments against import of capital machineries. Capital machineries import declined by (-) 8.5 per cent in FY2012-13.[2] One may recall that, CPD in its previous review identified five plausible

[1] The interest rate on lending was 13.7 per cent in June 2013, which was 13.8 per cent in July 2012.

[2] This slide continued throughout FY2012-13, although during the last quarter the magnitude was lower as capital machinery import during this quarter fell by (-) 1.9 per cent. However, one may need to consider that such growth rate was attained in the backdrop of a more favourable benchmark. During the corresponding quarter of FY2011-12, import of capital machinery declined by (-) 31.2 per cent.

reasons underpinning the worrisome investment climate. These are: (i) demand-side stabilisation measures undertaken to improve macroeconomic balances and contain inflation; (ii) slow recovery of global economic environment; (iii) weak banking system afflicted by a number of loan scams; (iv) adverse developments to the readymade garments (RMG) sector including frequent labour unrest; and (v) uncertain and violent political outlook.

Fiscal Framework

The ambitious fiscal targets, both from income and expenditure sides, set for FY2012-13, did not materialise at the end of the fiscal year. In fact, growth rates of both revenue collection and non-development expenditures declined during the later months of FY2012-13. Revenue collection by the NBR remained Tk. 3,644 crore lower than the target. One may recall that CPD in its pre-budget report estimated that the shortfall of NBR revenue mobilisation could be between Tk. 3,000-4,000 crore (CPD 2013a). Curiously, Ministry of Finance (MoF) estimates this shortfall to be Tk. 8,921 crore.[3] This means the target growth for FY2013-14, which was set at 19.9 per cent based of the Revised Budget for FY2012-13, will now be about 30 per cent (Table 1.1). Bangladesh economy is yet to achieve such high revenue growth in any year.

The ambitious fiscal targets, both from income and expenditure sides, set for FY2012-13, did not materialise at the end of the fiscal year

In a similar vein, the actual growth rates of the expenditure components in FY2012-13 were much lower compared to the targets. On a welcome note, the Annual Development Programme (ADP) expenditure (Taka component) attained a much higher growth, thanks to about 99 per cent utilisation of the original allocation. However, despite a much better project aid utilisation capacity, the overall ADP expenditure growth was 30.7 per cent as against the target of 46.5 per cent. This implies that a lofty 34.3 per cent growth will be required to attain the targeted ADP expenditure for FY2013-14. Expanding the realised size of ADP by more than one-third in one-single year is a highly challenging target to chase, particularly in an election year.

The actual growth rates of the expenditure components in FY2012-13 were much lower compared to the targets

Fiscal deficit turned out to be 4.4 per cent of GDP against the target of 5.0 per cent of the GDP. But this was for the wrong reason, i.e. because actual expenditure was lower than the target. What is to be noted in this connection is that, the financing structure of the budget deficit did not go according to the programme. Borrowing from the banking system by the government was Tk. 3,852 crore higher than the budget estimates, but remained lower than the revised target by Tk. 1,648 crore.[4] Similarly, in absence of availability of programmed resources from the sales of National Savings Bond (NSD) certificates, the government surpassed the target of borrowing from 'Others' sources of non-bank financing which include short-term borrowing from state provident fund and other internal sources.

Evidently, the targets for FY2013-14 were set under the assumption that the revised targets for FY2012-13 will be attained finally. The year closing final figures now reveal that the revenue collection and public expenditure figures used for preparation of the fiscal framework were inflated by substantial margins. Taking note of the past trends, one may safely assume that the financing plan for budget deficit in FY2013-14 will also diverge significantly. One may recall, anticipating such a development, CPD in its initial reaction to the National Budget for FY2013-14 on 7 June 2013, pointed out that the proposed fiscal framework for FY2013-14 has 'water in it' and described this to be the 'weakest link' of the budget.

The year closing final figures now reveal that the revenue collection and public expenditure figures used for preparation of the fiscal framework were inflated by substantial margins

[3]The difference in revenue collection estimates for FY2012-13 between NBR and MoF (which uses the iBAS data) is Tk. 5,277 crore. One will need to remember that such discrepancy between the two sources is not uncommon. For FY2011-12 estimates, the difference was Tk. 3,464 crore.

[4]While preparing the Revised Budget for FY2012-13 the target for bank borrowing was raised by Tk. 5,500 crore.

Table 1.1

New Targets for FY2013-14 Imputed from Actual Figures of FY2012-13

Indicators	Growth (%)			
	FY2013 (Target)	FY2013 (Actual)	FY2014 (Budget) over FY2013 (Revised)	FY2014 (Budget) over FY2013 (Actual)
Total Revenue	**21.8**	**12.3**	**19.9**	**30.0**
NBR Tax[1]	22.6	12.8	21.2	31.7
Taxes on Income and Profit	25.4	22.2	36.8	40.4
Value Added Tax (VAT)	19.3	14.0	23.5	29.2
Import Duty	20.6	4.8	0.7	15.8
Supplementary Duty	22.2	-0.2	4.4	27.9
Non-NBR Tax	25.7	13.4	12.4	24.5
Non-Tax Revenue	17.5	9.9	14.9	22.8
Total Expenditure	**25.8**	**14.3**	**17.5**	**27.7**
Annual Development Programme (ADP)	46.5	30.7	25.8	34.3
Non-ADP Expenditure	19.0	8.9	14.4	25.1
Loans and Advances	39.2	20.6	-25.3	-8.6
Others	16.2	7.3	21.4	30.4
Budget Deficit	**37.8**	**20.2**	**10.8**	**21.2**
Financing	**37.8**	**18.2**	**10.8**	**23.3**
Foreign	157.6	75.3	22.6	66.5
Grants	68.3	79.0	26.3	3.8
Loans	114.4	39.7	18.9	78.5
Amortisation	33.5	20.0	15.9	32.0
Domestic	9.6	4.7	4.6	6.2
Banking Sources	-15.4	-1.2	-8.8	-3.2
National Savings Bond (NSD)	2631.6	203.7	152.0	504.2
Others	-0.4	39.5	50.0	-30.6

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

Note: [1]According to NBR sources the shortfall in NBR revenue collection in FY2012-13 was Tk. 3,644 crore. The corresponding figure reported by the MoF report showed a Tk. 8,921 core shortfall.

Crop Production

As was mentioned, stagnating value addition from the crop sector was a major setback for FY2012-13. The provisional estimate of GDP growth in the crop sector did not consider the production data of a number of crops including Boro rice. The final estimates show that rice production in FY2012-13 declined by (-) 0.2 per cent in FY2012-13 as Boro production increased by only 0.1 per cent. One may recall that during the last few seasons farmers did not get adequate price incentive for paddy cultivation. As a result, it may be the case that a section of farmers moved away from paddy cultivations to other crops. Indeed, overall cultivated area of paddy declined by (-) 1.2 per cent in FY2012-13. In contrast, cultivated area of non-traditional crops (other than jute and cotton) increased by 8.4 per cent. Indeed, upsurge in production was observed in case of maize (11.5 per cent), wheat (26.1 per cent), pulse (15.3 per cent) and vegetables (5.1 per cent). This new dynamics of crop production has both positive and negative consequences for Bangladesh economy. On the one hand, it is important that the farmers get motivated by the price signals and diversify their production structure to maximise returns. On the other hand, this may lead to increased reliance on imported rice for food security and price stability. It is important to note that, over the last few years, the goal of

Stagnating value addition from the crop sector was a major setback for FY2012-13 'self-sufficiency' in rice production has remained under the national policy spotlight. Decline in rice production and lack of rice import in FY2012-13 consequently led to a decline in public food stock by more than 200 thousand metric tonnes (MT). One can, thus, assume that the government may have to rely on imported rice to run its food distribution programmes in a significant way in the current fiscal year, which will then obviously have additional fiscal consequence. Hence, import of rice by both public and private sector is likely to increase in FY2013-14. One wonders whether that would have a knock on effect in the domestic price situation.

Inflation and Monetary Growth

Inflationary trend had been downwards during the first ten months of FY2012-13, and this continued during the remaining two months of the current fiscal year

As mentioned earlier, inflationary trend had been downwards during the first ten months of FY2012-13, and this continued during the remaining two months of the current fiscal year. The annual average inflation in June 2013 was 7.7 per cent, which was marginally higher than the target of 7.5 per cent. The growth rates of the monetary aggregates in the elapsed fiscal year remained quite subdued as against their respective targets. The growth rate of broad money came down to 16.7 per cent at the end of June 2013, whereas the corresponding target was 17.7 per cent. Conversely, credit expansion to public sector was beyond the target, due to excessive bank borrowing required to underwrite the fiscal deficit in the face of shortfall from other sources of finances. This trend of money supply was, however, underpinned by excessive flow of net foreign assets which posted a growth rate of 43.8 per cent against the target of 14 per cent. Indeed, the accumulation of foreign exchange reserve contributed towards this end.

Banking Sector

The recent trend in the banking sector is not supportive of incremental and sustained economic growth as it is fraught with inefficiency and malpractices

Earlier analysis reveals that the recent trend in the banking sector is not supportive of incremental and sustained economic growth as it is fraught with inefficiency and malpractices.[5] In the backdrop of decelerating private investment, the classified loans in Bangladesh banking sector rocketed during FY2012-13. Share of classified loan to total outstanding increased to 11.9 per cent as of June 2013 which was only 7.2 per cent at the end of FY2011-12. As a result, the state-owned commercial banks (SCBs) faced serious capital deficit, which in turn created additional fiscal pressure for the government.[6] Curiously, such a deterioration of the performance of the banking sector took place at a time when the economy remained under the disciplines imposed by an IMF (International Monetary Fund) programme.

External Sector

Foreign exchange reserve continued to climb throughout FY2012-13 as the inflow of foreign exchange increased in the form of export revenue, remittances, foreign aid and FDI

As mentioned earlier, foreign exchange reserve continued to climb throughout FY2012-13 as the inflow of foreign exchange increased in the form of export revenue, remittances, foreign aid and FDI. Export registered an impressive growth of 11.2 per cent, thanks to enhanced performance in the fourth quarter (14.3 per cent). Similarly, net foreign aid disbursement was about USD 1.9 billion in FY2012-13 which was USD 1.2 billion in FY2011-12.[7] Net FDI inflow in FY2012-13 increased to USD 1.3 billion, which was USD 1 billion in FY2011-12. The only exception was remittance inflow, which registered only 0.9 per cent growth during the last quarter. Overall, in FY2012-13, remittance inflow increased by 12.6 per cent. The decline in remittance growth was coupled with fall in manpower export in FY2012-13. The number of workers going abroad fell by (-) 36.2 per cent in FY2012-13.

[5] See CPD (2013a) for details.

[6] The Budget for FY2013-14 eventually allocated Tk. 5,000 crore for the recapitalisation of the SCBs.

[7] The gross foreign aid flow in FY2012-13 was USD 2.8 billion while the amortisation payment was USD 0.9 billion.

On the payment side, import payments declined by (-) 4.1 per cent in FY2012-13. It may be noted that total import payments increased by 2 per cent during Q4 of FY2012-13 in accordance with higher export demand. High inflow of foreign currencies and lack of payment demand resulted in the rise in foreign exchange reserve and led to appreciation of Bangladeshi Taka (BDT) against all major currencies. Indeed, to contain the exchange rate of Taka (vis-à-vis USD), the central bank had to mop up the excess foreign currencies from the market. Hence, foreign exchange reserve of the country augmented by about USD 5 billion in a single fiscal year. As aggregate demand remained low, the excess money supply arising from accumulation of net foreign assets had a rather marginal impact on inflation. Interestingly, a stronger domestic currency is yet to perceptibly affect Bangladesh's export competitiveness and performance.

Foreign exchange reserve of the country augmented by about USD 5 billion in a single fiscal year

The final figures for FY2012-13 suggests that the fiscal year closed with a much more diminished performance than what was depicted in the budget documents for FY2013-14. The slowdown which set in the economy in the second half of FY2011-12 gathered further momentum in the fourth quarter of FY2012-13. While relatively robust performance of the external sector and enhanced public expenditures provided some relief, depressed private investment remained the 'Achilles' Heel' of the economy. As one readjusts the benchmarks incorporating the latest figures for FY2012-13, the budgetary targets for FY2013-14 look increasingly 'surreal'. The need to readjust the fiscal parameters will be no less an important task in tandem with the urgency of maintaining fiscal discipline in FY2013-14.

The final figures for FY2012-13 suggests that the fiscal year closed with a much more diminished performance than what was depicted in the budget documents for FY2013-14

1.3

INTERPRETING THE EARLY SIGNALS OF FY2013-14

This section tries to trace the early signals of FY2013-14 based on limited data available for the first quarter of the fiscal year. In this connection, we reflect on the performance of fiscal sector (revenue collection, public expenditure, ADP implementation and fiscal balance), inflation and monetary sector, productive sector (i.e. crop production, private investment, power and energy) and external sector (exports, remittances and BOP). Table 1.2 presents available information on key macroeconomic indicators in FY2013-14.

Revenue Collection

According to the available data for the first two months for FY2013-14, growth of tax revenue collection by NBR was well below the target

According to the available data for the first two months for FY2013-14, growth of tax revenue collection by NBR was well below the target. Growth of NBR collection had been 16.2 per cent during July-August of FY2013-14 as against the annual target of 25.3 per cent. One may recall that, NBR collection growth started to slow down from the last quarter of FY2012-13.[8] Indeed, growth of revenue collection from all the heads of NBR tax revenue remained below their respective targets. Throughout FY2013-14 NBR will have to chase a daunting effective growth target of 25.3 per cent. It is reported that Large Taxpayers Unit (LTU) has also missed its first quarter targets for income tax and VAT collection. In August FY2013-14, import duty head has seen negative growth ((-) 1.5 per cent) indicating continued depression in import situation.[9] However, the government will attain almost USD

[8] In Q4 of FY2012-13, NBR's revenue collection attained only 10.7 per cent growth.

[9] Such performance came in the backdrop of a low benchmark; as in August FY2012-13, import duty collection growth was (-) 15.2 per cent. Curiously, import payments increased in August 2013.

525 million from the sale of 3G licenses and spectrums under non-tax revenue head, 60 per cent of which has already been realised. Nevertheless, it is expected that overall revenue collection at the end of FY2013-14 will miss the budgetary target by a substantial margin.

Public Expenditure

Planned expansion of total public expenditure in FY2013-14 is rather ambitious – a growth of 27.7 per cent over actual expenditure in FY2012-13, while actual growth of expenditure in FY2012-13 was 14.3 per cent over actual expenditure in FY2011-12. Data is yet to be available for revenue expenditure in FY2013-14. In the run-up to the elections, the government has declared 20 per cent Dearness Allowance (on the basic salary) for public sector employees which was likely to increase the non-development expenditure by a notable margin. The government, in the recent past, has been recruiting new employees on an extensive scale and this would also have implications in terms of increasing the revenue expenditure.[10] Disbursement of Tk. 5,000 crore for recapitalisation of the SCBs is also likely to fuel the non-development expenditure.[11] At the same time, about Tk. 7,334 crore has been allocated in the budget for investment in capital market. Interest payment is also emerging as a significant element of the revenue expenditures along with significant surge in transfers and subsidies. In fine, in the backdrop of modest growth in revenue collection, substantial increase in revenue expenditure is anticipated in FY2013-14.

It is expected that overall revenue collection at the end of FY2013-14 will miss the budgetary target by a substantial margin

ADP Implementation

Allocation for ADP FY2013-14 has been Tk. 65,872 crore (about one-third more than the actual expenditure of FY2012-13). ADP implementation has got on to a slower start in this fiscal year. During the first two months of FY2013-14, only 6.2 per cent of the allocation has been spent, whereas the corresponding figure for FY2012-13 was 8.3 per cent. During the months of July-August 2013, only 4.2 per cent of aid component has been utilised, whereas the comparable figure for the preceding year was 6.6 per cent.[12] It may be pointed out that among the ministries having highest allocations, Local Government Division (LGD) has spent equivalent to 14.6 per cent of its allocation in first two months of FY2013-14. In the run-up to the elections, it is likely that LGD, along with Roads Division and Ministry of Housing and Public Works would speed up disbursement for projects earmarked in the ADP. Curiously, the latter two agencies have spent only 5 per cent and 1.8 per cent of their respective allocations. Additionally, one may also recall that, ADP for FY2013-14 includes an allocation of Tk. 6,582 crore – 10.4 per cent of total allocation in ADP for FY2013-14 – for Padma Multipurpose Bridge Project (PMBP). The state of affairs regarding implementation of this project suggests that the total allocation may remain mostly unrealised. This implies that a major part of planned development expenditures will remain unimplemented, and the ADP for FY2013-14 has to be seriously downsized during its revision in the second part of the fiscal year.[13] Low implementation of ADP may provide some relief concerning the fiscal stress which may build up in the coming months.

In the backdrop of modest growth in revenue collection, substantial increase in revenue expenditure is anticipated in FY2013-14

Low implementation of ADP may provide some relief concerning the fiscal stress which may build up in the coming months

[10] Recruitment of a large number of employees is also underway. For example, 37,672 assistant teachers are to be recruited shortly as reported by the Finance Minister during his budget speech.

[11] One may recall that SCBs' capital shortfall surged by at least 3.6 times during the second half of FY2012-13 in the backdrop of rise in non-performing loans (NPLs).

[12] 37.3 per cent of total allocation under ADP is attributable to project aid component.

[13] However, Executive Committee of the National Economic Council (ECNEC) continues to approve new projects during FY2013-14. ECNEC has approved at least 64 projects worth about Tk. 50,000 crore (average project cost is about Tk. 780 crore) during the first quarter of FY2013-14. Most of these projects are related to power transmission, infrastructure development and social sector.

Table 1.2

Key Macroeconomic Indicators in FY2013-14

Indicator	Actual FY2012	Actual FY2013	Target FY2014	Latest
GDP Growth (%)	6.2	6.0	7.2	NA
NBR Revenue Growth (%)	19.0	14.3	25.3	16.2 (Jul-Aug FY2014) 12.3 (Jul-Aug FY2013)
Non-Development Expenditure Growth (%)	15.1	10.6	15.0	NA
ADP Implementation (% of Original Allocation)	82.3	91.0	31.7% growth over actual expenditure of FY2013	6.2 (Jul-Aug FY2014) 8.3 (Jul-Aug FY2013)
Budget Deficit (% of GDP)	4.1	4.4	5.0	NA
Money Supply (End June)	17.4	16.7	17.0	16.3 (Aug 2013)
Private Sector Credit	19.7	11.0	16.5	11.3 (Aug 2013)
Inflation (2005-06) Moving Average (End June)	8.7	6.8	6.0-6.5	7.4 (Sep 2013) 7.2 (Aug 2013)
Export Growth (%)	6.0	11.2	12.9	21.2 (Jul-Sep FY2014) 2.1 (Jul-Sep FY2013)
Import Growth (%)	5.5	(-) 4.4	10.0 (MTMF)	10.7 (Jul-Aug FY2014)
Remittance Growth (%)	10.2	12.6	15.0 (MTMF)	(-) 8.1 (Q1 FY2014) 19.7 (Q1 FY2013)
Manpower Export Growth (%)	57.4	(-) 36.2	NA	(-) 53.4 (Q1 FY2014)
Forex Reserve (Billion USD; End June)	10.4	15.3	14.6 (MTMF)	16.6 (as of 8 Oct 2013) 11.3 (as of 8 Oct 2012)

Source: Various Government data documents.
Note: MTMF: Medium Term Macroeconomic Framework.

Fiscal Balance

Financing of the budget deficit will not pose a major challenge, notwithstanding weaker revenue collection in the early months of FY2013-14 because of relatively poor progress in the ADP delivery

Budget deficit was contained within 4.4 per cent of GDP in FY2012-13. In FY2013-14, it is envisaged that the deficit will once again remain within the planned limit, i.e. below 5 per cent. Financing of this deficit will not pose a major challenge, notwithstanding weaker revenue collection in the early months of FY2013-14 because of relatively poor progress in the ADP delivery. Interestingly, in spite of slow off-take in development expenditures, government borrowing from domestic sources in July FY2013-14 reportedly amounted to Tk. 4,231 crore – almost 10 times higher than that of in July FY2012-13. The central bank sources report, during July-August FY2013-14, government borrowing from non-bank sources also shot up to Tk. 1,936 crore, which is 2.7 times higher than that in the corresponding months of FY2012-13. On the other hand, net foreign aid disbursement is found to be in negative terrain in July FY2013-14 ((-) USD 41.8 million)), underpinned by low disbursement of project aid.[14]

Inflation and Monetary Growth

Certainly the rise in commodity price level was influenced by the recent increase in rice price in the domestic market

The central bank in its Monetary Policy Statement (MPS) of July 2013 announced that annual average inflation target for FY2013-14 would be between 6.0-6.5 per cent (as per the new base year of 2005-06). However, inflation (moving average) has moved up by 0.6 percentage points to 7.4 per cent in September 2013 from 6.8 per cent in June 2013, while at the same period food inflation increased by 1.5 percentage points to 6.7 per cent. Certainly the rise in commodity price level was influenced by the recent increase in rice price in the domestic market. In September (annual average) increase in retail price of rice was 5.7 per cent. Retail

[14] Total aid inflow was USD 170.55 million, while amortisation payment (principal) was USD 212.39 million.

price of coarse rice increased by more than Tk. 8 per kilo between October 2012 and October 2013 (33.4 per cent). Interestingly, during this period international price of rice (Thai 25 per cent) declined by (-) 10.5 per cent. This was also a period when Taka has gained in value against all major currencies. Prices of a number of other daily essentials also increased during this period. The most talked case is the recent rise of onion price. As the trend suggests, the inflationary target set for FY2013-14 may not be achievable. Given the apprehension of major supply disruption in view of uncertain political developments, it will be difficult to keep the price level under leash. Although one can observe that the demand-side pressure on commodity prices remained low during the early months of FY2013-14.

Given the apprehension of major supply disruption in view of uncertain political developments, it will be difficult to keep the price level under leash

Growth of money supply has declined marginally to 16.3 per cent as of August 2013, and remained below the planned limit of 17 per cent for June 2014. It appears that the relative stagnation in economic activities observed in FY2012-13 may continue in the current fiscal year as well, while any significant pressure on prices from the demand-side may not be expected. The only exception could be if the country is able to have a breakthrough from the current political impasse and a participating and credible national election takes place. One may then expect an enhanced aggregate demand in the following months. Ensuring supply of commodities and enhancing market management capacity will be the key in this context.

Crop Production

The upside of enhanced prices for agricultural commodities is that this would benefit the farmers. However, it is uncertain to what extent farmers receive an adequate share in the incremental benefits. Certainly, maintaining a price incentive for the agri-products continues to be a challenge given the relative movement of input and output prices in crop sector.[15] Lack of price incentives may force the farmers to shift from production of foodgrains to other crops in the context of limited availability of cultivable land. The government has already taken a few initiatives towards containing rice production by introducing special incentives for Aus producers. The administered price of urea fertiliser has been also slashed by Tk. 4/kg. Agricultural credit disbursement has been beefed up during the first two months of FY2013-14 by 14.2 per cent over the corresponding period in FY2012-13. However, information collected from different sources suggest that farmers are not receiving reasonable profit while selling their produce.

Farmers are not receiving reasonable profit while selling their produce

Private Investment

Certainly, during FY2013-14 in the area of macroeconomic management much attention will be attached to the conduct of private investment. There is little indication that investment demand has picked up in the early months of FY2013-14. This is perhaps because the investors are taking a cautionary approach given the political uncertainty looming in the horizon. Private sector credit growth is stagnating at 11.3 per cent as of August 2013 – much lower than the target of 16.5 per cent (for end of June 2014). FDI inflow in July-August FY2013-14 was USD 290 million, which stood USD 266 million in July-August FY2012-13. However, investment registered with the Board of Investment (BoI) had declined by (-) 24.1 per cent in FY2012-13. On the other hand, import of capital machineries experienced a growth of 14.7 per cent during July-August of FY2013-14. Letter of credit (L/C) opening has also seen a rise in July FY2013-14. However, one has to remain mindful of the low base on which these numbers are imputed; for

The investors are taking a cautionary approach given the political uncertainty looming in the horizon

[15] One may recall that the government planned to start procuring Boro during the period of 2 May to 30 September, 2013 at a price of Tk. 740/maund. But as the government failed to start the procurement in due time, the farmers had to sell their paddy at an average price of Tk. 550/maund. As a result, the farmers incurred loss of almost an average Tk. 50/maund.

example, over the corresponding period in FY2012-13 import of capital machinery had declined by (-) 18.8 per cent.

As was the case in FY2012-13, amid stagnating private investment, excess liquidity with the commercial banks continued to rise and reached Tk. 82,344 crore by the end of July 2013. Despite having a favourable BOP situation and with accumulation of investable funds lying with the local banks, the BoI and the central bank continued to approve foreign credit to the private sector. According to the BoI statistics, about USD 953.3 million worth such credit lines were approved during January-August of 2013 in favour of 66 enterprises.[16] Under the present macroeconomic scenario, these measures will not be helpful for the banking sector in the economy. However, more enterprises are moving towards such options as the interest rate on commercial lending in the country did not decline even when private investment demand was depressed.

More enterprises are moving towards such options as the interest rate on commercial lending in the country did not decline even when private investment demand was depressed

Power and Energy Sector

With regard to power generation, government may be pursuing a restrictive consumption policy in operating the plants. As of October 2013, the plants have derated capacities of more than 8,500 MW (mega watts), whilst the present demand was just over 6,400 MW. However, daily generation data shows that, these plants produce around 6,000 MW with a load-shedding of about 500-600 MW. Data also indicate that plants having more than 2,000-3,000 MW capacities are currently out of operation either due to maintenance reasons or fuel shortage. As it appears, limited load-shedding may have been imposed to tackle fuel subsidy pressure and informed by prudent macroeconomic management practice. Nevertheless, from the investment perspective, the power situation remains in a flux as a number of quick rental and rental power plants are expected to be phased out by FY2013-14. On the other hand, a number of dual fuel and gas-based power plants (both private and public-owned) are expected to come into operation in the current fiscal year. However, given the shortage of the primary fuel (gas), their effective output turns out to be not so significant. It is thus anticipated that contracts of a number of private sector power plants may be renewed in the near future. It is maintained that Bangladesh, at least for the medium term, will remain stuck with these high cost and imported liquid fuel-based power supply. Moreover, the accountability of such actions will remain suspect as they are covered by legislations that empower them with immunity.

It is maintained that Bangladesh, at least for the medium term, will remain stuck with the high cost and imported liquid fuel-based power supply

Production of gas did not improve by any significant extent during FY2012-13 and the early months of FY2013-14. More importantly, the additional gas brought on stream was not used by the productive sectors including industry, fertiliser and captive power. For example, gas utilisation by the industry sector in FY2012-13 declined by (-) 6.1 per cent. It appears that the highest priority was given to power production which received 3.9 per cent more gas in FY2012-13 compared to the corresponding figure of FY2011-12. Indeed, this supply was made at the cost of reduced fertiliser production. However, one will also need to consider that every day about 1,000 MW of electricity is not being produced due to gas shortage. Despite this, the government has decided to provide new gas connections to households. Certainly, the forthcoming national election may have influenced such a decision, to some extent. On the other hand, the industrial entrepreneurs keep complaining that they are unable to get new gas connection for setting up production factories for which they have obtained loans from the banks. Certainly, without resolving such critical infrastructure bottlenecks, Bangladesh economy will not be able utilise its full potential.

Certainly, without resolving the critical infrastructure bottlenecks, Bangladesh economy will not be able utilise its full potential

[16]These credits were granted at an interest rate of LIBOR plus 3-4 per cent.

Exports

In the backdrop of the robust export growth of 21.2 per cent in Q1 of FY2013-14 compared to the corresponding period of the previous year, exports will need to grow by 10.9 per cent over the remaining three quarters if the export target of 12.9 per cent for FY2013-14 is to be achieved. In view of the current market dynamics and trends of order placement till now, this appears to be attainable even though performance in Q1 of FY2013-14 was on a low base of 2.1 per cent growth of Q1 in FY2012-13; in contrast, the growth over the next three quarters will be on the high benchmark of 14.4 per cent growth. A number of factors, however, is likely to impact on Bangladesh's competitive position and export performance over the next few months: whether Rana Plaza had any impact on post-April order placement will be visible only over next few months; likely negative impact of sharp depreciation of Indian Rupee (INR) on export of common items of Bangladesh (e.g. of Bangladesh's top ten knit items in the European Union (EU) market eight are common with India; for top ten woven six are common); heightened demand for compliance assurance leading to higher cost and likely negative implications for sub-contracting business; high competitive pressure from Vietnam in the United States (US) and Cambodia in the EU market; higher production costs arising from new minimum wages. To ensure sustained performance, in the short to medium-term, Bangladesh RMG sector will need to put renewed emphasis on measures to raise both labour and capital productivity through technological and skills upgradation, on moving up the value chain, and product and market diversification.

Bangladesh RMG sector will need to put renewed emphasis on measures to raise both labour and capital productivity through technological and skills upgradation, on moving up the value chain, and product and market diversification

Remittances

Growth of remittances started to decline (by (-) 8.1 per cent) in the first quarter of FY2013-14 after the robust growth in FY2012-13. This is mainly due to decline in the number of people going abroad for work, limited market opportunity, hazards in channelling remittances through banks or Money Transfer Operators (MTOs), and appreciated exchange rate of BDT against USD. Number of outgoing expatriate workers declined by (-) 53.4 per cent in the first quarter of FY2013-14 compared to corresponding figures for FY2012-13. Manpower export to one of the major destinations fell drastically – this was United Arab Emirates (UAE), particularly since October 2012. Only 4,001 workers left Bangladesh for UAE in the first quarter of FY2013-14, while the figure was 45,643 for the same period in FY2012-13. The much vaunted Government-to-Government (G2G) arrangement with Malaysia is yet to produce any tangible result. Moreover, notwithstanding steady increase in the forex reserve of the country (USD 16.6 billion), the exchange rate gap between the banks and the informal market is increasing. This may further lead to fall in remittance flow through official channels in the coming months.

The much vaunted Government-to-Government arrangement with Malaysia is yet to produce any tangible result

Balance of Payments

The balance of payments of the country, in July-August FY2013-14, observed a favourable situation because of stellar export performance. At the same time imports have also picked up recording 10.7 per cent growth, corresponding to the enhanced export-related import demand. Overall BOP enjoyed a surplus balance of USD 655 million in July-August, FY2013-14. However, overall BOP in the corresponding period in FY2012-13 was USD 1,064 million. Current account balance has seen slight decline to USD 674 million during July-August of FY2013-14 compared to that of USD 687 million for the corresponding months of FY2012-13.

The balance of payments of the country, observed a favourable situation because of stellar export performance

The macroeconomic developments during the early months of the ongoing FY2013-14 reflect a set of mixed signals. While some of the strong areas of FY2012-13 including export earnings, FDI and BOP maintained resilience, some of the correlates including import payments which showed diminished performance demonstrated signs of recovery. Concurrently, economic performance of a number of indicators deteriorated in the first quarter of FY2013-14 including inflation, ADP implementation, remittance inflow and foreign aid utilisation. The proposed fiscal framework for FY2013-14, as was anticipated, is already losing its bearing in the initial months of the fiscal year. More importantly, we fail to observe any major breakthrough in the area of private investment. Key economic institutions such as banking sector, has weakened further.

We fail to observe any major breakthrough in the area of private investment

In fine, our analysis reveals that in FY2012-13 Bangladesh economy moved towards an area where apparent economic stability was accompanied by arrested economic growth. The early trends of FY2013-14 suggest that, while the economy not only failed to make any significant shift towards a higher growth trajectory, economic stability in at least one key area (i.e. inflation) has also deteriorated. While in terms of fiscal deficit the economy is expected to remain within the programmed level, the revealed financing mix will remain inefficient. One may recall that in our Second Interim Report on macroeconomic performance in FY2012-13 we concluded that as FY2013-14 will be the fiscal year of democratic transition, the economic performance during the fiscal will critically hinge on an early consensus between the two major political camps in the country. Regrettably, during the first four months of the current fiscal year no such resolution was in sight. Thus, at the margin, this apparently non-economic factor will likely determine the ultimate outcome of Bangladesh economy in FY2013-14.

At the margin, an apparently non-economic factor will likely determine the ultimate outcome of Bangladesh economy in FY2013-14

1.4

EXPLORING THE POLITICAL BUSINESS CYCLE

1.4.1 Conceptual Issues

Political business cycle (PBC) is the notion which suggests that a business cycle is caused by elected government leaders who manipulate the economy to achieve personal political goals, i.e. to remain in office. The leaders stimulate the economy leading up to an election – creating a business cycle expansion that is expected to improve their re-electability, then induce a business cycle contraction after the election to correct the problems created by pre-election stimulation (Alesina *et al*. 1997). In other words, political business cycle is a theory which states that politicians have the ability to modify an economy for their personal (partisan) benefits, generally during the period of elections (Jula 2001). It is a matter of significant policy interest to explore the existence of PBC for Bangladesh as the country is expected to experience another round of national elections in FY2013-14 period.

Political business cycle is a theory which states that politicians have the ability to modify an economy for their personal (partisan) benefits, generally during the period of elections

A large body of literature exists that analyse the implications of PBC in a wide range of countries. Bates (1988) found presence of public investment cycle in Zambia. Similar were the findings of Krueger and Turan (1993) for Turkey. Schuknecht (1998) analysed data from a group of 35 developing countries which suggested that governments try to implement expansionary fiscal policies before elections and fiscal austerity afterwards. Kraemer (1997) shows for a sample of 21 countries of Latin America and the Caribbean, that the budget deficit had been higher and unpredictable in election years when compared to other periods. Government fiscal deficit, on average increases by almost 1 per cent of GDP in election years. Developed countries have recorded an increase in budget deficit by roughly 0.6 per cent on average, whereas in developing countries the average percentage was around 1.3 per cent (Shi and Svensson 2006). Using panel data on 17 Latin American countries between 1947 and 1982, Ames (1987) found that public expenditures increased by 6.3 per cent in the pre-election years and decreased by 7.6 per cent in the post-election years. Governments in low-income countries (LICs) tend to increase consumption expenditures during election years, while investments are unchanged. Overall fiscal deficit ratio tends to increase by about 1 percentage point of GDP during the election year. Effort put in by the government in collecting overall taxes improves significantly in years following an election, but public investment significantly fall in years following election (Ebeke and Olcer 2013). Governments use public spending systematically in infrastructure and current transfers as means to earn votes (Gonzalez 2000). Khemani (2000) showed that state elections in India were preceded by a government spending spree in road construction. Heckelman and Berument (1998) found monetary cycle in Japan and inflation cycle in UK. Hence, there is evidence to show that elections are endogenous in the developed countries.

Overall fiscal deficit ratio tends to increase by about 1 percentage point of GDP during the election year

The foregoing brief review of literature allows us to derive the following stylised facts.

i. Budget deficit/fiscal deficit (as percentage of GDP) are higher and unpredictable in election years.
ii. Public expenditure increases in pre-election year and decreases in post-election year.
iii. During election years public consumption significantly increases.
iv. Public investment (as percentage of GDP) significantly falls following elections.
v. Revenue mobilisation or overall tax collection efforts by the government improves significantly in the years following an election.

Governments use public spending systematically in infrastructure and current transfers as means to earn votes

In the following paragraphs we explore to what extent Bangladesh's experience confirms existence of PBC in the country.

1.4.2 The Bangladesh Experience

Fall in Real GDP during Election Years

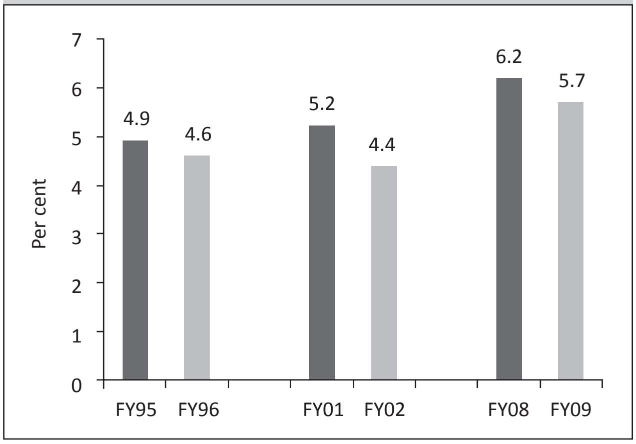
A large number of countries around the world experience impact of PBC on GDP growth. Bangladesh has also witnessed a fall in real GDP growth during the election years. This is also because Bangladesh tends to experience significant violence during periods of political transition. Data covering the period from FY1990-91 to FY2012-13 reveal that in election years in Bangladesh, real GDP growth has consistently declined for each of the previous four election years. This has happened in 1991, 1996, 2002 and 2009 (see Figure 1.1).

Data covering the period from FY1990-91 to FY2012-13 reveal that in election years in Bangladesh, real GDP growth has consistently declined for each of the previous four election years

Tax Revenue Falls during the Election Years

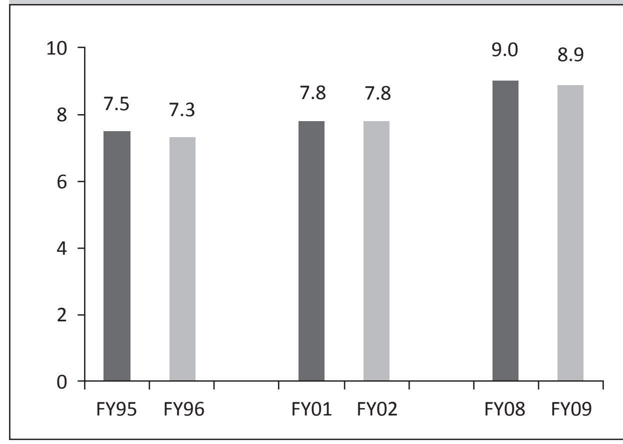
As Figure 1.2 depicts tax revenue (as percentage of GDP) has fallen during all the election years in Bangladesh, except in FY2001-02. In FY2001-02 it remained almost stagnant compared to that of FY2000-01. Imposing more taxes prior to election may make the incumbent government unpopular to the voters. Low off-take of taxes may be also the result of slowdown in economic activities leading to decline in economic growth.

Figure 1.1
Real GDP Growth in Pre-Election and Election Years



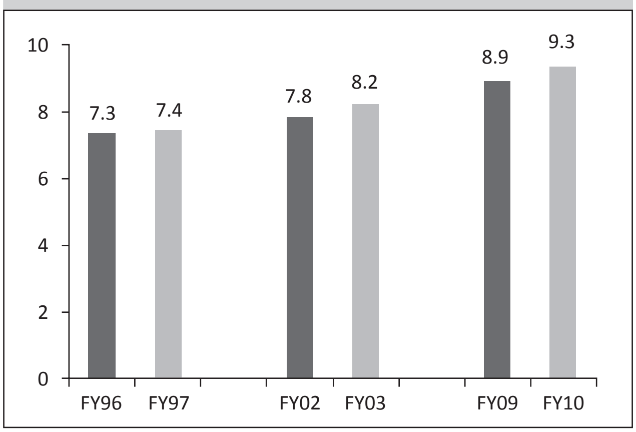
Source: Ministry of Finance (MoF).

Figure 1.2
Tax Revenue (as % of GDP) in Pre-Election and Election Years



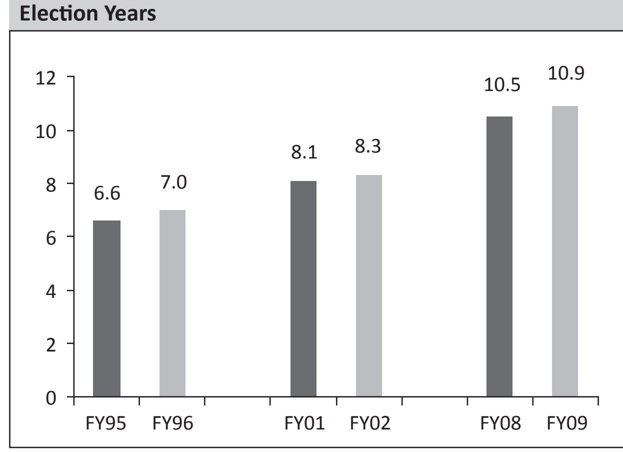
Source: Ministry of Finance (MoF).

Figure 1.3
Tax Revenue (as % of GDP) in Election and Post-Election Years



Source: Ministry of Finance (MoF).

Figure 1.4
Revenue Expenditure (as % of GDP) in Pre-Election and Election Years



Source: Ministry of Finance (MoF).

Tax Collection Improves in the Years Following Election

Tax revenue (as percentage of GDP) augments in the years following elections. As Figure 1.3 reveals, it has been the case for Bangladesh. This occurs as the government tends to undertake necessary adjustments in fiscal arena in the post-election years to meet up the enhanced expenditure demands to deliver on the election pledges. This suggests that the government has to rebuild the policy buffers on the revenue side through increased mobilisation of domestic resources.

Revenue expenditure significantly rises during election years

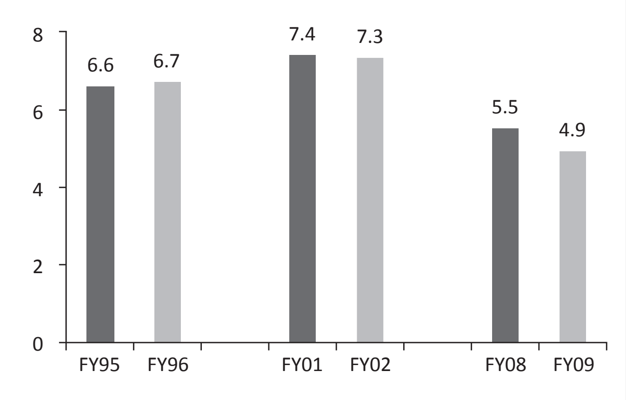
Revenue expenditure (as percentage of GDP) significantly rises during election years. Figure 1.4 validates this contention in case of Bangladesh. Creation of new jobs, enhancement of salary of the government employees and larger allocations for Transfers and Subsidies are some of the drivers of enhanced revenue expenditures in election years. All these features are quite visible in contemporary Bangladesh.

Public Investment Falls during the Election Years

Public investment (as percentage of GDP) fell during the election years in Bangladesh, except in FY1995-96. Democratic transition in Bangladesh is often

Figure 1.5

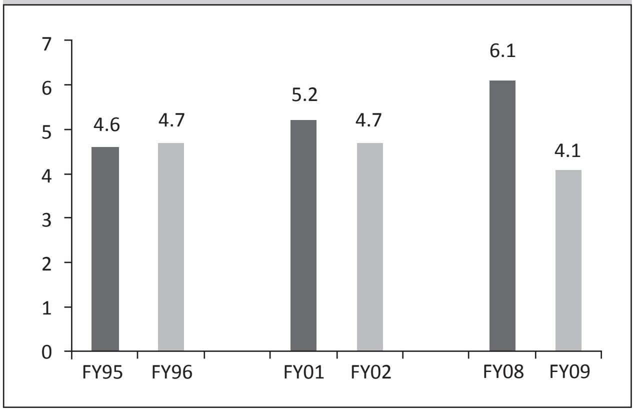
Public Investment (as % of GDP) in Pre-Election and Election Years



Source: Ministry of Finance (MoF).

Figure 1.6

Budget Deficit (as % of GDP) in Pre-Election and Election Years



Source: Ministry of Finance (MoF).

associated with changes in choice of projects, if not changes in policy regimes. As a result, stagnation afflicts implementation of public investment projects during election years. This has also to do with the paralysis of development administration which sets in during the run-up to elections. Figure 1.5 presents the relevant data for Bangladesh in this regard.

Budget Deficit during Election Years

Trends relating to budget deficit (as percentage of GDP) in Bangladesh do not correspond fully with the general cross-country experience. In election years FY2001-02 and FY2008-09, budget deficit declined instead of increasing when compared to preceding fiscal years (see Figure 1.6). However, in FY1995-96 it rose slightly compared to previous fiscal year. It appears that fall in revenue collection in election years in Bangladesh is paralleled by decline in public expenditures. The increase in revenue expenditures is largely offset by the fall in public investment expenditures, thus preserving the status quo in fiscal balance.

Trends relating to budget deficit in Bangladesh do not correspond fully with the general cross-country experience

The Endogeneity Issue regarding Election Timing

All past national (Parliament) elections in Bangladesh have been held between the months of October to March, except the third national election in 1986 and seventh national election in June 1996 (which was unanticipated). The election period in Bangladesh usually corresponds with non-monsoon or non-high summer season. This may suggest that the timing of national elections also tends to be structurally endogenous.

The timing of national elections also tends to be structurally endogenous

1.4.3 Econometric Modelling of PBC for Bangladesh

To test the robustness of the foregoing conclusions based on descriptive statistics and to empirically test the existence of PBC in Bangladesh, an Ordinary Least Square (OLS) based regression model was developed. The model uses time series data covering FY1990-91 to FY2012-13. It attempts to establish the relationship between the dependent variables and budget deficit, real GDP growth, public consumption, public investment, public borrowing, revenue expenditure and tax revenue. The dependent variables are defined as election year dummy, one year lagged value of election year dummy, one year after the election year dummy and lagged dependent variable. The findings of the econometric model are reported in Table 1.3.

Table 1.3

Estimates of Political Business Cycle in Bangladesh: 1991-2013

Dependent Variable	Real GDP Growth	Public Consumption (as % of GDP)	Public Investment (as % of GDP)	Public Borrowing (as % of GDP)	Revenue Expenditure (as % of GDP)	Tax Revenue (as % of GDP)	Budget Deficit (as % of GDP)
Election Year Dummy	-0.674* (-1.850)	-0.120 (-0.566)	-0.207 (-0.759)	0.138 (0.343)	0.167 (0.611)	-0.160 (-0.637)	0.403 (0.751)
One Year Lagged Value of Election Year Dummy	0.461 (1.243)	0.083 (0.415)	-0.526** (-2.133)	-0.312 (-0.862)	-0.282 (-1.140)	0.304 (1.313)	0.024 (0.055)
One Year after Election	-0.157 (-0.431)	-0.366* (-1.750)	0.069 (0.256)	-0.128 (-0.319)	0.225 (0.823)	0.615** (2.368)	1.149** (2.185)
Lagged Dependent Variable	0.669*** (4.175)	1.188*** (7.249)	0.846*** (6.760)	0.545** (2.790)	0.939*** (14.020)	1.01*** (11.422)	-0.368 (-1.383)
Intercept	1.945* (2.115)	0.737 (0.963)	1.010 (1.290)	1.075** (2.539)	0.677 (1.208)	-0.057 (-0.078)	6.032*** (5.320)
N	23	23	23	23	23	23	23
R^2	0.58	0.74	0.75	0.92	0.89	0.36	0.26

Note: ***,**,* denote significant at 1 per cent, 5 per cent and 10 per cent respectively. Figures in parentheses denote t-statistics.

Table 1.3 indicates that real GDP growth in Bangladesh falls during the election years. The regression results demonstrate that real GDP growth is 0.67 percentage point lower during election years. The result is statistically significant. In pre-election period (one year before election), GDP growth is 0.46 percentage point higher, but this was not found to be statistically significant. Real GDP growth is 0.16 percentage point lower even in one year after national election. However, this was not statistically significant.

Public consumption falls by 0.37 percentage point one year after the national election

The result shows that public consumption (as per cent of GDP) falls by 0.12 percentage point during election years, but it is not statistically significant. It falls further by 0.37 percentage point one year after the national election which is statistically significant. Public investment (as per cent of GDP) falls by 0.21 per cent during election years; however, this is not statistically significant. One interesting fact which may be noted is that, public investment (as per cent of GDP) tends to fall even one year before election, by 0.53 percentage point. This is significant at 5 per cent level. Public borrowing (as per cent of GDP) rises by 0.14 percentage point during election years. However, these results are not statistically significant. Public borrowing is 0.13 percentage point lower one year after election, but it is also found to be statistically insignificant.

The analysis finds evidence in favour of existence of PBC in the context of Bangladesh

The results suggest that budget deficit (as per cent of GPD) is 0.40 percentage point higher during election years, though it is not statistically significant. Regression results demonstrate that tax revenue (as per cent of GDP) is 0.28 percentage point lower during the election years, but it is not statistically significant. Tax revenue (as per cent of GDP) falls by 0.16 percentage point during election years. It is not statistically significant. However, tax revenue (as per cent of GDP) is 0.62 percentage point higher one year after election and this is found to be significant at 5 per cent level. Revenue expenditure (as per cent of GDP) rises by 0.17 percentage point during election years. However, these results are not statistically significant. Tax revenue rises further by 0.23 percentage point one year following national election. However, this is also statistically insignificant (Table 1.4). Hence, the analysis finds evidence in favour of existence of PBC in the context of Bangladesh.

Table 1.4

Summary of Findings from Econometric Analyses

Indicator	Election Year	One Year before Election	One Year after Election
Real GDP Growth	0.67 percentage point lower*	0.46 percentage point higher	0.16 percentage point lower
Public Consumption (as % of GDP)	0.12 percentage point lower	0.08 percentage point higher	0.37 percentage point lower**
Public Investment (as % of GDP)	0.21 percentage point lower	0.53 percentage point lower**	0.07 percentage point higher
Tax Revenue (as % of GDP)	0.16 percentage point lower	0.30 percentage point higher	0.61 percentage point higher**
Revenue Expenditure (as % of GDP)	0.17 percentage point higher	0.28 percentage point lower	0.23 percentage point higher
Budget Deficit (as % of GDP)	0.40 percentage point higher	0.02 percentage point higher	1.15 percentage point higher***

Note: ***, ** and * denote significant at 1 per cent, 5 per cent and 10 per cent respectively.

1.5

CONCLUDING REMARKS

Analysis of year closing data for FY2012-13 and early signals of FY2013-14 reveal both the upside opportunities and downside risks facing the Bangladesh economy in a period of democratic transition. The economic growth prospect remains circumscribed because of depressed private investment demand. Economic growth in the current fiscal year also runs the risk of low delivery of public investment programme. The incumbent policymakers would need to redefine the fiscal goal posts, promote credit expansion in private sector, maintain support to the crop sector and contain potential inflationary pressure. As the remittance flow declines and foreign aid flow falters, it would be important to consolidate the resilience of the export sector in the face of all odds. Any supply-side shock or pressure on the exchange rate may be counteracted by prudent use of the forex reserve.

The incumbent policymakers would need to redefine the fiscal goal posts, promote credit expansion in private sector, maintain support to the crop sector and contain potential inflationary pressure

Our analysis further suggests that the Bangladesh economy has entered into a political business cycle. This would mean that conduct of Bangladesh economy during greater part of FY2013-14 will be largely dictated by the evolving electoral dynamics. One needs to be mindful of the fact that adverse implications of PBC in critical areas including revenue collection and public expenditure may run much beyond the current fiscal year. Reverting back to benchmark growth path may need a couple of years.

In this context, the critical question is – can the country afford to pursue a benign business-as-usual policy in the area of economic management, while the country sorts out the process of electing its next government? It is now obvious that economic policy instruments will increasingly have limited value in counteracting the impact of emerging political situation in the country. The international economic and development community will also have little appetite for this. In other words, the political elites will have to provide the resources to protect the real achievements and potential prospect of the Bangladesh economy.

It is now obvious that economic policy instruments will increasingly have limited value in counteracting the impact of emerging political situation in the country

Given the potential mutuality of interests on the part of the contesting political elites in maintaining economic stability and growth, one may consider agreeing on a set of safeguard approaches and measures for shielding the economy from the negative spillovers of electoral transition. This would mean no economic activities and livelihood concerns, however large and small (not only concerning the export-oriented clothing sector) should be held hostage to our unique democratic practices. Working out this package of economic safeguards is, in our view, no less important than generating a consensus on electoral modalities.

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Annex Table 1.1

Macroeconomic Performance of Bangladesh Economy in FY2012-13

Indicator	Assessment at the Time of the Budget	Assessment with the Year Closing Data	Comments
GDP Growth	6.2 per cent in FY2012 6.0 per cent in FY2013	Revised estimate of FY2013 was not prepared yet	According to the rebased GDP growth estimate: 6.5 per cent in FY2012 6.2 per cent in FY2013
Private Investment	20.0 per cent in FY2012 19.0 per cent in FY2013	Rebased figures are not available	Expected to decline in the revised estimates
Public Investment	6.5 per cent of GDP in FY2012 7.9 per cent of GDP in FY2013	Rebased figures are not available	Expected to increase in the revised estimates but lower than the provisional estimates
Total Investment	26.5 per cent of GDP in FY2012 26.8 per cent of GDP in FY2013	According to the rebased GDP growth estimate: 28.7 per cent of GDP in FY2012 28.7 per cent of GDP in FY2013	The new GDP estimates has two new investment components – research and development related expenditures and production and purchase of arms and ammunitions by the defense sectors
NBR Revenue Collection	Growth Target: 18.5 per cent Jul-Apr: 16.1 per cent An evident shortfall (between Tk. 3,000 crore and Tk. 4,000 crore) in FY2013	Jul-Jun: 14.2 per cent Shortfall: Tk. 3,644 crore According to MoF report shortfall is Tk. 8,921 crore	Slowed down in the last quarter
Non-Development Expenditure	Growth Target: 12.8 per cent Jul-Dec: 12.6 per cent	Growth Target: 11.4 per cent Jul-Jun: 10.6 per cent	Slowed down in the last quarter
Annual Development Programme (ADP) Expenditure	Jul-Mar: 44.8 per cent of allocation in FY2012 Jul-Mar: 49.5 per cent of allocation in FY2013	Jul-Jun: 82.3 per cent of allocation in FY2012 Jul-Jun: 91.0 per cent of allocation in FY2013	Substantial rise
Budget Deficit and Financing	Jul-Dec: 7.7 per cent of planned budget Bank borrowing to contribute 60 per cent of deficit financing	Jul-Jun: 87.2 per cent of planned budget Bank borrowing contributed 60.1 per cent of deficit financing	Heavy reliance in bank borrowing continued
Money Supply	Target Jun: 17.7 per cent Mar: 18.1 per cent	Jun: 16.7 per cent	Came down below the target as both growths of private sector credit and net foreign assets declined
Private Sector Credit	Target Jun: 18.5 per cent Mar: 12.7 per cent	Jun: 11.0 per cent	Declined to the lowest level in a decade
Inflation	Target: 7.5 per cent Apr: 7.8 per cent	Jun: 7.7 per cent	Remained stable but higher than the target
Loan Default	Mar: 11.9 per cent of total outstanding	Jun: 11.9 per cent of total outstanding	Continued to remain high
Exports	Target: 15.3 per cent Jul-Apr: 8.4 per cent	Jul-Jun: 11.2 per cent	Picked up during the last quarter
Imports	Jul-Mar: (-) 6.11 per cent	Jul-Jun: (-) 4.4 per cent	Picked up to some extent during the last quarter
Remittances	Jul-Apr: 15.9 per cent	Jul-Jun: 12.6 per cent	Growth declined during the last quarter
Foreign Aid	Jul-Mar: 29.8 per cent	Jul-Jun: 51.2 per cent	Substantial rise during the last quarter
Foreign Exchange Reserve	USD 14.5 billion as of May FY2013	USD 15.3 billion as of June FY2013	Continued to elevate

Source: Calculated from Ministry of Finance (MoF), Bangladesh Bank and Bangladesh Bureau of Statistics (BBS) data.

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.

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

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.

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 while the financing will be more from foreign sources... the basis of such an optimistic medium term outlook was not made clear

[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

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]

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 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.

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.

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

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.

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.

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

[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

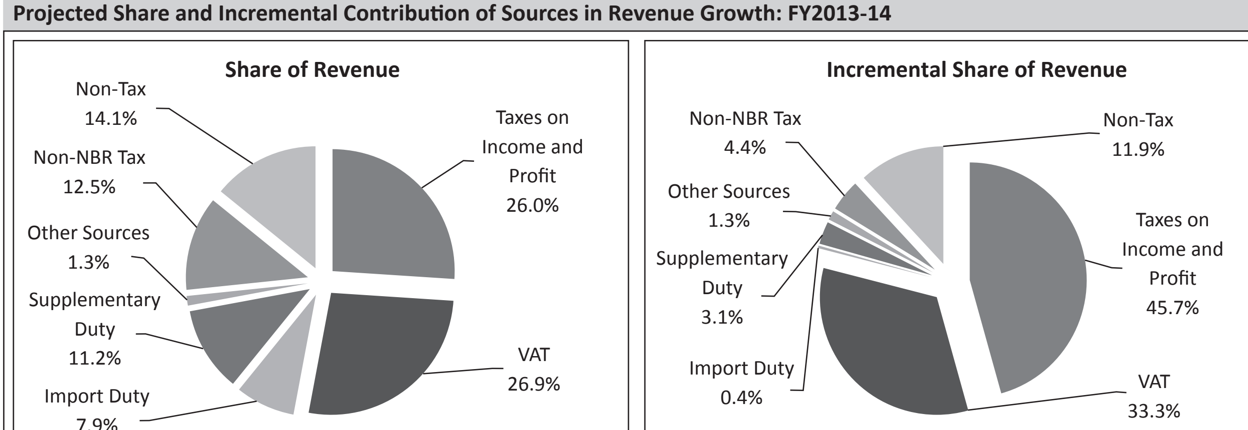
Highest amount of revenue of Tk. 49,956 crore will be obtained from VAT

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.

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

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).

Curiously, subsidy allocation for SoEs is found to be lower than the limit provided by the Extended Credit Facility programme of the IMF

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

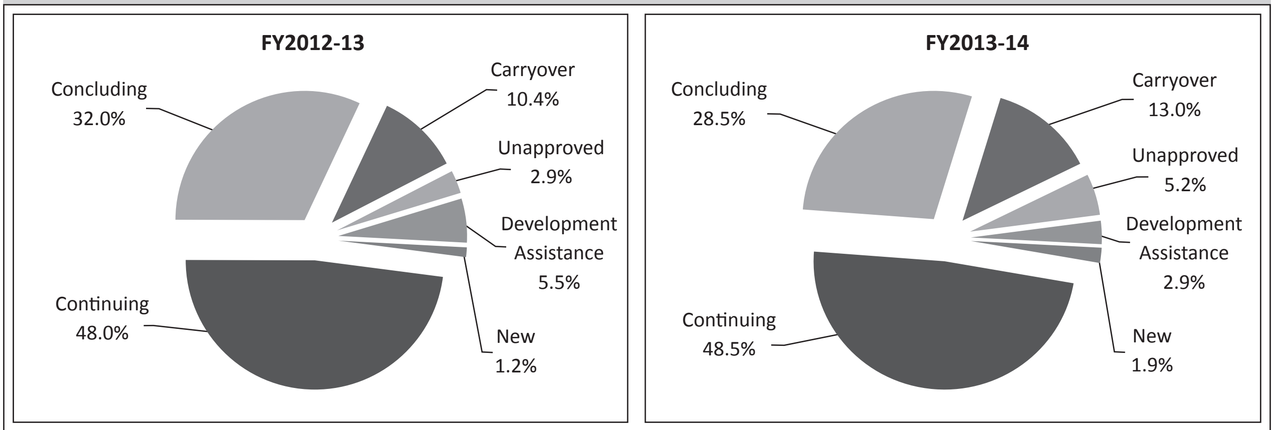
Among the two financing options of ADP, the share of project aid component will be 37.3 per cent in FY2013-14 (which was 35.3 per cent and 39.1 per cent respectively in RADP and original ADP for FY2012-13) whereas Taka component accounts for the rest 62.7 per cent of the total allocation. Relatively 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

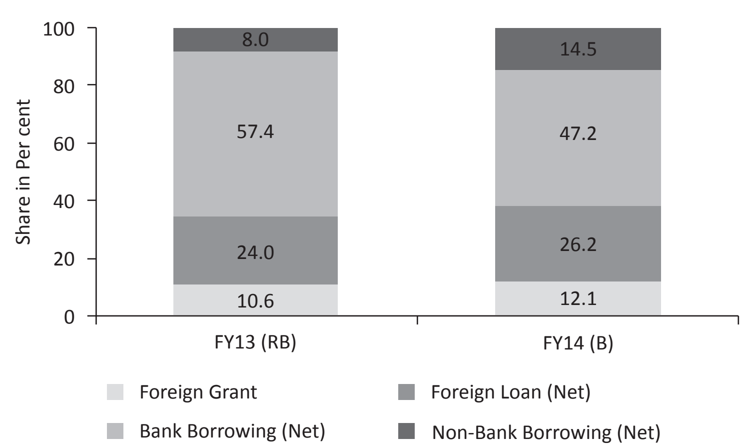
Description	FY2014 (B)		FY2013 (RB)		Growth
	Crore Tk.	% of GDP	Crore Tk.	% of GDP	FY2014 (B) over FY2013 (RB)
Revenue Collection	167459	14.1	139670	13.5	19.9
Total Expenditure	222491	18.7	189326	18.2	17.5
ADP	65870	5.5	52366	5.0	25.8
Non-ADP	156621	13.2	136960	13.2	14.4
Overall Deficit (excl. Grants)	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.

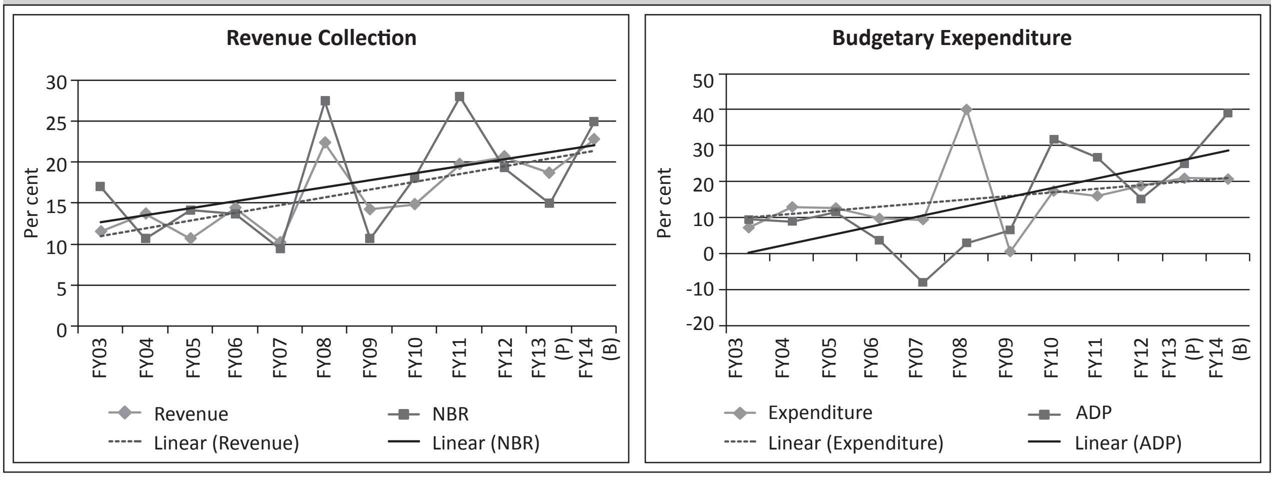
2.2.4 Defining Factors for the Public Finance Framework

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.

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

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.

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 for modernisation of tax administration

- 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.

- 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

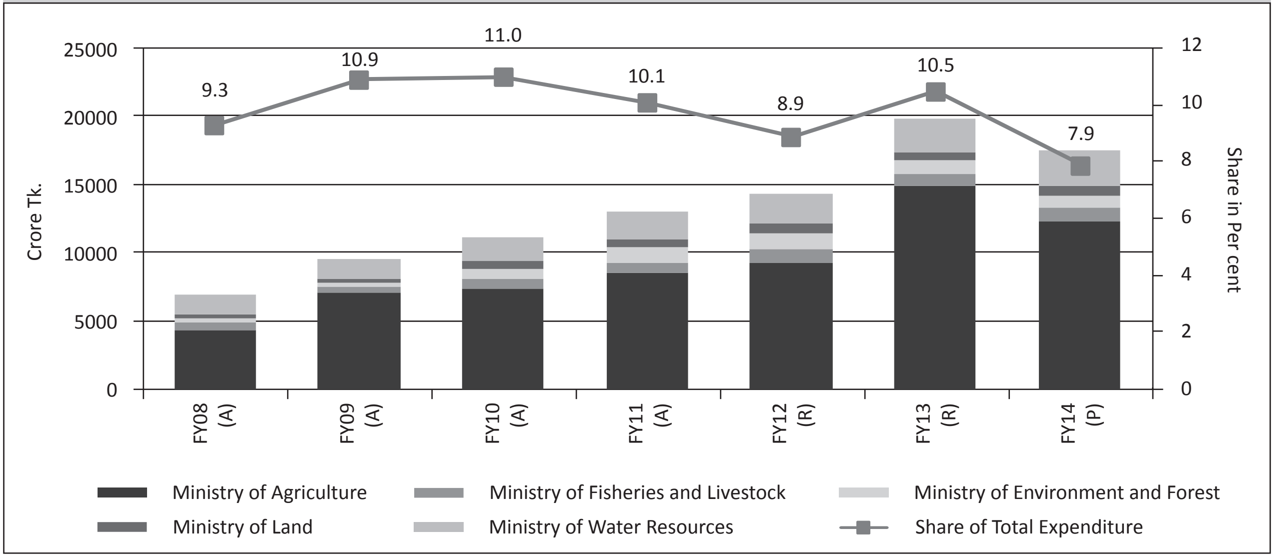
2.4.1 Agriculture

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

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

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.

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.

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

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

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.

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

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.

Government should promote building dormitories for industrial workers, e.g. in industrial zones, which could be done under PPPs

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

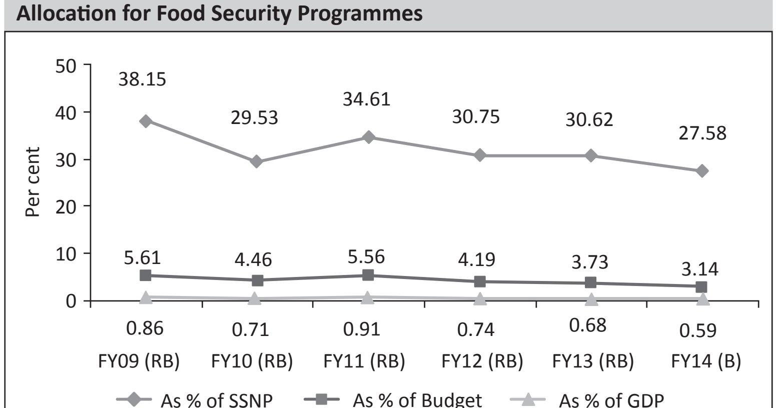
Source: Estimated from the Ministry of Finance (MoF) data.

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.

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

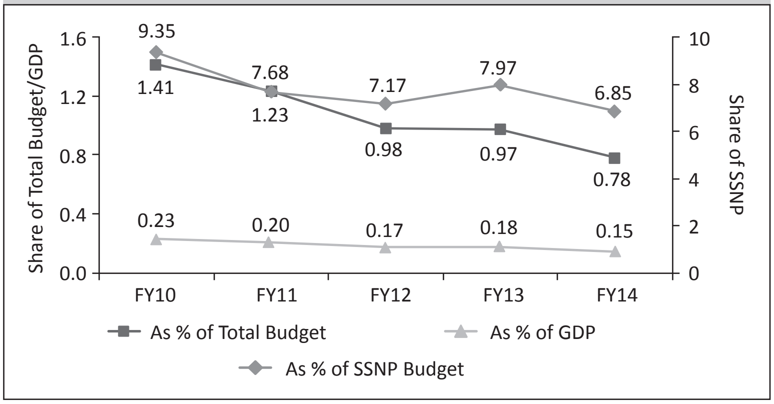
Figure 2.6

Allocation for Food Security Programmes



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

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.

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.

Implemented Economic Reforms

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

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

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

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

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

x. Revenue Administration

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

Enactment of VAT and Excise Duty Act, 2012

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.

CHAPTER 3

First Independent Report on

Monitoring the Rana Plaza Follow-ups

100 Days of Rana Plaza Tragedy

A Report on Commitments and Delivery

This chapter has been earlier published as the First Independent Report under the *Monitoring the Rana Plaza Follow-ups* Series. Centre for Policy Dialogue (CPD) has prepared this report with support from its partners of the civil society initiative that was formed to monitor the post-Rana Plaza commitments and deliverables.

The report was originally presented at a CPD dialogue on 3 August 2013 at the CIRDAP Auditorium, Dhaka.

PART A

INDEPENDENT MONITORING INITIATIVE

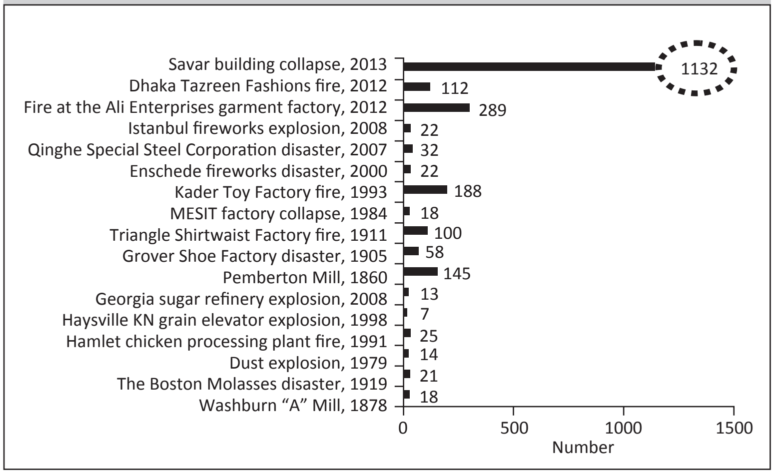
3.1

INTRODUCTION

Centre for Policy Dialogue (CPD) has prepared the first Independent Monitoring Report on the Rana Plaza Tragedy, on behalf of the partnership which has been set up to monitor the delivery status of follow-up activities relating to the tragedy that happened on 24 April 2013. This worst man-made disaster in Bangladesh's history, that claimed the lives of 1,132 people[1] (Figure 3.1), injured and maimed many others, has touched the heart and soul of people beyond borders. As things stand, none of the workers would have died if the factory had remained closed after the identification of a major fault in the building the day before the incident. The Rana Plaza has become a 'symbol' of poor compliance concerning workplace safety and security in Bangladesh's industrial sector, and an 'icon' of poor attention to the working condition of a major consuming item in the global value chain. It also implies that the Rana Plaza incident is a reflection of sheer negligence of all stakeholders involved in the value chain of the readymade garments (RMG) sector across the world.

Figure 3.1

Number of Deaths in Major Disasters in the Manufacturing Sector of the World



Source: http://en.wikipedia.org/wiki/List_of_industrial_disasters

3.2

RATIONALE FOR INDEPENDENT MONITORING OF THE RANA PLAZA TRAGEDY

Rana Plaza incident is a reflection of sheer negligence of all stakeholders involved in the value chain of the RMG sector across the world

The Rana Plaza Tragedy has once again drawn the attention of citizens of the country to the dismal state of many export-oriented RMG factories in Bangladesh, in which workers are subjected to work day in, day out. Despite the significant progress of Bangladesh's RMG sector over the last three decades, the state of physical and social compliance, particularly concerning workplace safety and security, has failed to match the growth of the sector. A large number of factories

[1] Two more injured workers died after this report was launched at the CPD dialogue on 3 August 2013, taking the total tally of deceased workers to 1,134.

are continuing to work amid poor physical and social compliances. Over the past 10 years more than 2,000 workers have died in fire incidents in the RMG sector of the country. A large number of factories continue to enjoy impunity despite having the laws, regulations and labour law provisions in place.

One of the primary reasons driving these recurrences of disasters is the lack of continuous monitoring of the announced and the required initiatives

Past experiences show that whilst some tangible progress tend to be made after each disaster, many of the proclaimed steps remain unaddressed. As a result, similar accidents keep on happening, leading to the announcement of a flurry of actions when the next disaster strikes. One of the primary reasons driving these recurrences is the lack of continuous monitoring of the announced and the required initiatives. Even when the concerned stakeholders initiate their own monitoring exercise, there is no 'monitoring of the monitors', which could ensure accountability and transparency of the steps being taken, also ensuring effective and concrete outcomes.

Past experiences of such accounts are indicative of the apprehension that many of the pledges may remain 'wishlists' if a concrete action plan, with clearly designated responsibilities, is not devised in a time-bound manner

Following the Savar incident, major national and international organisations have offered short, medium and long-term proposals to deal with the disaster. Past experiences of such accounts are indicative of the apprehension that many of these pledges may remain 'wishlists' if a concrete action plan, with clearly designated responsibilities, is not devised in a time-bound manner. A key driver for these actions to succeed will depend on continuous monitoring of the implementation of these actions. Here, the civil society organisations have both role and responsibility, to act upon the interest they have reflected in their stance on the issue of workers' rights, safety and security, as well as on promoting Bangladesh as a complaint source and the sustainable development of the country's RMG sector. This civil society initiative has been taken to keep major stakeholders under close scrutiny, and also, to catalyse sustainable development of the RMG sector. In other words, the purpose of this transparency exercise is to encourage liable organisations to take up reformative measures.

3.3

INDEPENDENT MONITORING INITIATIVE OF THE CIVIL SOCIETY

The independent initiative of the civil society intends to monitor the progress of all sorts of commitments made by the stakeholders, particularly with regard to the affected workers and their families, legal actions against those responsible for the incident, and improvement of workplace safety and security. Monitoring of these activities requires time-bound exercises, since most commitments, ranging from immediate social support to medium-term corrective measures for improving physical compliance, are supposed to be implemented over several years.

The civil society independent monitoring initiative will focus on assessing the progress of various commitments of financial and other forms of interventions by different organisations for the injured workers and affected families in the Rana Plaza disaster

The initiative will focus on assessing the progress of various commitments of financial and other forms of interventions by different organisations for the injured workers and affected families in the Rana Plaza disaster. Other areas for assessment will be the government initiatives that were announced after the incident, the relevant associations' (BGMEA/BKMEA)[2] compliance-related activities, particularly occupational health and safety (OHS) activities, and more specifically monitoring of the pledges made by them following the incident. The initiative will

[2]BGMEA: Bangladesh Garment Manufacturers and Exporters Association;
BKMEA: Bangladesh Knitwear Manufacturers & Exporters Association.

also assess various activities of the International Labour Organization (ILO), set to be implemented in collaboration with the government, associations and workers, and the progress of medium-term commitments made by the BGMEA, BKMEA and the government. Besides, the assessment will cover progresses as regards identification of faulty physical infrastructures, implementation of required activities, and buyers' engagement in the improvement process of compliance standards at the factory level, as committed following the Rana Plaza incident.

The expected outcome of this independent monitoring programme is developing a vibrant export-oriented RMG sector in Bangladesh, capable to maintain the highest level of physical and social compliances, which in turn will project 'Brand Bangladesh' as a globally-recognised model for compliant sourcing hub.

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3.4

STRUCTURE AND COMPOSITION OF THE MONITORING INITIATIVE

The independent monitoring programme is being implemented under a partnership of civil society organisations and renowned personalities who have an interest and stake in the development of a forward-looking RMG sector in Bangladesh, and are ready to invest their efforts in overseeing the compliance-related activities and initiatives being put in place. CPD is the lead organisation in this initiative, partnered by a total of fourteen organisations and a number of eminent personalities. The partner organisations are – Institute of Architects Bangladesh (IAB), Ain o Salish Kendra (ASK), Dhaka Ahsania Mission, ActionAid Bangladesh, Campaign for Popular Education (CAMPE), Transparency International Bangladesh (TIB), The Daily Star, Naripokkho, Nijera Kori, Prothom Alo, Bangladesh Environmental Lawyers Association (BELA), Bangladesh Legal Aid and Services Trust (BLAST), Manusher Jonno Foundation and SHUJAN. The eminent personalities involved in this initiative are – Professor Jamilur Reza Chowdhury, Vice Chancellor, University of Asia Pacific, and Mr Habibullah N Karim, Chairman, Terratech Limited.

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3.5

AREAS FOR MONITORING

The independent monitoring initiative focuses on seven specific areas of work which include:

1) Monitoring the disbursement of compensation as per law and other financial support committed by various organisations;
2) Determining the number of casualities in the Rana Plaza incident, particularly the number of deceased, injured and missing;
3) Monitoring the commitments made with regard to fire safety and security;
4) Monitoring the initiatives of assessment of building safety and related activities;

5) Monitoring the legal steps taken by responsible organisations including the government and other relevant public agencies, as regards payment of compensation for the workers, injured and deceased;
6) Monitoring the commitments and support provided to injured workers for their treatment and rehabilitation afterwards; and
7) Monitoring the activities related with re-employment of the injured workers.

The present monitoring exercise was carried out from two aspects – horizontal and vertical; the horizontal exercise reveals the extent of implementation of various commitments as per timeline, while the vertical exercise reveals how much the supported initiatives meet the requirements of the workers and the sectors

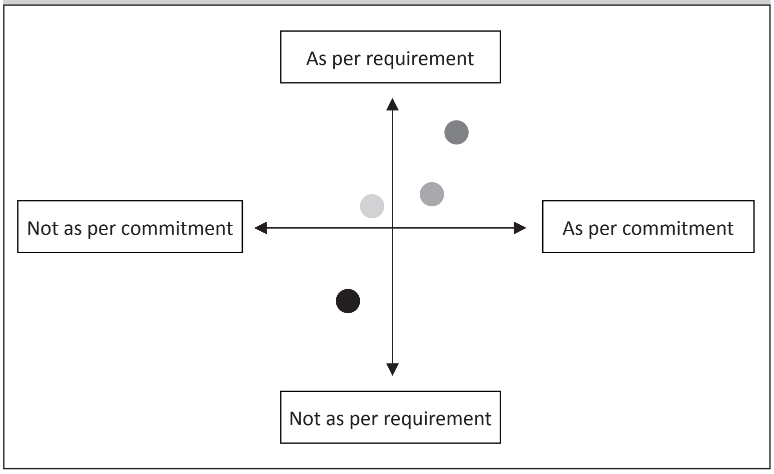
There are a number of other issues which may not be directly linked with the incident of Rana Plaza, but have implications on workers' livelihood, safety and security including revision of workers' wages, trade union rights, providing life insurance facility to the workers and sharing of profit for workers' welfare as per law. These issues will also be covered under this initiative.

3.6

METHODS FOR MONITORING

The initiative was conceptualised and further substantiated in two preparatory meetings among the partners, held on 18 May and 22 July, 2013 at CPD office. These meetings were chaired by Professor Rehman Sobhan, Chairman, CPD. The partner organisations discussed about the rationale for taking the initiative for independent monitoring, identified the issues to be monitored, methods for monitoring and data collection, and delineated the structure of the first monitoring report.

Figure 3.2
Horizontal and Vertical Aspects of the Monitoring Exercise



Source: Prepared by the Team.
Note: ● indicates nature of commitment attained; different shades in the circles indicate extent of attainment.

The present monitoring exercise was carried out from two aspects – horizontal and vertical (Figure 3.2). The horizontal exercise reveals the extent of implementation of various commitments made by the concerned organisations as per timeline, while the vertical exercise reveals how much the supported initiatives meet the requirements of the workers and the sectors. This initial report has put more emphasis on horizontal exercise with a view to capturing the fulfillment of immediate requirements of the workers and sectors as per the commitments. However, the report has also highlighted on vertical exercise for preparation of the medium-term targets to be fulfilled for ensuring sustainable development of the RMG sector.

Information from both the primary and secondary sources have been utilised in preparing this report. CPD and the partner organisations were involved in collection of these information and data from different sources on the above mentioned seven areas. These information were compiled by the CPD monitoring team. Data have been collected from several relevant bodies including government and private organisations, as well as from several national and international news sources.

Partners of the initiative also engaged with relevant government agencies, committees of the BGMEA, BKMEA, buyers and brands, and development partners (ILO and others) in the process of the monitoring exercise.

3.7

LIMITATION OF THE MONITORING REPORT

The independent monitoring initiative focuses on seven specific areas of monitoring, including disbursement of compensation, determining the number of casualties, measures and steps towards fire and building safety, legal actions and support for treatment, rehabilitation and re-employments

The report has attempted to be as comprehensive as possible by making use of available information in the public domain, and by drawing on information gathered from different initiatives by various organisations. However, several of the initiatives undertaken by individuals, web-based social groups, local informal organisations, non-resident Bangladeshis (NRBs), international organisations, etc. were not adequately documented or readily available. Although some of these initiatives have been reported in local and international news reports, those did not depict the full picture of the follow-up activities. Rather, it was difficult to access these information. The major focus of the Monitoring Report is to document the progress on institutional initiatives (commitments and their implementation status). Nevertheless, a broader picture of other initiatives would have definitely enriched this report.

PART B

PROFILE OF THE WORKERS AT RANA PLAZA

Initially the Plaza was a six-storied building, constructed in 2006; later on, another two stories were built as approved by Savar Pouroshava

3.8

PROFILE OF THE WORKERS

Five garment factories were in operation at Rana Plaza – *New Wave Style Ltd., New Wave Bottom Ltd., Phantom Apparels Ltd., Phantom Tac Ltd.* and *Ether Tex Ltd.* (Table 3.1). Initially the Plaza was a six-storied building, constructed in 2006; later on, another two stories were built as approved by Savar Pouroshava. According

Table 3.1

Number of Workers in the Factories of Rana Plaza

Factory	Number of Workers*
New Wave Style Ltd.	1165
New Wave Bottom Ltd.	452
Phantom Apparels Ltd.	438
Phantom Tac Ltd.	254
Ether Tex Ltd.	450
Total	**2759**

Source: Based on collected documents.

Note: *According to official statistics.

Table 3.2

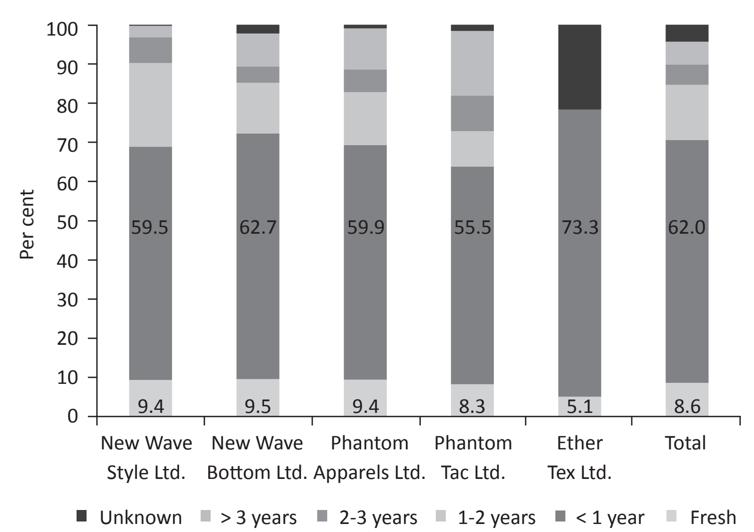
Position of Workers in the Factories of Rana Plaza

Grade	Factory-wise Number of Workers				
	New Wave Style Ltd.	**New Wave Bottom Ltd.**	**Phantom Apparels Ltd.**	**Phantom Tac Ltd.**	**Ether Tex Ltd.**
1	22	6	-	-	1
2	4	1	1	-	1
3	22	3	185	68	1
4	432	173	98	145	235
5	58	30	-	-	-
7	380	69	82	17	-
Other	247	170	72	24	212
Total Workers	**1165**	**452**	**438**	**254**	**450**

Source: Based on collected documents.

Figure 3.3

Service Length of Workers in the Factories of Rana Plaza



Source: Based on collected documents.

to the BGMEA, a total of 2,759 workers had been working in these factories, although this number seems to be lower compared to the information available from different official sources. A total of 1,132 workers died in the incident, 2,438 workers came out alive, and 332 workers remained missing. This makes a total of 3,668 workers at five factories.[3] It is very important that the BGMEA provides the exact number of workers working in those factories.

The distribution of workers' categories reveals that the highest number of workers worked in Grade 4 (senior operator) and Grade 7 (assistant/helper) (Table 3.2). The number of workers in Grade 3 and Grade 5 were also high. This sort of distribution of workers appears to be contrasting to a usual garment factory where most workers are found under Grades 6 and 7. Monthly income of these workers ranged between Tk. 3,000 and Tk. 8,000. Because of death and injury of these workers, a major source of income for their families has been disrupted which put them in deep trouble. It may be noted that, over 70 per cent of workers at all these factories had been working for less than a year (Figure 3.3). Out of 2,759 workers, only 27 were found to be working since the inception of these factories. Like many other factories, the brief job duration at these factories is a major concern as regards the workers' social compliance.

It is very important that the BGMEA provides the exact number of workers working in those factories

[3]A total of 234 bodies of unidentified workers were buried which need to be deducted from the calculation to avoid double-counting.

3.9

NUMBER OF CASUALTIES IN THE RANA PLAZA INCIDENT

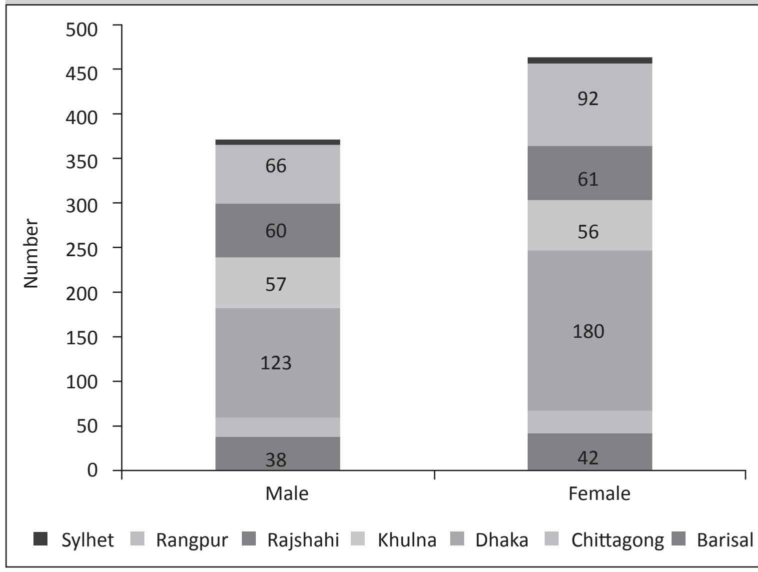
3.9.1 Deceased Workers

The total number of death toll stands at 1,132 including the 17 who died while undergoing treatment in hospitals. The monitoring team retrieved detailed information of 834 deceased workers, of whom, 371 were male and 463 were female workers. Most of the workers were from Dhaka division, followed by Rangpur, Rajshahi and Khulna divisions (Figure 3.4). The district-wise distribution of workers reveals a nationwide representation in that workers at those factories were from 58 out of 64 districts (Figure 3.5).

A fairly large number of the deceased workers were married while a large number of them had one or more children (Figure 3.6). Out of the 834 workers, 437 workers were married which was about 52 per cent of the total number. More female workers were married (63 per cent) compared to their male counterparts (37 per cent). Majority of these married workers had children – 247 workers (56.7 per cent). These children are the immediate victims of the tragic incident as losing parents or having them injured now poses a bleak future for them. Such

Figure 3.4

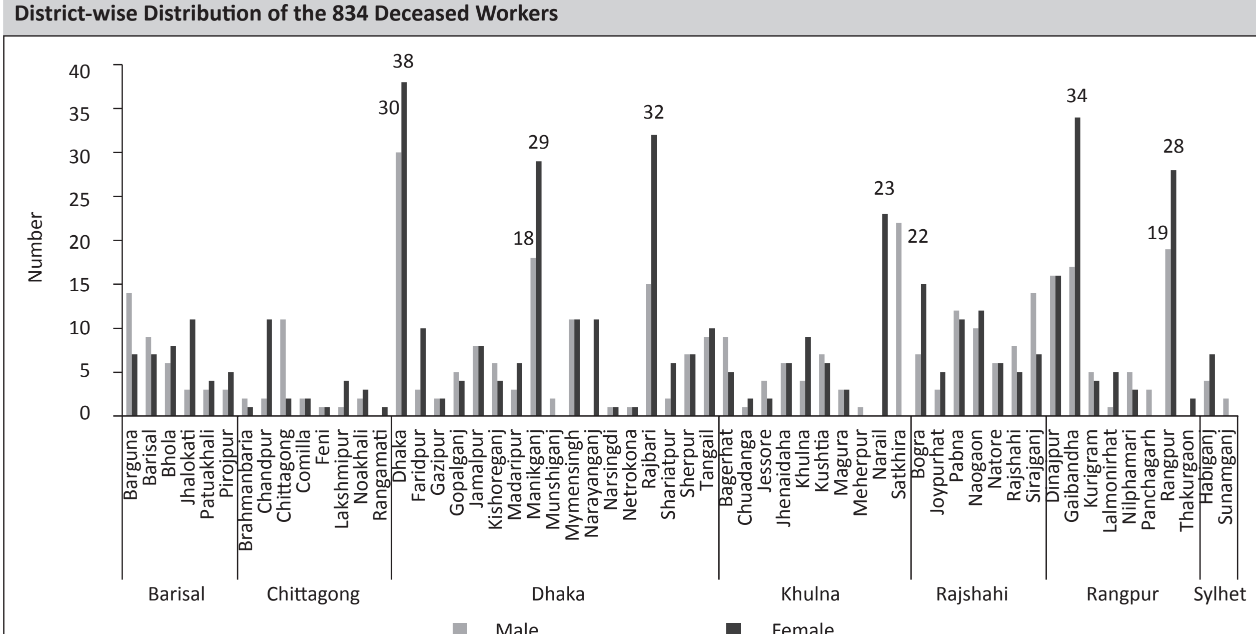
Division-wise Distribution of the 834 Deceased Workers



Source: Based on collected documents.

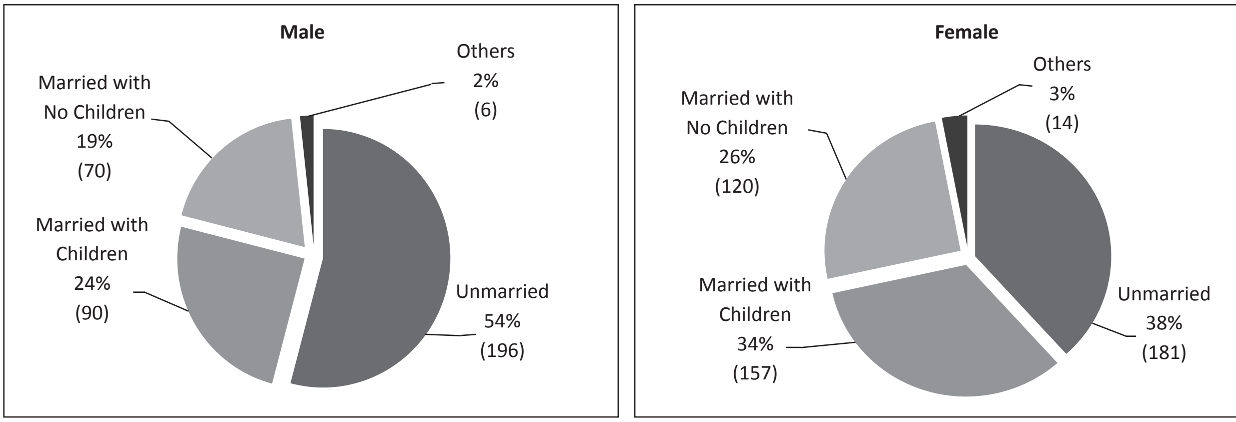
Figure 3.5

District-wise Distribution of the 834 Deceased Workers



Source: Based on collected documents.

Figure 3.6
Family Profile of the 834 Deceased Workers



Source: Based on collected documents.

Note: Figures in parentheses are numbers of workers.

consequences also deteriorates the living condition of the victims' families. The Rana Plaza disaster thus brought multifarious impact on the livelihood of the poor and working people.

3.9.2 Missing Workers

The Rana Plaza disaster brought multifarious impact on the livelihood of the poor and working people

A large number of workers are missing since the Rana Plaza incident. According to the official estimates, a total of 332 workers who were employed in these factories have not been identified. Relatives of the missing workers have authenticated documents such as payslip, appointment letter, ID cards, etc. in support of their identification. Among the missing workers, 233 are female (70.8 per cent), and 99 are male (29.8 per cent). Similar to the deceased workers, majority of these missing workers are from Dhaka division (131) followed by Rajshahi (58), Rangpur (56) and Khulna (39) divisions (Table 3.3). As per the information, these workers are almost equally distributed to different age-brackets – from 15 to 30 years (Table 3.4). According to different newspaper reports, a total of 234 unidentified dead bodies have been buried from which 200 samples were collected for DNA (Deoxyribonucleic Acid) test.[4] Hence, some of these missing workers might have been among these

Table 3.3
Division-wise Distribution of the 332 Missing Workers

Division	Male	Female	Total
Barisal	8	19	27
Chittagong	1	7	8
Dhaka	44	87	131
Khulna	12	27	39
Rajshahi	15	43	58
Rangpur	14	42	56
Sylhet	3	6	9
Not Found	2	2	4
Total	**99**	**233**	**332**

Source: Based on collected documents.

[4] Dhaka Medical College authority has completed the DNA tests of unidentified workers in November 2013, and found matching of 157 workers with the DNA of their relatives. It means another 77 dead are remained unidentified.

Table 3.4

Age Distribution of the 332 Missing Workers

Age Group (Years)	Male	Female
< 15	-	1
15-20	13	50
20-25	25	50
25-30	25	35
> 30	11	34
Not Found	25	63
Total (332)	**99**	**233**

Source: Based on collected documents.

234 unidentified workers, even though another 98 workers remained untraced. Families of these missing workers have been greatly distressed.

Media reports show that about 550 people are waiting for the DNA test results. Regrettably, the tests have been delayed due to the lack of skilled personnel, and more importantly, in absence of the Mass Fatality Identification System (MFIS) software. Although a total of 400 samples from family members have been collected for DNA test, the identification work is yet to be completed. According to the newspaper reports, around 80 per cent of the DNA samples has been tested; but the resultant specimen could not be matched with the family members due to the lack of the MFIS. Without identification, these families are not 'eligible' for any government support; hence their suffering is likely to linger.

DNA tests have been delayed due to the lack of skilled personnel, and more importantly, in absence of the Mass Fatality Identification System software

3.9.3 Injured Workers

According to the information from the Enam Medical College and Hospital (EMCH), a total of 1,800 workers have taken primary treatment there, of which 1,000 workers were released within a week. Among the rest, another 700 were released within one to two months. A total of 34 injured workers who needed special treatment were shifted to Centre for Rehabilitation of the Paralysed (CRP), Savar Combined Military Hospital (CMH) and Orthopaedic Hospital, Dhaka.

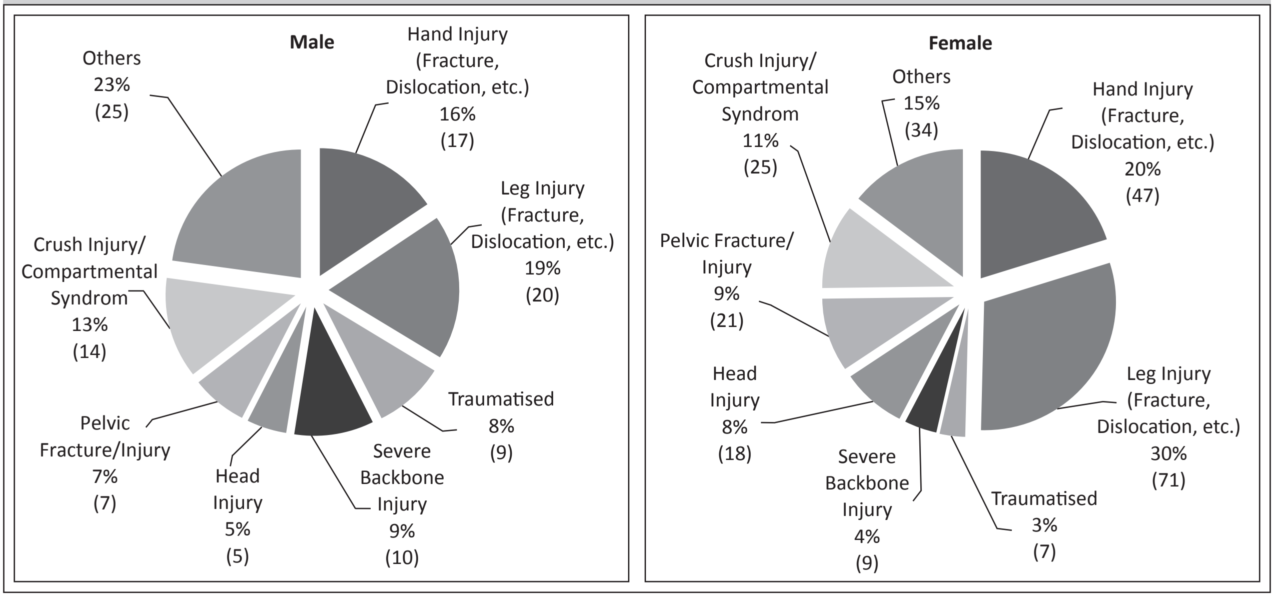
A total of 339 workers were severely injured and had to undergo major operation(s) and long-term treatment. Most of these workers were admitted in different medical institutes including Orthopaedic Hospital, Savar CMH, Dhaka Medical College, EMCH, CRP, and Dip Clinic in Savar. A large number of the workers, who were partially injured and were discharged after treatment, had to undergo treatment in other local hospitals and clinics.

The extent of severity of the injuries can be perceived from the number of cases in which people lost hands or legs or incurred severe backbone injuries; these workers seem to have lost their earning ability by working in the industrial sector

According to the information from the monitoring team, severely injured workers have eight types of wounds which include hand injury, leg injury, traumatised, severe backbone injury, head injury, pelvic fracture, crush injury and compartmental syndrome and others. The extent of severity of the injuries can be perceived from the number of cases in which people lost hands or legs or incurred severe backbone injuries. Male workers experienced most of these wounds proportionately, while injuries of the female workers can be categorised under specific types such as in legs and hands. Over 50 per cent female workers ended up with almost disabled hands and legs (Figure 3.7). In other words, these workers seem to have lost their earning ability by working in the industrial sector. The workers have also been afflicted with injuries such as backbone injury and trauma etc., which need long-term treatment to rehabilitate and get back to normal condition.

Figure 3.7

Severely Injured Workers



Source: Based on collected documents.

Note: Figures in parentheses are numbers of workers.

Even those released after initial treatment were found to be undergoing treatment in local hospitals and clinics on their own. They would also require long time to get back to normal physical condition. A number of these workers now face unemployment due to lack of full physical fitness.

PART C

COMMITMENTS AND THEIR IMPLEMENTATION

A large portion of pledges regarding compensation, treatment, rehabilitation and legal steps were made addressing the immediate challenges and needs

3.10

MAJOR PLEDGES AND COMMITMENTS MADE BY DIFFERENT ORGANISATIONS

Different government organisations and private sector associations had engaged themselves in the rescue operation and other follow-up activities as per their official obligations. At the same time, a number of local and international organisations made pledges and commitments regarding compensation, treatment, rehabilitation and legal steps (Tables 3.5 and 3.6). A large portion of these pledges were made particularly addressing the immediate challenges and needs. Pledges were also made with regard to legal actions against those who are responsible for the accident. Retailers and international organisations made their commitments with regard to medium-term issues, such as improvement of fire safety and security at the workplace. However, it is to be noted that a large number of activities were also undertaken by different organisations, without any commitments and pledges.

The government has made a number of commitments with regard to compensations for the families of deceased victims, providing treatment to injured workers, rehabilitating family members of deceased workers, and legal actions against those responsible for the incident. Major pledges include Tk. 1 lakh for each of the families of the deceased; two-year plan for physiological treatment for the injured workers including treatment abroad for seriously wounded workers; and rehabilitating the family members of the injured workers. Savar Cantonment authority has prepared three separate lists which include a list of 1,000 workers who need to be given jobs, a list of amputated workers who need to be rehabilitated and employed, and a list of severely injured workers. BGMEA, on the other hand, has made commitments with regard to raising fund for the affected workers. This includes a mere Tk. 25,000 from each of its member factories, and employment for able family members of the disabled workers. Few organisations have also committed to donate in support of the victim workers and their families (Table 3.5).

Savar Cantonment authority has prepared three separate lists of workers ready to go back to job, amputated workers for rehabilitation, and severely injured workers

Table 3.5

List of Commitments for the Rana Plaza Victims: National

Issue	Government	BGMEA	Others
Compensation	• Prime Minister Sheikh Hasina had promised to give Tk. 1 lakh to each family of the deceased victims • A total of 15 sister concerns under the Petrobangla and the Bangladesh Petroleum Corporation (BPC) will pay Tk. 15 million for the victims • Measures would be taken to ensure at least Tk. 10,000-12,000 per month for those who lost their limbs	• Would give financial help to families of the injured/deceased workers • Will pay salaries to the workers in the five factories • Decision to raise funds for the affected people • Every member of BGMEA and BKMEA must pay at least Tk. 25,000 in this particular fund	
Treatment	• Promised to bear the cost of treatment, food and transportation of the patients • The government is going to take a two-year plan to ensure psychological treatment for the survivors in the collapse • Treatment will be provided until they recover • Some of the seriously wounded workers would be sent abroad including in Thailand and Singapore for better treatment		• To raise Tk. 100 crore for Savar Tragedy victims by Bank Owners' Association • The employees of 47 banks operating in the country will donate one day's salary to help the families of the deceased workers and support the treatment and rehabilitation of the injured victims • Prothom Alo will continue support for the victims through the fund they had raised
Rehabilitation	• Take necessary steps for the rehabilitation of the families of the workers, who were killed and injured in the incident • Bangladesh Army has prepared a list of 1,000 workers who need to be given jobs, a list of amputated workers who need to be rehabilitated and employed, and a list of severely injured workers	• Measures would be taken for rehabilitation and arrangement of jobs for the injured workers, and special arrangement for workers who lost their limbs • The disabled workers will be rehabilitated and provided with employment opportunities for their able family members	

(Table 3.5 contd.)

(Table 3.5 contd.)

Issue	Government	BGMEA	Others
Legal Steps	• Create fund for workers to file cases through Government Legal Aid Programme; workers can file cases with free legal assistance through this programme • The Minimum Wage Board will be formed and it will be effective as of 1 May 2013 whenever the Board is formed • The government will constitute a Workers' Assistance Cell to ensure legal rights of the repressed and oppressed people of the society • Pledge to punish the responsible for the tragic incident, sparing none of the culprits, to get off scot-free • Constitute a State Minister-led committee to look into the safety standards at garment factories • Anti-Corruption Commission (ACC) would take legal steps against Rana Plaza's owner and the officials concerned at local administration and Rajdhani Unnayan Kartripakkha (RAJUK) [the capital development authority of Bangladesh] • Amendment of labour law/form committee to improve working conditions at the garment factories • Setting up Labour Courts at district level	• BGMEA requested its members to submit soil test reports and approved building design within a month in order to take measures for improving the building structure of the factories	

Source: Based on different published documents and newspaper reports.

The Rana Plaza collapse has drawn huge global attention with commitments for immediate needs as well as for medium-term measures to improve the physical and social compliances

The Rana Plaza collapse has drawn huge global attention. A number of development partners, international organisations and retailers have made commitments for immediate needs as well as for medium-term measures to improve the physical and social compliances. The United States (US) government has offered provisions for the victim workers, such as artificial limbs, DNA testing kits and transplantation of organs. German government has pledged to support the disabled workers with job integration. ILO assured to provide support for the victims of Rana Plaza. Retailers, such as H&M, Inditex, Primark, C&A, who were in contractual terms with the factories at Rana Plaza, announced to spend USD 5 million for the victims. Besides, Loblaw and Primark pledged to compensate the families and children of the victims (Table 3.6).

It may be noted that a number of major initiatives by the development partners have been undertaken without any prior commitment. These include the Accord signed by more than 70 retailers and buyers of the European Union (EU) markets, and the Alliances signed by 17 buyers and retailers of North American countries, and social contract between EU, Bangladesh and ILO. Details on these will be discussed in the following section.

Table 3.6

List of Commitments for the Rana Plaza Victims: International

Issue	Development Partners	Brands and Buyers*	International Organisations
Compensation		• H&M, Inditex, Primark, C&A will spend USD 5 million for the victims • Primark, Loblaw and Bonmarché have pledged to compensate families and children of victims	• ILO assured Bangladesh of providing full support for the victims of the Savar building collapse
Treatment	• USA offered to help Savar victims by providing artificial limbs • The US Federal Bureau of Intelligence (FBI) will provide Bangladesh with the Combined DNA Index System • The Government of India will provide assistance in the transplantation of organs for the victims • German government has pledged 2.5 million Euro (around Tk. 25.6 crore) for the victims • Indian and Thai expert teams will arrive in Dhaka soon to provide artificial limbs to the maimed • The Netherlands has promised financial support for the victims		
Rehabilitation	• German government pledged support for job reintegration measures for those who lost limbs or sustained permanent physical disabilities		

Source: Based on different published documents and newspaper reports.
Note: *Who have business relations with the five factories located at the Rana Plaza.

Overall, commitments have been made by the major stakeholders on core issues including compensation, treatment, rehabilitation and re-employment. It is important to examine the issue both horizontally and vertically – whether the commitments actually cover almost all the victims, and whether the commitments would meet the required needs of the workers and their families.

Commitments have been made by the major stakeholders on core issues including compensation, treatment, rehabilitation and re-employment

3.11

MONITORING THE PROGRESS OF PLEDGES AND COMMITMENTS MADE BY DIFFERENT ORGANISATIONS

3.11.1 Rescue Operation Led by Different Organisations

The rescue operation inside the collapsed Rana Plaza building was carried on for over 17 days. A number of government agencies including the Fire Service and Civil Defence authority, the Army, Police, Border Guard Bangladesh (BGB), official volunteers took part in the rescue operation. A large number of private organisations and individuals took part in different activities in connection with the rescue operation. The 9th Division of the Army located in Savar was in overall charge of the rescue operation. A number of units of the Army were involved in the operation which include engineers, doctors and the infantry. The rescue operation had been carried out with limited available equipments including excavator, dodger, loader (chain), loader (wheel), 160 ton crane, locator, jackhammer, rod cutter, glass cutter, stone cutter, etc. The rescue operation was slowed down due to inadequate equipments. Moreover, accusations surfaced regarding the lack of coordination between different authorities at the initial phase of the rescue operation. Similarly, involvement of the private organisations and individuals in the rescue operation though appreciated, was considered risky without specialised training. Support from all corners of the society for the rescued workers as well as for the rescue teams were well-appreciated. Many private initiatives, for example, Manusher Jonno Foundation and Centre for Disability in Development (CDD) provided cash and medicines for the 288 survivors during 24-30 April, 2013. Teachers, students, alumni and others from the Jahangirnagar University provided support through blood donation, volunteering rescue operation and providing ambulance services.

The rescue operation inside the collapsed Rana Plaza building was carried on for over 17 days combining government agencies, private organisations and individuals

3.11.2 Disbursement of Compensation as per Law and Other Financial Supports Committed by Various Organisations

Workers of the factories at the Rana Plaza were entitled to get a number of compensation and benefits as per law. Firstly, they were to receive wages and salary for the existing month (April 2013) and other dues (mainly overtime benefit) as per law. Secondly, they were entitled to receive termination benefit, service benefit and leave benefit as per law. Thirdly, those who died were supposed to get the financial benefit covered under the life insurance scheme (i.e. group life insurance). Fourthly, the injured were supposed to get the treatment benefit.

It is alleged that the workers did not get the full compensation for their overtime work

Salaries

BGMEA, taking the responsibility of these member factories, has arranged salaries for workers, overtime benefit and other benefits. According to the information from the BGMEA, a total of 2,759 workers received those benefits, of which 2,438 workers received their payment from BGMEA and another 321 workers at hospitals. Since the total number of workers is supposed to be 3,668, about 909 workers or their families did not receive any benefit because of the confusion with the number of missing workers and the lack of identification documents in support of the deceased workers. According to a newspaper report, a total of Tk. 7 crore has been disbursed as the payment of workers' salaries (Table 3.7). It is alleged that the workers did not get the full compensation for their overtime work. On average, each worker received payment for 60 working hours, although many of them claimed that their payment should have been higher. Moreover, the payment was delayed due to lack of proper arrangement by the BGMEA.

The distribution of fund from the Prime Minister's Office is well-appreciated, although a large number of victims' families are yet to receive the benefit

Deceased Workers

The families of deceased workers were supposed to receive the life insurance benefit of Tk. 1 lakh each. In fact, the Prime Minister's announcement to pay Tk. 1 lakh for each worker appears to be the insurance claim of firms against those unfortunate workers. According to a newspaper report, a total of 777 families of the victim workers have received this benefit from Prime Minister's Relief and Welfare Fund, which amounts to about Tk. 12 crore (Table 3.7). The distribution of fund from the Prime Minister's Office is well-appreciated, although a large number of victims' families are yet to receive the benefit, mainly due to the problems in

Table 3.7

Disbursement of Compensation as per Law and Other Financial Supports

Relevant Body	Disbursement/Allocation		Donation to Relevant Fund
	Actual	To be Done/On Process	
Government			
Prime Minister	• So far a total of Tk. 11.97 crore has been disbursed to 1,016 persons belonging to the families of 777 victims of the Rana Plaza Tragedy from the Prime Minister's Relief and Welfare Fund	• Victims are being provided financial assistance up to Tk. 15 lakh in the form of Savings Certificates (*BSS*, 26 June 2013)	
Ministry of Finance and banking and financial institutions			• Donated Tk. 5.24 crore to the Prime Minister's Relief and Welfare Fund
Trade Bodies			
BGMEA	• So far disbursed Tk. 7 crore in salaries		• Deposited Tk. 3 crore to the Prime Minister's Relief and Welfare Fund
Local Level Private Initiative (NGOs and Other Organisations)			
Bangladesh Bank along with other commercial banks and non-bank financial institutions (NBFIs)			• Donated around Tk. 90 crore to the Prime Ministers Relief and Welfare Fund (*Daily Sun*, 11 July 2013)
Prothom Alo Fund	• So far spent Tk. 36,83,918		• Fund amount stands at Tk. 1,98,11,809 (*Prothom Alo*, 9 July 2013)
CRP			• Fund has been increased to Tk. 34,87,886 (as of 29 May 2013)
Dutch-Bangla Bank Ltd.			• Donated Tk. 11.27 crore to Prime Minister's Relief and Welfare Fund (*Prothom Alo*, 19 May 2013)
Chaity Group, Modele de Capital Ind. Ltd, Epyllion Group, Ashiana Group			• Handed over Tk. 32.15 lakh to BGMEA (*The Daily Star*, 13 May 2013)

Source: Based on different published documents and newspaper reports.

identifying the genuine families. In this regard, the government should be more proactive with disbursement of the fund immediately to the remaining families of the deceased workers whose details are available (out of the 834).

It is important to have clarification on whether the BGMEA's donation to the Prime Minister's Relief and Welfare Fund is the insurance claims of the workers or a fresh fund

In this connection, it is important to have clarification on whether the BGMEA's donation to the Prime Minister's Relief and Welfare Fund (Tk. 3 crore) is the insurance claims of the workers or a fresh fund. A simple calculation follows that the families of 1,132 victim workers are supposed to receive an insurance benefit of Tk. 11.32 crore. Thus the gap means that all the workers were not covered under the insurance policy. It is alleged that factories often do not cover all workers under group life insurance scheme in order to reduce the cost for insurance. In fact, BGMEA maintains the process of group insurance by providing a lump sum amount. In other words, the insurance may not cover all affected workers in the Rana Plaza incident.

Prime Minister has announced to provide financial assistance up to Tk. 15 lakh in the form of Savings Certificates to the victims' families. Already 30 families have received an average of Tk. 10 lakh. Given the urgency of these families, disbursement should be completed soon. In fact, the benefit so far received by the victims' families could be termed as partial horizontal coverage, and would not be considered as vertical coverage. In order to meet the requirement of the victims' families, disbursement of the announced amount for them should be realised immediately. A 5-year Savings Certificate of Tk. 10-15 lakh would assure a net monthly benefit of Tk. 10,000-15,000[5], which would be helpful for meeting monthly expenses of these families.

Prime Minister has announced to provide financial assistance up to Tk. 15 lakh in the form of Savings Certificates to the victims' families

Prime Minister's Fund have received donation from the government, non-government, private organisations, banks and from individuals and officials. Prime Minister's Office should disclose details of the total fund received for supporting the victims of the Rana Plaza Tragedy, and reveal the plan for disbursement of this fund.

Beside the official process, victims' families have directly and indirectly received financial support from different private organisations, individuals, social media groups and international organisations. There were some organisational efforts in fund collection and distribution for the victims. For example, Prothom Alo collected an amount of Tk. 1.9 crore and had spent Tk. 36.8 lakh so far (Table 3.7). CRP received funds from different sources, equivalent to Tk. 34.9 lakh.

Missing Workers

Because of the delay in identifying the deceased persons as well as a large number of untraced workers, these victims' families have not been recognised under any official process

Families of the missing workers are in the most distressed situation. Because of the delay in identifying the 234 deceased persons as well as a large number of untraced workers, these victims' families have not been recognised under any official process. Although information of 332 missing workers have been collected, those were not acknowledged by the BGMEA and other authorities. Hence, these families have been kept outside any formal support as provided for the deceased workers (Tk. 20,000 for the burial of the dead body and Tk. 1 lakh for the family; injured workers received Tk. 42,700). According to the field-level information, these families have received a benefit of Tk. 15,000-16,000 from one of the buyers, Primark, as part of their commitment to support the victims. Government should immediately disburse fund for the families of missing workers by completing necessary cross-verification of identification of the deceased workers (e.g. matching DNA test results, etc.).

There is no updated information about the progress of the commitments made by international retailers. Although H&M, Inditex, Primark, C&A committed to disburse USD 5 million for the victims' families, except for Primark, the progress about meeting the commitment by others is yet to be made clear. Similarly, no progress is known about the commitment regarding support to the victims' families, made by the companies (e.g. Loblaw, Primark and Bonmarche) which took orders from those factories.

There was no official estimate found about how many workers were injured or what kinds of support these workers have received from the factory authorities

3.11.3 Commitments and Support towards the Injured Workers for their Treatment and Rehabilitation Afterwards

Injured workers are supposed to receive treatment benefit from the factory authorities. There was no official estimate found about how many workers were injured or what kinds of support these workers have received from the factory authorities. According to the EMCH, which provided initial medical support to the

[5] Assuming that the interest rate for 5-year Savings Certificate is likely to be 12 per cent per annum.

majority of victims, a total of 1,800 workers got different types of treatment which cost an amount of Tk. 1.9 crore. Besides, there are 339 workers who are severely injured and are receiving treatment in different hospitals and clinics. All of these injured workers received all medical services and facilities free of cost for their initial treatment. About 1,000 workers who were admitted to the EMCH were discharged within a week; another 700 workers were under treatment for 1-2 months; and 34 workers with severe injury were shifted to different specialised hospitals such as CRP, Savar, CMH, Savar and Orthopaedic Hospital, Dhaka. Overall, initial treatment support was given to most of the workers.

A large number of the injured workers, will have to undergo physiological treatment for six months to one year (and even longer)

Concerns Regarding Injured Workers

A large number of the injured workers, on getting release from the hospital, will have to undergo physiological treatment for six months to one year (and even longer). It is found that hospitals and clinics have started charging fees and cost of medicines for these injured workers. These workers will be unemployed for over a year before being able to work at any factory. Thus, they have to fully depend on their families for their treatment. The government's commitment for two-year support for the injured workers should take into account these aspects. The government should immediately disclose its plan to support the injured workers, ensure long-term treatment facilities without any cost, and take necessary measures for their rehabilitation.

Concerns Regarding Seriously Injured Workers

A large number of 'efficient' and 'productive' workers have turned into 'unemployed', and would perhaps become 'dependent' on their families. Without proper support, these workers would become a 'burden' to their families

There were a total of 339 seriously injured workers, as mentioned earlier, sustaining severe injuries in their hands, legs and backs, and a number of them were traumatised. Information of 52 injured workers (mostly injured seriously) collected in early May 2013 revealed that each of them received about Tk. 47,827 on average from three sources (District Commissioner (DC) office, Prime Minister's Office and private sources) (Table 3.8). These workers received financial benefit as well as medical treatment free of cost. There had been some allegations about wrong treatment in some instances. However, the fact remains that most of these workers, despite getting the treatment, might permanently or partially lose their capability to do heavy works, particularly in labour-driven industrial operation. Thus, a large number of 'efficient' and 'productive' workers have turned into 'unemployed', and would perhaps become 'dependent' on their families. Without proper support, these workers would become a 'burden' to their families.

According to the newspaper reports, BGMEA spent about Tk. 2.5 crore for the wounded workers till 25 July 2013. But it is not clear whether the spent amount

Table 3.8

Compensation for the 52 Injured Workers (as of May 2013)

Gender	Number of Workers	Compensation (in Tk.)		
		DC Office	Prime Minister	Private
Male	22	1,10,000 (5,000)	2,10,000 (9,545)	6,20,000 (28,182)
Female	30	1,25,000 (4,167)	2,70,000 (9,000)	11,52,000 (38,400)
Total	**52**	**2,35,000 (4,519)**	**4,80,000 (9,231)**	**17,72,000 (34,077)**

Source: Based on collected documents.
Note: Figures in parentheses indicate the amount per worker.

is provided from the accounts of the factory authority or not. It is thus important to make the information public about the sources of their fund. The BGMEA's initiative to work with the CRP for supporting injured workers with artificial limbs needs clear timeline for implementation. Similarly, implementation of the commitment to re-employ the injured workers or their family members has not been clarified.

EMCH provided an iconic humanitarian service for the injured workers

A number of private sector organisations including hospitals, labour organisation, banks and insurance companies and multinational companies have undertaken a number of support measures for the injured workers (Table 3.9). EMCH provided an iconic humanitarian service for the injured workers. A total of 1,800 injured workers have received all types of treatment facilities since the first day of the collapse till date (one patient is still admitted) free of cost. The hospital authority needed to bear an expense of Tk. 1.9 crore for this purpose. A part of this expense was met by the financial support provided by different organisations and individuals. Dip Clinic, a Savar-based small hospital has also provided treatment facilities to the injured workers free of cost. Medical treatment for the injured workers has been continuing at CMH, Savar, National Institute of Traumatology and Orthopaedic

Table 3.9

Steps Taken for Treatment and Rehabilitation

Relevant Body	**Steps Taken**	
	Measure(s)	**Details**
Government		
Ministry of Home Affairs	• The Investigation Committee was in favour of selling the land of Rana Plaza and directing the money from the sale to help the victims of Rana Plaza (*Prothom Alo*, 27 May 2013)	
State Minister for Local Government	• The government will acquire Rana Plaza land and take up a long-term plan to rehabilitate the victims' family members there (*The Daily Star*, 15 May 2013)	
Health Minister A F M Ruhal Haque	• The government is going to take a two-year plan to ensure psychological treatment of the Savar building collapse survivors (*bdnews24.com*, 15 May 2013)	
Trade Bodies		
BGMEA	• Spent Tk. 2.5 crore on treatment of wounded workers (*The Daily Star*, 25 July 2013) • The disabled workers will be rehabilitated including employment opportunities given to their able family members (16 June 2013)	• Working with CRP to provide artificial limbs to the amputated persons, and also those with spinal cord injury • Listed and categorised these injured persons and have started shifting them to CRP for necessary medical attention and rehabilitation programme
Japan Bangladesh Friendship Hospital and Association of Medical Doctors of Asia, Bangladesh	• Jointly organised a follow-up medical treatment for the victims of the Savar Tragedy on 7 June from 9.00 am to 12.30 pm, says a press release (*The Independent*, 9 June 2013)	• Provided medical treatment free of cost, group psychotherapy, free medicine supplies, and distributed 800 kg of rice and 200 kg of daal among the victims
Others		
NITOR	• The authorities of NITOR are preparing for rehabilitation of the victims of Rana Plaza collapse in Savar (*The Daily Star*, 6 June 2013)	• A total of 116 patients were admitted to NITOR after the Rana Plaza collapsed; at present, 40 patients are receiving treatment at this hospital
Bangladesh Insurance Association	• The Association wrote to the Ministry of Labour and Employment to make it mandatory for the factory owners to ensure the workers' insurance coverage	
BILS	• BILS, an organisation of 13 national trade union federations, has set up a support centre at Savar to assist the Rana Plaza victims and their families with proper information (*Financial Express*, 11 June 2013)	• BILS officials said the centre will provide all kinds of information needed to support the victims and their families

(Table 3.9 contd.)

(Table 3.9 contd.)

Relevant Body	Steps Taken	
	Measure(s)	Details
	• BILS Support Center arranged psychological treatment to ease the distress and trumatic memory of the Rana Plaza victims; expert doctors of National Mental Health Institute are assisting in this regard • BILS supported 16 pregnant female victims and wives of deceased workers through a package benefits • A total of 20 injured victims were referred to different specialised hospitals; of them 14 were admitted to Suhrawardy Hospital, two to BIRDEM General Hospital and four to Japan-Bangladesh Friendship Hospital. BILS has been providing these patients with food and other services. New patients also got the service that was referred from BILS support centre. Recently six patients were admitted to Suhrawardy, four patients to BIRDEM General Hospital and another four patients to Japan-Bangladesh Friendship Hospital, and all of them are getting the BILS services	• Till 30 June 2013, BILS Support Centre has provided psychological treatment for 70 victims • The maternity package includes: - Regular check-up including medical examination - Delivery: BILS will bear all the expenditure of the delivery - Supplementary food - Monthly financial support for family maintenance
Madhumati Bank Limited	• Handed over 100 wheelchairs to the Prime Minister for the victims (*BSS*, May 30 2013)	
Enam Medical College and Hospital	• Spent Tk. 1,89,76,222 for 1,800 admitted patients (as of 9 July 2013)	
TerraTech – a consortium of ten leading IT services firms of the country	• Providing IT support to Savar Tragedy victims by creating and maintaining a database of – a) The deceased; b) The injured; c) The dependents of victims; d) The donations received; e) The donations committed; f) The well-bodied survivors; g) The jobs committed; h) Compensation monitoring; i) Individual status monitoring; and j) Help desk support to victims and families	
PPRC	• Rehabilitation of 100 families	
Dhaka Ahsania Mission	• Taken initiatives to support victims	
CAMPE	• Link up with concerned organisations/ agencies/ people who are trying to help the distressed and the needy people affected by the Savar tragedy	
Development Partners/International Organisations		
EU	• Launched major global agreement for Bangladesh to improve labour rights, working conditions and factory safety in the country's RMG industry (*The Daily Star*, 9 July 2013)	• Reallocate funds to help rehabilitate the permanently disabled ones
Young Canadians for Global Humanity	• Financial assistance to the victims admitted to CRP and EMCH	• Tk. 25,000 each for those who lost both hands and legs • Tk. 9,000 each for the injured but not those who lost their legs or hands • Tk. 500 to each involved with the rehabilitation project • Tk. 50,000 for two victims in EMCH

Source: Based on different published documents and newspaper reports.

Rehabilitation (NITOR), Dhaka, BIRDEM General Hospital and Japan-Bangladesh Friendship Hospital, Dhaka, and Dhaka Medical College. A number of Savar-based hospitals and clinics, even with their limited resources, provided support to the injured workers free of cost, including Upazila Health Complex, Super Clinic and Diagnostic Centre, Afnan Hospital and Diagnostic Centre, etc. In order to continue getting free medical services from these hospitals/clinics, financial support should be disbursed for these organisations.

In order to continue free medical services for the injured workers financial support should be disbursed for organisations and hospitals who are providing treatment to them directly

Bangladesh Institute of Labour Studies (BILS) has set up a support centre at Savar to assist the victims and their families with proper information, to arrange psychological treatment for the injured workers, and provide financial support to the pregnant victims and their families. The centre also helped the seriously injured workers to get admitted to different hospitals. A number of banks have provided wheelchairs for the injured workers. Various other private organisations and individuals including NRBs and international private organisations extended support (financial and medical) for the injured workers. Jahangirnagar University, Savar provided various kinds of assistance during the rescue operation (ambulance service, blood donation and volunteer services) and financial support of about Tk. 22.4 lakh to Prime Minister's Relief and Welfare Fund and CRP. Therefore, supportive initiatives for the injured workers outside the government and associations (let alone the factory authorities) were broad and substantial.

Young Canadians for Global Humanity, a Canada-based NRB organisation provided financial support (Tk. 5,000-25,000) to different categories of disabled workers who were admitted the EMCH and CRP, Savar. Terratech, a consortium of private information technology (IT) service firms provided IT support to the victims by creating and maintaining a database of: a) The deceased; b) The injured; c) The dependents of victims; d) The donations received; e) The donations committed; f) The well-bodied survivors; g) The jobs committed; h) Compensation monitoring; i) Individual status monitoring; and j) Help desk support to victims and families.

Development partners, agreed to provide support for the permanently disabled workers under an agreement of social contract

Development partners, particularly the EU has agreed to provide support for the permanently disabled workers under an agreement of social contract. German government pledged to provide support for job reintegration measures for workers who lost limbs and sustained permanent disabilities. Indian government has committed to provide support for transplantation of organs to victim families. Experts from India and Thailand are supposed to work in this regard. It is important to monitor in future how these commitments are fulfilled as per announcement.

Given the enormity of the Rana Plaza disaster and its multidimensional effects, even such extent of support is considered to be very small. Field-level sources say that there were a number of injured workers who did not get any financial benefit, in some cases because they left Dhaka immediately after getting released from the hospital. Moreover, a large number of workers released earlier would actually need long-term treatment support.

Given the enormity of the Rana Plaza disaster and its multidimensional effects, the extent of support is still considered to be very small

3.11.4 Measures related with Re-Employment of Injured Workers

There were a total of 2,438 survivors in the Rana Plaza incident who are in different physical conditions. These people will need to be rehabilitated and re-employed over time. The Army of Savar Cantonment has prepared several lists of workers in three categories: a list of 1,000 workers who need to be given jobs, a list of amputated workers who need to be rehabilitated and employed, and a list of severely injured workers. Initiatives from the associations and government are, however, unsatisfactory. The government has made arrangement for employing 100 workers in leather factories. BGMEA's commitment to re-employ the workers or employing the family members the disabled workers is not yet implemented. There is no information on re-employing the workers in different garment factories. According to the Bangladesh Garment and Shilpa Sramik Federation, about 60-70 workers have been re-employed as per the available information. Many workers were found to be in poor physical condition and unable to work in the factories. It is therefore important that the government and the associations make the re-employment initiative public.

It is important that the government and the associations make the re-employment initiative public

Initiatives from the private sector are rather few. Grameen Phone made an arrangement of proper training on mobile phone service business for 300 injured workers. Trade union associations have been working to get jobs for the workers in different factories. The worker 'Reshma', who was rescued from under the debris of the collapsed building after 17 days, got the job of a Public Area Ambassador at

Table 3.10

Steps Taken for Re-Employment

Relevant Body	Step(s) Taken
Government	
Government	• Arrangements to provide jobs to 100 workers in leather and leather goods factories have been made (*Financial Express*, 1 May 2013)
The Army	• Prepared a list of 1,000 garment workers who need to be given jobs, a list of amputated workers who need to be rehabilitated and re-employed, and a list of severely injured workers (*The Daily Star*, 14 May 2013)
Trade Bodies	
BGMEA	• BGMEA will arrange jobs except for those 100 who have been listed by the government to be employed in leather and leather goods factories (*Financial Express*, 1 May 2013)
Others	
The Westin, Dhaka	• Reshma, who survived for 17 days under the Rana Plaza rubble, started life anew by joining as a Public Area Ambassador at the Housekeeping Department of The Westin, Dhaka (*The Daily Star*, 7 June 2013)
Garments Workers' Associations	• Provided support to re-employ 50 workers of Rana Plaza
Grameenphone	• Grameenphone extended its support to the 300 victims of Savar Rana Plaza building collapse (*Financial Express*, 19 July 2013) • The scheme includes - Setting up Flexiloads business facilities for them - Two mobile phone handsets - Set up attractively designed kiosk for each of the 300 victims to start the Flexiload business • Grameenphone distributors will provide training on operational issues to support their business to grow • Secretary to the Ministry of Labour and Employment Mikail Shipar, and Chief Human Resource Officer of Grameenphone Quazi Mohammad Shahed handed over the Flexiload SIM and mobile sets to the victims
Development Partners/International Organisations/Others	
UK government	• Will make available GBP 18 million (*The Daily Star*, 7 June 2013) to support a programme for training 100,000 low-skilled garment and construction workers in Bangladesh
ILO	• Implementing the Regular Budget Supplementary Account (RBSA) programme of USD 2 million, under which one component is related with rehabilitation of injured and incapacitated workers, in collaboration with the Technical and Vocational Education and Training (TVET) project
	• Developed a USD 21 million strategy programme titled *Improving Working Conditions in the RMG Sector in Bangladesh* for rehabilitation and skills training for survivors of Rana Plaza and other factory disasters

Source: Based on different published documents and newspaper reports.

the Housekeeping Department of The Westin, Dhaka. However, a large number of workers remained 'unemployed'.

Rehabilitation of the severely injured 350 workers needs adequate attention from the government and associations. The Prime Minister's Office has announced to provide financial support amounting up to Tk. 15 lakh in the form of Savings Certificates for the injured workers which would be a source of earning. The government and associations should immediately disburse the financial support for rehabilitating these injured workers.

The progress of the commitments made by development partners needs to be monitored in the coming months

The progress of the commitments made by development partners needs to be monitored in the coming months. UK government has committed to provide GBP 18 million to provide training to 1 lakh unskilled workers of garments and constructions. The ILO's commitment to spend USD 2 million for rehabilitating garment workers through training needs to be monitored as well.

All these measures for the re-employment process are summarised in Table 3.10.

Distress of Shop Owners

There were over 100 small shops at the ground and first floors of Rana Plaza which were owned and operated by owners or leased out to others. Workers of the garment factories including those of Rana Plaza were their main customers. With the collapse of the building these shop owners have lost their capital. There is no mention from any quarter about rehabilitating the shop owners through financial support.

There is no mention from any quarter about rehabilitating the shop owners at Rana Plaza through financial support

3.11.5 Commitments Made with regard to Building and Fire Safety and Related Activities

Various initiatives undertaken with regard to building safety and related issues were mainly pursued out of legal obligations (Table 3.11). Five agencies of government have started inspecting factory buildings. A total of 16 factories in Dhaka and two factories in Chittagong have been closed temporarily to improve their infrastructure. A high-powered committee of the government, headed by the Minister for Textiles and Jute, has been working on inspecting the safety and security of factories. A total of 11 teams comprising officials from factory inspection authority, Fire Service and Civil Defence authority, PDB, RAJUK and others have completed inspection of at least 20 factories each. They have also prepared reports with recommendations for the next course of action. The Fire Service and Civil Defence authority has also inspected garment factories in Dhaka and Chittagong. The government has decided not to allow setting up any garment factories in vulnerable buildings in order to ensure safety of the workers. In a reaction, Ministry of Commerce mentioned that at least 200 factories are to be shut down immediately due to poor physical condition.

BGMEA has committed to inspect the physical condition of the factory buildings, and asked members to submit building design and soil test reports

BGMEA has committed to inspect the physical condition of the factory buildings, and therefore, asked members to submit building design and soil test reports. Out of 2,425 running factory members of BGMEA 1,819, and out 1,000 running factory of BKMEA 353 have submitted their required papers to the authority. However, it has yet to set any strategy about how to examine the documents and take appropriate actions. BGMEA has signed a memorandum of understanding (MoU) with the Institute of Planners, Bangladesh and IAB to identify the indicators for building standard. BGMEA has ordered its member factories to remove generators placed above the ground floor of the buildings by 30 May 2013. There is no information about the status of implementation of this order and a progress report needs to be

Table 3.11

Steps Taken for Building Safety and Security: National

Relevant Body	Decision	Details
Government		
Cabinet Committee on the Garments Industry	• The government has decided not to allow setting up any garment factories in vulnerable buildings in order to protect the safety of garment workers (*Dhaka Tribune*, 8 May 2013)	• Sixteen factories in Dhaka and two factories in Chittagong have been closed temporarily to improve their infrastructure. The workers of those factories will get their wages for this period • Two task forces have been formed to inspect fire dousing, and introduced complaint systems following ILO regulations and building codes to construct the buildings where the garment factories are housed
Ministry of Commerce	• The all-party legislative watchdog on Commerce Ministry suggested that, to protect the country's RMG industry, authorities should close down at least 200 factories, which are in poor condition (*Dhaka Tribune*, 22 May 2013)	
Government	• At least five different Bangladeshi agencies have sent teams to begin inspecting the estimated 5,600 factories	• Inspectors and government officials say that this will take at least five years
Trade Bodies		
BGMEA and BKMEA	• Remove the generators from the second and third floors of the buildings by 30 May 2013 (*Prothom Alo*, 18 May 2013)	
RAJUK, BUET, BGMEA, BKMEA	• Several core committees have been formed to find out the defective factory buildings (*Prothom Alo*, 3 May 2013)	
Others		
Bangladesh University of Engineering and Technology (BUET)	• A panel of experts from BUET has ordered immediate evacuation of two factory buildings as those have been identified to be risky upon inspection (*The Daily Star*, 7 July 2013)	• Recommended four buildings for immediate assessment for strengthening as those are not at the risks to be of immediately evacuated • Released test results for 102 of 150 inspected buildings, while the rest are still underway

Source: Based on different published documents and newspaper reports.

published. It is also important to inform about the developments of various core committees formed by BGMEA.

Global initiatives are visible with regard to improving the workplace safety and security and factory buildings. US Department of Labour earlier announced to provide USD 2.5 million for improvements in the enforcement and monitoring of fire and building safety standards to better protect workers in the RMG sector. Applications for the fund have to be submitted within early August 2013, as the fund will be released in September 2013. It will be important to monitor the progress of implementation in the coming months. EU has launched a major global agreement for Bangladesh to improve labour rights, working conditions and factory safety for which the EU will extend technical assistance. Besides, ILO, EU and Government of Bangladesh has launched the Global Sustainability Compact to improve labour rights and working conditions, which will be implemented in 2013-14. It has also established the neutral chair for the *Accord on Fire and Building Safety in Bangladesh*. Under its RBSA programme, a number of initiatives will be undertaken including training of 200 factory inspectors, procurement of equipment for building inspection, workers' education and preparation a full-

Global initiatives are visible with regard to improving the workplace safety and security and factory buildings fledged Better Work Programme. Japan Interactional Cooperation Agency (JICA) has provided Tk. 100 crore to take projects for improvement of building conditions. Progress of these commitments should also be made public.

Major retailers of USA and the EU have signed agreements to work for improving factory safety and security in Bangladesh (Table 3.12). More than 70 retailers and buyers, mostly European, have signed the Accord on fire and building safety

Table 3.12

Steps Taken for Building Safety and Security: International

Relevant Body	Organisation(s) Involved	Objective	Timeframe
Development Partners			
USA	• The US Department of Labor's Bureau of International Labor Affairs announced a USD 2.5 million competitive grant solicitation (*LAB NewsRelease*, 13 July 2013)	• Fund improvements in the enforcement and monitoring of fire and building safety standards to better protect workers in the RMG sector of Bangladesh	• Applications must be submitted by 2 August 2013; All awards will be made by 30 September 2013
EU	• Launched a major global agreement for Bangladesh to improve labour rights, working conditions and factory safety in the country's RMG industry	• Extend technical assistance to improve labour standards in Bangladesh and other impoverished countries in the region	
Brands and Buyers			
US Brands	• 17 leading US and Canadian clothing retailers established the Bangladesh Worker Safety Initiative	• Enforce safer conditions for workers in Bangladesh garment factories	• A five-year programme
EU Brands	• 70-plus (mostly European ones) brands have signed the *Accord on Fire and Building Safety in Bangladesh* (*Industry: Global Union*, 15 May 2013)	• Make the RMG industry of Bangladesh safe and sustainable through comprehensive inspections, repairs of factories, training and involvement of workers	• Implementation deadline 8 July 2013
International Organisations and Development Partners			
ILO and EU	• Government of Bangladesh, EU and ILO launched the Global Sustainability Compact (8 July 2013)	• Improve labour rights, working conditions and factory safety in the RMG sector in Bangladesh	• 2013-14
ILO	• ILO is established as the neutral chair for the *Accord on Fire and Building Safety in Bangladesh*		
	• ILO is implementing USD 2 million RBSA programme	• Identification and finalisation of local partners for a preliminary assessment of all factory buildings • Procurement of equipment relating to the building assessments • Training of 200 factory inspectors • Workers' education for the RMG units • Prepare for a full-fledged *Better Work Programme* in Bangladesh	• Six months (July-December 2013)
	• Developed a USD 21 million strategy programme *Improving Working Conditions in the RMG Sector in Bangladesh*	• Assessment of building and fire safety • Strengthening labour inspection • Improving workplace safety • Launching a *Better Work Programme*	• 42 months
JICA	• Decided to redirect a Tk. 1 billion fund from its small and medium enterprise (SME) financing project to the apparel industry of Bangladesh (*The Daily Star*, 12 July 2013)	• For improvement of working conditions	

Source: Based on different published documents and newspaper reports.

under which comprehensive inspections, repairing of factories and training of the workers will be implemented. A delegation has made their first visit to Bangladesh to discuss with the stakeholders about various issues related to the modus oparendi of the initiative. This initiative will be implemented by 2014. On the other hand, 17 leading US and Canadian clothing retailers established a five-year long Bangladesh Worker Safety Initiative to enforce safer conditions for workers in Bangladesh garment plants. A major issue related to such initiative is to maintain coordination between EU Accord, North American Alliance and National Action Plan in order to ensure effective implementation of the programme. The proposed 'unified code of conduct' by any means should not be less than the national rules and regulations (i.e. it should be in addition to the 'national rules'). A global initiative is currently underway to conduct a transparency exercise on the governance of the garment industry under the Garments Industries Transparency Initiative (GITI). An index will be prepared for individual major garment producing countries, based on a set of indicators such as security against fire, building codes, minimum wage standards, child labour, social security, job security, and transparency of terms and conditions of hiring and firing, and working environment. It is important to monitor its progress.

More than 70 retailers and buyers, mostly European, have signed the Accord on fire and building safety under which comprehensive inspections, repairing of factories and training of the workers will be implemented

A number of initiatives have been undertaken by the private organisations to provide technical support for improving of building safety and security. BUET has also signed an MoU with American Association of Bangladeshi Engineers and Architects on 18 May 2013 to identify the causes of the collapse of building to avoid these types of disasters in future. Another similar MoU is going to be signed by BUET very soon. BUET is also preparing a list of equipments required in the time of rescue activities. A panel of experts from BUET has requested immediate evacuation of two factory buildings as those have been identified as risky upon inspection. The experts also identified another four buildings which do not need to be immediately evacuated, but need structural strenghthening.

BUET is preparing a list of equipments required in the time of rescue activities

3.11.6 Legal Steps Taken by Responsible Organisations as regards Payment of Workers' Compensation and Injury and Death of Workers

A number of commitments on legal steps have been made by the government, which include special fund for workers to file cases through the government's legal aid programme, constituting an assistance cell for the workers to ensure their legal rights of the repressed and oppressed workers (Table 3.13). Besides, government has committed to undertake legal actions to take the responsible persons under punishment; ACC would take legal steps against the owners of the Rana Plaza.

A number of commitments on legal steps have been made by the government, which include special fund for workers to file cases

As part of taking action, several investigation committees were formed which submitted their reports with recommendations (Table 3.14). A five-member committee was commissioned by the Ministry of Home Affairs which comprised Mr Mainuddin Khandaker, Additional Secretary, Ministry of Home Affairs as the Chief of the Investigation Committee along with Director, Ashulia Industrial Police, Administrative Director of Fire Service and Civil Defence, Chief Assistant Architect, Board of Architect, and Additional District Administrator of Dhaka. The committee submitted its report to the Senior Secretary, Ministry of Home Affairs on 22 May 2013.

Another probe committee was formed by the Ministry of Labour and Employment which submitted its report to the Secretary of the Ministry on 27 May 2013. It was composed of Director of Labour Department, Chief Investigator of Factory and Institution of Inspection Directorate, Senior Additional Secretary of BGMEA, Deputy Secretary of Ministry of Labour and Employment and General Secretary of Garment Workers' Federation. The committee formed by the Export Promotion Bureau (EPB) submitted its

Table 3.13

Legal Steps Taken by Responsible Organisations

<table>
<tr><th>Relevant Body</th><th>Measure(s)</th><th>Details</th></tr>
<tr><td colspan="3">Government</td></tr>
<tr><td rowspan="6">Government</td><td>• An amended Labour Law got passage in parliament to boost worker rights and ensure freedom to form trade unions (The Daily Star, 16 July 2013)</td><td>• Allows up to five trade unions in each factory
• Owners cannot interfere in formation of the trade unions
• If 20 per cent of workers are women, there should be a women union leader in a factory
• Owners cannot change factory layout plan without the permission of factory inspectors
• No exit can be locked</td></tr>
<tr><td colspan="2">• The National Occupational Health and Safety (OHS) Policy is at final stage for adoption</td></tr>
<tr><td colspan="2">• Government on 5 June 2013 announced the new Minimum Wage Board for revising minimum pay of the RMG workers (The Daily Star, 6 June 2013)</td></tr>
<tr><td colspan="2">• The registration process of trade union in the RMG sector has been simplified and 29 trade unions (Dhaka 21, Chittagong 8) have been given registration in first six months of 2013</td></tr>
<tr><td colspan="2">• Government has taken steps to reduce tax on fire fitting equipments (fire extinguisher, leadlight, fire door/ windows, busbar trunking) in the current budget (FY2013-14)
• In order to strengthen the Department of Fire Service and Civil Defence, the government has approved Tk. 162 crore to procure fire fitting equipments</td></tr>
<tr><td>• Criminal cases have been filed against the owners of the building and the owners of five garment factories housed in the building</td><td rowspan="2">• The police have arrested the owners of the building, owners of the factories and the Engineers of Savar Pouroshava
• All the cases are under investigation
• In addition to that, the Department of Inspection for Factories and Establishments (DIFE) has filed 11 cases with the Labour Court against the owners of the building and the factories under the provision of Labour Law; the cases are under trial
• Ministry of Labour and Employment has suspended seven inspector level officers of the Department of Labour and DIFE in connection with Rana Plaza incident and departmental proceedings against them is under process
• Meanwhile, a replacement has been made in the position of the Chief Inspector of DIFE</td></tr>
<tr><td>RAJUK</td><td>• The RAJUK has also filed a case against Savar Pouroshava</td></tr>
<tr><td>The government, the employers' and workers' organisations</td><td>• Signed a fresh plan of action to integrate the plan of action on fire safety, and a joint statement signed earlier between the three parties after the Tazreen fire and Rana Plaza collapse (Financial Express, 26 July 2013)</td><td>• The integrated National Tripartite Plan of Action (NTPA) on Fire Safety and Structural Integrity in the Garment Sector of Bangladesh was signed on 24 March 2013, in response to the Tazreen factory fire and the Joint Tripartite Statement adopted on 4 May 2013 in the wake of the Rana Plaza Tragedy</td></tr>
<tr><td>Ministry of Home Affairs</td><td>• Constituted a five-member committee to investigate the Rana Plaza incident</td><td>• Report Submitted to C Q K Mustaq Ahmed, Senior Secretary, Ministry of Home Affairs on 22 May 2013</td></tr>
<tr><td>Ministry of Labour and Employment</td><td>• Constituted a five-member body to investigate the collapse of Rana Plaza</td><td>• Report submitted to the Secretary of the Ministry on 27 May 2013</td></tr>
<tr><td>Export Promotion Bureau (EPB)</td><td>• Constituted a four-member committee to investigate the collapse</td><td>• Report submitted to the Ministry of Commerce on 2 May 2013</td></tr>
<tr><td colspan="3">Trade Bodies</td></tr>
<tr><td>BGMEA</td><td>• BGMEA formed three separate committees to oversee rescue and rehabilitation activities of the Savar Tragedy victims</td><td>• Report submitted on 26 June 2013
• Identified nine reasons for collapse</td></tr>
</table>

Source: Based on different published documents and newspaper reports.

Table 3.14

Main Findings of the Investigation Reports

Authority	Persons Involved	Findings		Recommendations
		Reasons of Collapse	Responsible Persons Identified	
Ministry of Home Affairs (Report submitted to C Q K Mustaq Ahmed, Senior Secretary, Ministry of Home Affairs on 22 May 2013) *Submitted 12 recommendations, including three that should be implemented immediately*	• Five-member committee – Mainuddin Khandaker, Additional Seretary, Ministry of Home Affairs and Chief of the Investigation Committee; others include Md Saedur Rahman, Director, Ashulia Industrial Police; M Abdus Salam, Adminstrative Director of Fire Service and Civil Defence; Shahnewaz Masud, Chief Assistant Architect, Board of Architect; Zillur Rahman, Additional District Administrator of Dhaka	• Extremely poor construction materials • Violation of construction rules • The municipality did not even follow the Bangladesh National Building Code while issuing the permissions to Rana Plaza • It was a 'pancake collapse' in nature	• Building owner Sohel Rana • Savar Municipality	• Responsible persons be tried under Sections 304 and 34 (manslaughter) of the penal code • Provide elderly parents and orphaned children of the Rana Plaza victims with aid immediately • Pay for and arrange treatment for the injured, and if required, have them sent abroad for better treatment • Who had lost limbs should be provided with prosthetic limbs • Carry out periodical inspections of factory buildings to assess vulnerability • Provide certificates on how long a building could be used, and take subsequent steps to enforce building owners to follow government instructions regarding demolition of structures • Formation of trade unions • Installation of CCTV cameras • Formation of a 'National Disaster Response Force' • Ensure that the authorities under Bangladesh National Building Code follow the rules and that they be prosecuted on failure • Build RMG villages so that factories could be gradually moved there from towns and from nearby highways • Logical and satisfactory salaries for workers
Ministry of Labour and Employment (Report submitted to Secretary of the Ministry on 27 May 2013)	• Khurshid Alam, Chief of the Probe Committee and Director of Labour Department; Habibul Islam, Chief Investigator of Factory and Institution of Inspection Directorate; Mansur Khaled, Senior Additional Secretary of BGMEA; Abdur Rahim,		• 24 persons have been identified responsible • Eight of the related officials of the ministry, 10 officials of Savar Pourashva including the Mayor, two owners of the building and four of those factories there	• Take punitive measures according to law against the culprits

(Table 3.14 contd.)

(Table 3.14 contd.)

Authority	Persons Involved	Findings		Recommendations
		Reasons of Collapse	Responsible Persons Identified	
	Deputy Secretary of Ministry of Labour and Employment; Kamrul Hasan, General Secretary of Garment Workers Federation		• RAJUK	
Export Promotion Bureau (EPB) (Report submitted to the Ministry of Commerce on 2 May 2013)	• A four-member committee headed by EPB Director General Salahuddin Mahmud	• Found four major areas of irregularities	• Owners of the five RMG units equally • Sohel Rana and his father Abdul Khalek	• Take legal action against those involved in the construction of Rana Plaza • Immediate cancellation of trade licenses and other permissions granted to the five RMG manufacturing units located in the building
District Commissioner, Dhaka (Report submitted on 25 July 2013)	• A seven-member committee headed by District Commissioner (Revenue) and Assistant Commissioner (Land); others include Md Ruhul Amin Miah, Deputy Director, Dhaka; Md Nurul Amin, ASP (HQ), Dhaka; Dr Mosharrof Hossain Dewan, Upazila Health and Family Planning Officer, Savar, Dhaka; Sathi Priyo Barua, Executive Engineer, Department of Public Works, Dhaka; Khandaker Asaduzzaman, Upazila Engineer, Savar, Dhaka	• Violation of construction rules • Weak structure of the building • Ignorance of quality control in building equipment and construction • Placement of chiller on the 8th floor and electric generator on the 3rd, 7th and 8th floors • Negligence of responsibilities by the owners of the building and the factories	• Owner of the building, Sohel Rana and his father • Owners of the factories • Nine officials of Savar Pourashava • Upazila Executive Commissioner, Savar Pouroshava • EPB, BGMEA, Board of Investment, DIFE • RAJUK	• Take legal actions against the responsible persons • Compensate all the victims based on the list of the workers and pay their salaries • The compensation must be shared by the owner of the building as it is not possible to bear all the expense by the government alone • Select specific authority in approving the construction of any building and discard the dual or contradictory laws in this regard

(Table 3.14 contd.)

(Table 3.14 contd.)

Authority	Persons Involved	Findings		Recommendations
		Reasons of Collapse	**Responsible Persons Identified**	
Association(s)				
BGMEA (Report submitted on 26 June 2013)	• 11-member committee • BGMEA Vice-President S A Mannan Kochi led the investigation	• Identified nine reasons for collapse • Due to rules being flouted at every step of the way • The building was constructed using substandard materials	• Owner of the building • Owners of the five garment factories housed in the building	• Take legal actions against the building owner and the owners of the factories • Take legal actions against the person who approved the design of the building • Take legal actions against the relevant officers of the DIFE • Take steps to test soil, structural design, layout plan prior to building any structure in future • Relevant departments should be instructed to give license to those factories that have the capacity to construct the factory building in future

Source: Based on different published documents and newspaper reports.

preliminary report to the Ministry of Commerce on 2 May 2013. It is a four-member committee headed by the Director General, EPB. Another committee was formed by the DC office Dhaka which submitted its report to the Cabinet Minister's department.

All the reports have almost the same view regarding the causes of the Rana Plaza incident. Most of the reports have accused similar set of persons as responsible for the event which include owner of the Rana Plaza, owners/shareholders/chairmen of five factories, concerned officials of Savar Pouroshava including the then-chairman, upazila administrative officer, Savar. There are suggestions for cancellation of registration of the factories, arrangement of financial support for workers by selling off the property of the owners of Rana Plaza and the factories, establishment of a central organisation with registered architects and engineers, ensuring quality control and assurance system for the owners.

The BGMEA-formed probe committee reported similar description of the incident like other government committees; but differed as regards the cause of the collapse and identifying the responsible persons

BGMEA has also formed a probe committee, with one of the Vice Presidents as the Chair, to identify the reasons and responsibles of the accused for the accident. Although there is a broad similarity in the description of the incident with that of the government-formed probe committees, this report had a different view with regard to the reasons for causing the incident. It also differed as regards the responsibilities of different accused persons, and finally recommended a set of actions which are quite different compared to that of the other official reports. The report accused the owner of Rana Plaza as the main culprit for the incident. It has leniently accused the factory owners responsible for the incident. Instead, it accused the concerned officers of Savar Pouroshava, officers of factory inspection authority and other authorities responsible for providing license to the garment factories.

It is important to keep an eye on the progress of the investigation and how the cases are finally submitted against the accused persons

Till date, a total of four cases have been filed against 22 persons, and all accused have been arrested and are in jail. However, the Criminal Investigation Department (CID) is yet to complete the investigation of these cases. It is important to keep an eye on the progress of the CID investigation and how the cases are finally submitted against the accused persons.

A number of private organisations have submitted several writ petitions to get court orders on timely and full payment of workers from the account of the factory owners

A number of private organisations have taken legal steps in support of the injured and deceased workers (Table 3.15). The organisations such as ASK and BLAST have submitted several writ petitions to get court orders on timely and full payment of workers from the account of the factory owners. The petitions also pleaded to issue a Rule Nisi on the concerned authorities asking them to show cause as to why the collapse victims should not be compensated. Accordingly, a Suo Motu rule has been called upon BGMEA, Sohel Rana, the owner of Rana Plaza, Chairmen and Managing Directors/Chief Executive Officers of the five garment factories located in Rana Plaza, to explain their position as to why they shall not be held liable for the horrific incident, and why they shall not be prosecuted for their failure to protect the lives of the workers of the aforesaid garment industries. The Rule Nisi was issued calling on the respondents Sohel Rana, the owner of Rana Plaza, BGMEA, Phantom Tak Garments Factory Limited and its owner, and Managing Directors of the five other garment factories located in Rana Plaza to show cause why they failed to take necessary steps to discharge their statutory duties under the Labour Act 2006, 'Ogni Protirodh O Nirbapon Ain, 2003' [Fire Safety Act], and Factories Rule 1997 with respect to safety measures in Rana Plaza. The court also asked other respondents of the petition, who are government authorities, to explain why they should not be directed to initiate criminal proceedings against the owner of Rana Plaza and Chairman of Phantom Tak Garments Factory Limited and the Managing Directors of the five other garment factories located in Rana Plaza, and have them arrested them in 24 hours. The court added that why necessary guidelines for

Table 3.15

Initiatives Undertaken on Legal Actions against the Rana Plaza Tragedy

Issue	Organisation(s) Taking Initiatives	Initiative(s)	Detailed Information	Decision of the Court	Source(s) of Information
Initiatives for taking legal actions with regard to paymentof victim workers' wages and other benefits	ASK and BLAST	Writ Petition No. 4390 of 2013	The court issued a Rule Nisi on the concerned authorities asking them to show cause as to why the collapse victims should not be compensated	The salaries of the workers should be paid from the accounts of the owners of Rana Plaza and RMG factories, which were located there, under BGMEA's supervision	Court order and writ petition
Initiatives for taking legal actions with regard to compensation for deceased workers	ASK and BLAST	Writ Petition No. 4390 of 2013	The court issued a Rule Nisi on the concerned authorities asking them to show cause as to why the collapse victims should not be compensated	Interim directions on the Bangladesh Bank to issue a circular on concerned commercial banks, imposing restrictions on withdrawal or transfer of money by the owners of Rana Plaza in Savar, and by the owners of the five RMG factories located there	Court order and writ petition
Initiatives for taking legal actions with regard to compensation for injured workers	ASK and BLAST	Writ Petition No. 4390 of 2013	Rule Nisi on the concerned authorities asking them to show cause as to why the collapse victims should not be compensated	Restrictions on withdrawal or transfer of money by the owners of Rana Plaza in Savar, and by the owners of the five RMG factories located there	Court order and writ petition
Initiatives for taking legal actions for setting up of court committee to determine compensation criteria	ASK and BLAST	Writ Petition No. 4390 of 2013		Ordered the Managing Director of Tazreen Garments to submit information regarding the criteria relied upon to determine the compensation awarded in respect of the deceased and injuries caused by the fire	
Initiatives for taking legal actions against factory owners and owners of the Rana Plaza	1. The High Court Division of the Supreme Court	1. Suo Motu Rule No. 09 of 2013	1. The Suo Motu rule called to explain their position as to why they shall not be held liable for the horrific incident and why they shall not be prosecuted for their failure to protect the lives of the workers of the aforesaid garment industries	1. The court issued four interim directions to the Mayor of Savar, the Officer-in-charge of the Savar Police Station, Fazlul Huq, the engineer who inspected Rana Plaza, and the Chairman of RAJUK	Court order and writ petition

(Table 3.15 contd.)

(Table 3.15 contd.)

Issue	Organisation(s) Taking Initiatives	Initiative(s)	Detailed Information	Decision of the Court	Source(s) of Information
	2. Dr Md Eunus Ali Akond	2. Writ Petition No. 4353 of 2013	2.1 Rule Nisi was issued calling on the respondents to take necessary steps to discharge their statutory duties under the Labour Act 2006, Ogni Protirodh O Nirbapon Ain, 2003 [Fire Safety Act], Factories Rule 1997 with respect to safety measures in Rana Plaza 2.2 The court also asked other respondents of the petition, who are government authorities, to explain why they should not be directed to initiate criminal proceedings against the owner of Rana Plaza and Chairman of Phantom Tak Garments Factory Limited and the Managing Directors of the five other garment factories located in Rana Plaza, arrest them in 24 hours and why necessary guidelines for building construction should not be given to RAJUK and land/building owners	2. Directed respondents to pay adequate compensation	
	3. Kamal Hossain Meahzi	3. Writ Petition No. 4428 of 2013	3.1 Respondents were directed to show cause before 5 May 2013, as to why their failure to provide adequate security in protecting the lives of thousands of garments workers in five garment factories should not be declared illegal and without lawful authority and why appropriate action shall not be taken against them 3.2 To show cause as to their failure to perform their statutory duties under Section 61, Labor Act 2006 and Section 23, Police Act 1861	3.1 Interim direction to Deputy Inspector of General Police (Industrial Police), Director, Industrial Police, Upazila Nirbahi Officer, Savar, Chief Inspector of Factories and Establishments to appear personally before the court 3.2 Interim direction to the Secretary, Ministry of Home Affairs, Inspector General of Police, Deputy Inspector of General Police (Industrial Police) submit compliance report within two weeks	

(Table 3.15 contd.)

(Table 3.15 contd.)

Issue	Organisation(s) Taking Initiatives	Initiative(s)	Detailed Information	Decision of the Court	Source(s) of Information
Initiatives for taking legal actions against others who are responsible for the tragic deaths in the Rana Plaza	1. The High Court Division of the Supreme Court	1. Suo Motu Rule No. 09 of 2013	1. The Suo Motu rule called to explain their position as to why they shall not be held liable for the horrific incident and why they shall not be prosecuted for their failure to protect the lives of the workers of the said garment industries	1. The court issued four interim directions to the Mayor of Savar, the Officer-in-charge of the Savar Police Station, Fazlul Huq, the engineer who inspected Rana Plaza, and the Chairman of RAJUK to produce and/or explain different issues	Court order and writ petition
	2. Dr Md Eunus Ali Akond	2. Writ Petition No. 4353 of 2013	2. The High Court issued a Rule Nisi calling to show cause why they failed to take necessary steps to discharge their statutory duties under the Labour Act 2006, Ogni Protirodh O Nirbapon Ain, 2003 [Fire Safety Act], Factories Rule 1997 with respect to safety measures in Rana Plaza	2. Interim direction to Officer-in-charge, Savar, Dhaka, Upazila Nirbahi Officer, Savar, Sohel Rana, the owner of Rana Plaza, and owner of Phantom Tak Garments Factory Limited and Managing Directors of the five other garment factories located in Rana Plaza to personally appear before the court	
	3. Kamal Hossain Meahzi	3. Writ Petition No. 4428 of 2013	3. Respondents were directed to show cause before 5 May 2013, as to why their failure to provide adequate security in protecting the lives of thousands of garments workers in five garment industries should not be declared illegal and without lawful authority and why appropriate action shall not be taken against them		
	4. ASK and BLAST	4. Writ Petition No. 4390 of 2013	4. The court issued a Rule Nisi on the concerned authorities asking them to show cause as to why legal action should not be taken against the persons involved		
Others	ASK and BLAST	The organisations filed Public Interest litigation in the High Court	Prayed for issuance of show cause as to why the respondents should not be directed to take all necessary measures to ensure appropriate protective measures in particular safety precautions and to implement and enforce legal provisions for the rehabilitation of the victims of such incidents as well as making available medical treatment for victims of building collapse	Court issued show cause as per the writ	Court order and writ petition

Source: Based on collected documents.

building construction should not be given to RAJUK and land/building owners, and gave directives to take actions in favour of the petitions. It is important to monitor how the directives of the court are implemented by the concerned parties.

3.12

CONCLUDING REMARKS: SLOW PROGRESS IN DELIVERY OF THE COMMITMENTS

It is hard to imagine the enormity the event of – in terms of deaths, injuries, sufferings; in terms of negligence, irresponsibility; in terms of people's participation in the rescue operation; in terms of global focus and initiatives. To address all of these aspects, it will require huge initiatives from all the stakeholders including suppliers, associations, governments and buyers

The Rana Plaza Tragedy has placed the RMG sector of Bangladesh in the forefront from a global perspective. It has bound all the players of this global value chain to be accountable for their roles, responsibilities, commitments and pledges with regard to the workers of these factories in particular, and all factories in general. A transparency exercise is the demand of time which has been initiated by the civil society organisations of Bangladesh under the leadership of CPD.

It is hard to imagine the enormity the event of – in terms of deaths, injuries, sufferings; in terms of negligence, irresponsibility; in terms of people's participation in the rescue operation; in terms of global focus and initiatives. To address all of these aspects, it will require huge initiatives from all the stakeholders including suppliers, associations, governments and buyers. As like previous cases, all the parties have made commitments, undertook various initiatives, so on and so forth. However, those commitments were rather scanty against the required needs of the victims and the sector. In contrast, local and foreign private organisations and individuals came out spontaneously with huge support. International organisations, retailers have appeared with a number of initiatives. Hence, the monitoring exercise of the civil society was not confined only within tracking the status of fulfillment. Rather, it seeks to monitor various other initiatives undertaken with a view to focusing on both horizontal and vertical aspects illustrated in this report.

The activities of different organisations can be monitored under four time periods – immediate, short (less than three months), medium (3-12 months), and long-term (over 12 months). The immediate activities were particularly found to be well-appreciated due to the collaborative effort from all organisations and individuals of the society. The short-term measures, particularly targetted to support families of the deceased workers, injured and missing workers and their families, were found to be implemented on an average level. Here, the government's role is appreciated although the role of BGMEA remains questionable. The medium-term measures are increasingly becoming uncertain as there is a lack of strategies from the government to address the needs of the injured workers, families of the missing workers, children of the deceased/missing workers. The role of the BGMEA is quite frustrating in terms of addressing the needs of the workers. There is a positive indication from global initiatives targeting medium to long-term issues, which need close examination in the upcoming months.

The activities of 100 days after the collapse of the Rana Plaza reveals that there are a number of areas where concerned stakeholders have failed to take measures as per their commitments or have failed to take adequate measures as per the need

The activities of 100 days after the collapse of the Rana Plaza reveals that there are a number of areas where concerned stakeholders have failed to take measures as per their commitments or have failed to take adequate measures as per the need (Table 3.16).

Table 3.16

List of Steps: Immediate, Short, Medium and Long-term

Issue	Suggestion(s)	Responsible Organisation(s)	Timeframe
Compensation to the workers/families	• Number of workers must be estimated properly • In case of extra hours of work, BGMEA should pay the remaining amount	BGMEA	Immediate
Support for the deceased workers	• Government should announce its long-term plan to support the families of the deceased worker	Government	Short
	• Make it public how much donation has been collected in the Prime Minister's Relief and Welfare Fund to support the victims	Government	Immediate
	• International organisations should expedite implementation of their commitments	International organisations	Immediate
Support for the missing workers	• Complete the process of DNA matching and provide necessary support	Government	Short
Support for the injured workers	• Necessary fund should be allocated to local national and private clinics to provide free medical treatment • Support till they become fit for work and get their job • Government should disclose its two-year plan to support the injured workers for their treatment and rehabilitation • Completion of giving Savings Certificates	Government, hospitals, clinics, NGOs/private organisations (Terratech)	Immediate/short/ medium
Support for the seriously injured workers	• Organisations that committed to provide support should implement their pledges • BGMEA should disclose how it will support families of the disabled workers and how the implementation will take place	BGMEA, EU	Immediate/short
	• Completion of giving Savings Certificates	Government	Immediate
Support for the children of the deceased/missing workers' families	• Necessary financial support should be made available for these children who lost their parents • Monitoring the progress of BGMEA's announcement of supporting 300 orphans • Organisations which are working on these children (such as Dhaka Ahsania Mission) should get adequate support • Information of these children should be made available to these organisations	Government, BGMEA, NGOs/ private organisations (Dhaka Ahsania Mission, Terratech)	Immediate/short
Support for re-employment of workers	• BGMEA should officially inform about how many workers of the Rana Plaza have got jobs so far • Monitoring the progress of BGMEA's plan of re-employing 1,107 workers	BGMEA, NGOs/private organisations (Terratech)	Immediate
	• Government should also inform about their re-employment plan • Programme of the UK could be linked with that of ILO and of the government	Government	Immediate
Support for the shop owners	• Shop owners of Rana Plaza should get a minimum capital to re-initiate their business along with subsidised credit facility under SME credit scheme	Government, BGMEA	Short
Ensure building and fire safety	• Progress about assessing the soil test report and architectural design should be informed	BGMEA	Immediate/short/ medium/long
	• The work plan with the private technical organisations under the tripartite agreement must be set	Government, RAJUK, DCCA, CCCA and KCCA	

(Table 3.16 contd.)

(Table 3.16 contd.)

Issue	Suggestion(s)	Responsible Organisation(s)	Timeframe
	• There should be separate unit(s) for this at the RAJUK and City Corporation Authorities in Dhaka, Chittagong and Khulna (DCCA, CCCA and KCCA)		
	• Necessary financial support must be allocated to extend the operation of the above mentioned institutions • Coordination among the local authority and international organisation is needed	Government, BGMEA, EU Accord, North American Alliance	Long/short
Support for legal actions	• Government and concerned authorities should take necessary measures to implement the court directives	Government	Immediate/short
	• BGMEA should keep out from the investigation and charge-framing process	Government, BGMEA	Immediate/short/ medium/long

Source: Prepared by the Team.

Compensation to the Workers/Families

About 900 workers did not receive compensation benefits from the BGMEA because of various complicacies including delay in identifying deceased workers who were already buried and also a large number of missing workers. The workers' overtime benefit was not properly estimated. In case of extra hours of work, BGMEA should pay the remaining amount.

Support for the Deceased Workers

In case of providing long-term support, the Prime Minister's announcement for providing Savings Certificates of Tk. 15 lakh should be completed soon

The number of families of deceased workers that did not get the full support as committed by the Prime Minister was 355, and another 332 families of missing workers did not get the compensation from the BGMEA. Government should take immediate measures to complete the DNA matching exercise of the deceased workers and complete paying the remaining families. In case of providing long-term support to rehabilitate these families, the Prime Minister's announcement for providing Savings Certificates of Tk. 15 lakh should be completed soon. Government should announce its long-term plan to support the families of the deceased workers. It is important to disclose the amount of donation collected in the Prime Minister's Relief and Wellfare Fund to support the victims of Rana Plaza, and how much has been spent so far. International organsiations which have committed to support the victims' families should expedite the implementation of their commitments.

Support for the Missing Workers

A major medium-term challenge for the injured workers relates to continuation of their treatment after getting released

Families of the missing workers have fallen in a dire state. Other than a nominal amount of Tk. 15,000, these families did not receive any financial benefit. These families were also deprived of getting the compensation benefit from the BGMEA. It is of high priority to complete the DNA matching process and provide necessary support. In case of delay, authorities should be generous to provide the benefit to all the families of the missing workers, for which a list has been prepared. Government should take immediate measures to collect DNA matching kit from USA, for which the latter has made a commitment.

Support for the Injured Workers

A major medium-term challenge for the injured workers relates to continuation of their treatment after getting released from the clinics/hospitals. Necessary fund should be allocated to local, national and private clinics to provide free medical treatment for the injured workers. Besides, these workers need long-term support till they become fit for work and get back to a job. The announcement of the Prime Minister's Office to provide Savings Certificates should be implemented immediately. In this context, the amount of compensation should ensure a monthly income equivalent to 1.5 times of the remuneration they used to get while working in factories. Government should also disclose its two-year plan to support the injured workers for their treatment and rehabilitation.

Support for the Seriously Injured Workers

The amount of compensation should ensure a monthly income equivalent to 1.5 times of the remuneration they used to get

Various commitments which have been made to provide artificial limbs have not yet been implemented. A number of organisations including the BGMEA, German and Indian governments, and Thai experts have committed to provide support for the injured workers who lost their limbs. Government should provide financial support to the hospitals where these workers are currently taking treatment, in order to ensure their long-term treatment free of cost. Many injured workers (and also rescue volunteers) are suffering from psychological trauma. Considering their distress, those organisations which committed to provide support, such as BGMEA and EU, should implement their pledges. BGMEA should disclose how it will support families of the disabled workers and how the implementation will take place. Prime Minister's Office should immediately implement the commitment of providing Savings Certificates to address the long-term needs of the workers.

Support for the Children of the Deceased/Missing Workers' Families

BGMEA should disclose how it will support families of the disabled workers and how the implementation will take place

Among the deceased in the Rana Plaza incident, about 250 workers left one or more children. These children are the most distressed among the victims. Necessary financial support should be made available for these children, in order to ensure their long-term secured rearing. It should be mentioned that the BGMEA took charge of 300 orphans who lost their parents. Moreover, organisations in support of these children, such as Dhaka Ahsania Mission, should get adequate support and information about these children.

Support for Re-Employment of Workers

BGMEA should officially inform the number of survivors in the Rana Plaza incident who have so far availed jobs. Based on the list prepared by the Army, 1,000 workers were ready to get back to jobs, BGMEA should disclose their re-employment scheme to different factories. Given the shortage of workers as claimed by BGMEA, there is no reason that these workers will remain unemployed for a long time. BGMEA has planned to re-employ 1,107 survivors in different garment factories. In this connection, the government should also inform about the re-employment plan. Since a number of development partners including the UK government have committed to support victims with training to get jobs, their programme could be linked with that of the ILO and of the government.

Necessary financial support should be made available for the orphaned children, in order to ensure their long-term secured rearing

Support for the Shop Owners

A total of over 100 shop owners who lost their capital and physical assets in the building collapse incident should be brought under the support measures. These shop owners (those who really operate a business) should get a minimum capital to initiate new business along with subsidised credit facility under SME credit scheme.

Ensure Building and Fire Safety

BGMEA should inform the progress about assessing the building structures based on the soil test report and architectural design. It should immediately set a work plan with the private technical organisations under the tripartite agreement. There should be separate units at the RAJUK, DCCA, CCCA and KCCA to deal with the issue of permission for industrial buildings. This unit should be handed over the authority to give approval for industrial buildings; however local authorities should continue their other regulatory activities. Considering the limited technical capacity to examine the factory building in the existing institutions such as BUET, government should allocate necessary financial support to extend the operation of these institutions.

There should be strong coordination between local implementing authorities with that of EU Retailers' Accord and North American Retailers' Alliances for improving the fire and building safety in the RMG sector

There should be strong coordination between local implementing authorities with that of EU Retailers' Accord and North American Retailers' Alliances to examine, identify and take necessary corrective measures for improving the fire and building safety in the RMG sector. In this context, a 'common code of conduct', which has been discussed among different stakeholders, should be taken into account under the national rules and regulations. In fact, such a code of conduct should be 'national rules plus'. ILO should take a lead role in coordinating these activities. Respective local authorities should be associated in this process in terms of access to the inspection reports of individual factories, providing comments on the corrective measures suggested by the compliance implementing team, and if necessary, taking appropriate measures in case the factory is considered to be 'non-compliant' for operation.

It should be ensured that no one will try to influence or hinder the investigation and charge-framing process of the Rana Plaza incident

Support for Legal Actions

The government and concerned authorities should take necessary measures to implement the court directives in case of compensation, support to injured workers, taking legal actions against those who are responsible for the incident. The police department tends to be inert while completing an investigation, but it should not occur in case of framing charges against the arrested 22 persons. Besides, cases which have been lodged by the Department of Labour seems to be weak as it was not filed by the appropriate person from the Department. Necessary measures will need to be taken in this regard. Given the severity of the incident, government should not intervene in the legal process, and should ensure that other organisations including BGMEA will not try to influence or hinder the investigation and charge-framing process.

ANNEX 1

Dialogue Report on
Analysis of the National Budget for FY2013-14

This report was earlier published as CPD Dialogue Report 109. The report is prepared by *Mr Muhammad Nabil*, Dialogue Associate of the Centre for Policy Dialogue (CPD).

THE DIALOGUE

The Centre for Policy Dialogue (CPD) organised the dialogue on *Analysis of the National Budget for FY2013-14* with a view to presenting its assessment of the fiscal-budgetary proposals and creating an opportunity for giving voice to the stakeholders to share their reflections on the proposed National Budget for FY2013-14. The dialogue was held as part of CPD's flagship programme titled Independent Review of Bangladesh's Development (IRBD).

As is known, the Budget was announced on 6 June 2013. The CPD IRBD Team prepared an analysis of the budget proposals by highlighting nine issues which the Team thought would be critical to fiscal-budgetary management in FY2013-14 in the backdrop of post-budget discussion. The dialogue was held at the Lakeshore Hotel, Dhaka on 15 June 2013.

Professor Rehman Sobhan, Chairman of the CPD moderated the discussion as the Chair, while on behalf of the Team, *Dr Fahmida Khatun*, Research Director, CPD made the keynote presentation titled *Reflections on Nine Issues from the Post-Budget Debate* at the dialogue.

Two distinguished panellists, *Mr Kazi Akram Uddin Ahmed*, President of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI) and *Dr Salehuddin Ahmed*, former Governor of Bangladesh Bank offered their comments on the CPD presentation, which was followed by the floor discussion. Following the presentation and open floor discussion, two other distinguished panellists, *Dr Osman Farruk*, former Education Minister of Bangladesh, also Member of the Advisory Council of the Chairperson, Bangladesh Nationalist Party (BNP) and *Mr A H M Mustafa Kamal, MP*, Chairman of the Parliamentary Standing Committee on Ministry of Finance shared their views on some key points raised by the keynote speaker and the participants.

A cross section of stakeholders including Members of Parliament (MPs), senior government officials, policymakers and economists, representatives from the civil society, business and trade arena, academia, political parties and development agencies attended the dialogue and provided their valuable comments on the proposed budget (a complete list of participants is attached at the end of this Annex).

WELCOME SPEECH BY THE CPD EXECUTIVE DIRECTOR

On behalf of the CPD, *Professor Mustafizur Rahman* welcomed the guests at the dialogue, recalling CPD's tradition to annually present its reviews on the national budget to the civil society. He hoped that a thorough discussion on various aspects of the budgetary proposals would take place at the session; he further hoped that the messages from the dialogue would be carried forward to the wider audience via media and be taken note of by the policymakers. He reiterated that the CPD dialogue's purpose was to get citizens' views adequately reflected in the discussion when the proposed budget would be placed at the National Parliament for its final approval. Having said these, *Professor Rahman* handed over the proceedings to the Chair.

INTRODUCTORY REMARKS BY THE CHAIR

Welcoming the distinguished panellists and the guests, *Professor Rehman Sobhan* briefly dwelt on how CPD had been preparing an analysis on the national budget every year for the last eighteen years, each one followed by a dedicated dialogue, attended by a broad constituency of stakeholders and experts. He said that the CPD budget analyses and dialogues have contributed to raising the level of significant changes to the analytical discourse in Bangladesh on the state of the economy and fiscal-budgetary issues. Earlier, the reviews of the state of the economy were dominated by reports prepared by international organisations, particularly the World Bank Annual Reports. At CPD's initiative, talented professionals of the country were assembled to undertake an independent review of the economy with a high degree of professionalism. The Chair noted that over time the CPD was able to acquire enough in-house capacity to produce the IRBDs on its own.

Before briefly highlighting the profiles of the four distinguished panellists at the dialogue, *Professor Sobhan* expressed deep gratitude to all the Finance Ministers from 1995 onwards – late *Mr Saifur Rahman*, late *Mr S M Kibria* and *Mr A M A Muhith* – who had taken part in the CPD budget dialogue programmes organised at various points in time in the past.

Professor Sobhan restated that the dialogue's objective was to catalyse a collective of the society to engage in professional discussions on some key concrete issues pertaining to the daily life of the people of Bangladesh. He expected that parliamentarians would become cognisant of the ideas stemming from the discussion and would draw appropriate conclusions. He hoped that insights from the analyses and the discussion at the dialogue will be reflected in the parliamentary debates on the budget in which they will participate.

Emphasising the need to continue the tradition of post-budget dialogues in future, *Professor Sobhan* observed that "parliamentarians are the elected representatives of the voters, who are the masters of the parliamentarians they elect and they ought to listen to the voice of the citizens." He particularly underscored that in a functioning democratic society, the policymakers and public servants are held accountable to the citizens, both in the parliament and in other forums. The civil society's role would be to facilitate the accountability process through constructive dialogues. This will contribute to the democratic process and provide a public service to the country, noted the Professor.

The Chair then invited *Dr Fahmida Khatun* to present the keynote.

THE KEYNOTE PRESENTATION

Dr Fahmida Khatun, Research Director, CPD joined the Chair and the Executive Director in welcoming the distinguished audience and cordially thanked the CPD IRBD Team for their collaborative efforts in preparing the analyses. As regards the keynote, she mentioned for the benefit of the audience that nine important issues were identified for a focused discussion on the Budget for FY2013-14.

Reflections on the Nine Issues from the Post-Budget Debate

Dr Khatun started her presentation by emphasising the context in which this budget was prepared. Posited as research questions, the nine issues she addressed were: implication of faltering private investment on economic growth; credibility of revenue mobilisation target; implication of ambitious foreign financing of fiscal deficit target on bank borrowing; allocative priorities in the budget including the Annual Development Programme (ADP); implications of fiscal measures towards establishing social equity and enhancing domestic industrialisation; debates surrounding the subsidy issue; marginalisation of social sectors in terms of allocative priority; role of (pilot) district budget in enhancing quality of local government financing; and the challenges of budget implementation in the context of the prevailing political situation.

Backdrop

Dr Khatun remarked that it would be the incumbent government's last opportunity to make progress towards fulfilling their pledges in the run-up to the forthcoming national election. She also noted that the Budget for FY2013-14 will be implemented by three regimes. She stated that the budget was prepared in the backdrop of a number of encouraging, and also challenging developments. The encouraging trends included enhanced public investment, moderated inflation, significant surplus in the balance of payments (BOP) and stable inflow of remittance. On the other hand, the challenging trends include slippage in the gross domestic product (GDP) growth rate, falling private investment, significant shortfall in revenue mobilisation, reliance on bank borrowing for financing fiscal deficit and lower domestic demand.

Dr Khatun observed that the overall economy had moved towards a lower-level equilibrium, though the stability had been somewhat maintained, the objective of enhancing economic growth had been compromised. In this context, the Budget for FY2013-14 should target fiscal consolidation backed by high growth of revenue. It was important to arrest the downturn in private investment, control the inflation further, and revitalise the economic growth momentum.

Issue One: Is Fall in Private Investment Holding Back Economic Growth?

Dr Khatun highlighted the falling trend in private investment and import growth. She also highlighted the moderated inflation rate in the face of decelerated aggregate demand. Given this backdrop, she questioned whether the government's overall GDP growth projection was pragmatic. She observed that despite the positive trend in public investment, the total investment (private and public) in FY2012-13 had a shortfall of 2.7 percentage points as share of the GDP compared to the target. It was due to significantly lower private investment against the target of 22.7 per cent in FY2012-13. As of March 2013 data, the shortfall in investment was also reflected in the decelerated growth of private credit which stood at 12.7 per cent in contrast to 18.5 per cent projected for FY2012-13. Target for FY2013-14 has been set at 16 per cent, which was well above the current trends in credit flow.

In this backdrop, she noted that the target for GDP growth in FY2013-14 has been set at 7.2 per cent. *Dr Khatun* recalled that the targeted GDP growth, according to the Sixth Five Year Plan (SFYP), was 7.6 per cent. In order to cover the gap between the current and the SFYP targets, the GDP growth would have to be 9.6 per cent in FY2013-14. She also pointed to the government's proposed medium term outlook which presented a very optimistic scenario for GDP growth in line with the SFYP – according to these projections GDP is expected to grow by 8.0 per cent in 2015, and by 9.1 per cent in 2018. *Dr Khatun* remarked that given the prevailing investment scenario, the basis for such optimistic medium term outlook was not clear. Observing the implications of lower target for FY2013-14, she concluded by saying that it would impede Bangladesh's target of becoming a lower-middle income country by 2021 making the process lengthy.

Issue Two: How Credible are the Revenue Targets?

While underpinning the main features of the proposed fiscal framework, *Dr Khatun* observed that revenue would have to grow faster than the projected public expenditure growth of 17.5 per cent. According to the FY2013-14 Budget, growth of revenue target was 19.9 per cent. The envisaged development expenditure growth at 25.1 per cent was more than non-development revenue expenditure at 10.1 per cent, which, she mentioned, was a good sign. She also felt that the programmed ADP expenditure could be 26 per cent higher than actual implementation of FY2012-13.

The budget deficit was projected to be 4.6 per cent of GDP, lower than the target for the Revised Budget of FY2012-13. This deficit was proposed to be financed by higher foreign financing. The budget, thus, anticipated the total volume of the required foreign aid flow to be USD 3.8 billion. This would result in decreasing the government's net borrowing by 8.8 per cent and increasing borrowing from the non-banking sector by 2.5 times. *Dr Khatun* termed the overall fiscal framework as "full of overambitious targets", particularly in the backdrop of the revenue mobilisation effort during FY2012-13.

Dr Khatun laid out the revenue mobilisation scenario which revealed that the revenue collection will need to increase by about Tk. 24,800 crore to attain the budgetary target. This requires a growth of 21.2 per cent. This enhanced collection would rely mostly on the National Board of Revenue (NBR). The NBR was supposed to provide 83.7 per cent of the incremental revenue. In addition to this, 33.3 per cent of the incremental revenue was expected from value added tax (VAT), while 45.7 per cent would come from income tax. *Dr Khatun* pointed that the revenue targets showed in the Revised Budget for FY2012-13 have remained unchanged. According to CPD analysis, this target was 'unattainable'. If achieved, the attained growth would be the highest in the recorded history of Bangladesh, said *Dr Khatun*. She also pointed out that despite the 10 per cent import growth projection in the Medium Term Macroeconomic Framework (MTMF), in FY2013-14 growth in the import duty had been set at a lower target in view of only 0.9 per cent collection growth in 2013. The non-NBR revenue growth also remained at a subdued level.

Regarding the defining factors for public finance framework, *Dr Khatun* said that assuming a realistic NBR growth at 15 per cent in FY2012-13, the required growth for FY2013-14 would have to be increased up to 24.9 per cent, which basically would be higher than the trend growth rate. However, given the scenarios of the previous years, it appeared that a higher growth was attained in two unusual years in the last few decades – 27.4 per cent during the caretaker government's tenure in 2008, and 28 per cent in 2011, when the international prices were very high.

According to CPD projection, overall revenue collection for FY2013-14 may fall by an amount between Tk. 10,000 crore and Tk. 13,000 crore. Regarding the FY2013-14 revenue outlook, she noted that the projection for revenue mobilisation was the 'weakest link' in the budgetary framework.

Issue Three: Is the Overstated Foreign Financing of Fiscal Deficit Obscuring Higher Bank Borrowing?

Dr Khatun shed light on the possible difficulties in achieving the high foreign financing target in FY2013-14. The share of foreign financing in FY2013-14 was projected to be 38 per cent of the total deficit budget. But the flow of foreign aid during the July-April 2013 was only about USD 2 billion as against the requirement of USD 3.2 billion of foreign aid in FY2012-13. Considering this trend, the target of USD 3.8 billion as foreign aid for FY2013-14 would be rather difficult to achieve, she felt.

As regards domestic financing in FY2013-14, *Dr Khatun* cited that in the Revised Budget for FY2012-13, the share of domestic financing was 65.4 per cent of total financing. Although the Revised Budget for FY2012-13 showed the share of bank borrowing to be more than 57 per cent, and it is expected to decline to 47.2 per cent in FY2013-14. *Dr Khatun* termed this as "a departure from the reality."

Issue Four: How Appropriate are the Revealed Allocative Priorities in Overall Budget and ADP?

Dr Khatun presented the sector-wise allocation in the Budget for FY2013-14, showing that most of the sectors received reduced allocation in terms of share in the total budget. Public services sector however stood out, receiving the highest allocative priority with additional Tk. 19,297 crore over the Revised Budget of FY2012-13. She particularly mentioned about higher allocation in the transport and communication sector, and felt that it was quite justified. However, the increase in interest payments was worrisome.

Dr Khatun observed that there was no detailed disaggregated figure showing how the additional amount allocated for the public services would be spent. Exposing the issue further, she said that out of the allocation for this sector, Tk. 15,000 crore had been kept for investment in shares and equities, of which Tk. 5,000 crore was possibly kept for recapitalisation of the state-owned banks, and rest for the capital market.

Drawing attention to the revenue expenditure scenario, *Dr Khatun* pointed out that the allocation for interest payments, particularly for domestic resources was pretty high. She also explained why the accountability and transparency of block allocation had come into question. The block allocation for FY2013-14 was Tk. 1,887 crore, but the actual utilisation of the block allocation in FY2012-13 was only Tk. 423 crore against an allocation of Tk. 1,594 crore. Since expenditure of this significant amount kept under block allocation would be at absolute discretion of the respective minister, questions would arise as regards the transparency of spending public money, she remarked.

In analysing the ADP, *Dr Khatun* observed that the proposed expanded size of the ADP budget stood at 5.5 per cent of GDP or 25.8 per cent higher than the Revised ADP (RADP) for FY2012-13. According to CPD estimates, it would be more than 39 per cent higher than the actual expenditure of FY2012-13. She also observed that in the FY2013-14 Budget, ADP had more than 1,000 projects where 50 new projects comprised only 1.3 per cent of total allocation. ADP for FY2013-14 also included 662 unapproved investment projects.

Dr Khatun noted that for the first time in the FY2013-14 Budget, self-financed development budget of more than Tk. 8,000 crore for the autonomous bodies and corporations was shown in the ADP. She pointed out that the top five sectors – Transport, Power, Education and Religious Affairs, Rural Development and Institutions, and Physical Planning, Water Supply and Housing – were set to receive more than 68 per cent of FY2013-14 ADP allocation. Due to the allocation for the Padma Multipurpose Bridge Project (PMBP), the Transport sector once again received the highest allocation of 23.3 per cent of the total ADP. PMBP alone received 83.4 per cent of the incremental allocation given to this sector.

Almost eight times higher than the allocation provided in FY2012-13, the allocated Tk. 6,852 crore for the PMBP was more than 33 per cent of the project's total cost. Apart from that, the USD 200 million given by the Indian Government, equivalent to Tk. 1,600 crore, had been kept as project aid allocation for PMBP in FY2013-14. *Dr Khatun* pointed out that the PMBP was expected to absorb about 55.6 per cent of the total incremental allocations in the ADP, which could deprive all other sectors, particularly the priority social sectors such as Health, Education and Agriculture. *Dr Khatun* further noted that in case of unavailability of foreign financing, the government would have to make use of its foreign exchange reserves for the PMBP. If that be the case, she apprehended that the foreign exchange reserves would definitely suffer erosion.

Dr Khatun also felt that symbolic allocation for new projects in the ADP was not an efficient way of resource allocation. Under the ADP, 25 investment projects received Tk. 1 lakh each and 55 projects received Tk. 1 crore each only, which was quite disappointing, she added.

In view of the economic and political reality anticipated for 2014, *Dr Khatun* felt that the target growth rate of total revenue mobilisation in FY2013-14 would be a much challenging task since it would have to reach 22.8 per cent from the original 19.9 per cent. Besides, the final ADP expenditure would be about 90 per cent of RADP with the trend remaining unchanged, resulting in lower total expenditure. *Dr Khatun* noted that adjustment for these two figures would become rather difficult to attain in FY2013-14. She added that a number of symbolic allocations such as the PMBP and public-private partnership (PPP) projects may not be realised to the extent envisaged in the respective targets. In light of the above mentioned scenario, *Dr Khatun* expressed apprehension, "Again we are sliding back to lose the financial targets leading to weak fiscal management." But how far this situation could be controlled and managed would depend on the implementation plan, she added.

Issue Five: Are Fiscal Measures Supportive of Social Equity and Domestic Industrialisation?

In case of personal income tax in the FY2013-14 Budget, increasing the threshold for tax-free income for personal income groups, the aged, senior citizens and women would help reduce tax liability of low-income groups, and also help broaden the tax net, observed *Dr Khatun*. She added that these moves, to some extent, followed a progressive taxation measure. Corporate tax had, however, remained unchanged except for a tax increase on cigarette companies, which is a good move considering its possible positive impact on public health and revenue mobilisation. As the tax for publicly traded mobile phone company had increased from 35 per cent to 40 per cent, *Dr Khatun* noted that one particular firm was perhaps the target, and it will be adversely affected.

The FY2013-14 Budget also allowed the provision of legalising undisclosed and black money, and investing in the real estate sector. *Dr Khatun* observed that the earlier provisions of allowing undisclosed money to be legalised had not been fruitful. She cited that since 1975, there were 17 occasions where the provision had been given. There was a lack of reliable data from the NBR on the revenue earning on this score; however, various non-official sources and media reporting revealed that from 1975 to 2013, only about Tk. 14,000 crore was declared and Tk. 1,535 crore had been paid to the NBR as tax. During Awami League's current tenure until 2013 only Tk. 38 crore was received by the NBR.

In case of other fiscal measures, there were various efforts in the budget to stimulate private investments and reduce cost of investment and working capital in order to facilitate industrialisation. Custom and regulatory duties had also been reduced for many products. *Dr Khatun* observed that these measures would enhance effective rate of protection for import-substitution industries, and discourage import of such commodities. In addition to this, supplementary duty had been imposed on finished products and a few other items similar to intermediate products, while the existing tax holiday facilities had been extended from June 2013 to June 2015, which was a positive move, opined *Dr Khatun*.

Regarding the capital market, *Dr Khatun* noted that there had been a withdrawal of 3 per cent tax over the extra premium on the face value of listed companies' shares. And the threshold limit for tax-exempted dividend income increased from Tk. 5,000 to Tk. 10,000, while the existing provision of exemption of gain tax would continue. Also, there were proposals to withdraw 0.05 per cent of tax at source in case of transfer of bonds and 15 per cent tax rebate on investment in private mutual funds. *Dr Khatun* argued that these facilities would not have any significant impact in stabilising the capital market or to regain investors' trust. She recalled that the much-talked about Tk. 900 crore, which was supposed to be announced for refinancing scheme, was not mentioned in the budget document.

Dr Khatun noted that some positive moves were made in the budget towards promotion of local small and medium enterprises (SMEs), small and cottage industries, light engineering, etc.

In case of export promotion, there were various fiscal measures for a number of sectors including leather, jute, ship-building, textile, readymade garments (RMG) and pharmaceuticals. She thought that according to CPD's estimation based on assessing the previous data, the proposed fiscal measures at the import stage might increase import-related revenues by 4.2 per cent.

Issue Six: How Credible is the Subsidy Estimate and What are Its Implications?

Dr Khatun compared the subsidy allocations in Revised Budget FY2012-13 and Budget FY2013-14 where the Revised Budget FY2012-13 allocation had increased by almost 30 per cent, mainly due to the subsidies for Bangladesh Petroleum Corporation (BPC) and the agriculture sector. Total subsidy for Revised Budget of FY2012-13 was 3.6 per cent of the GDP. She also noted that there was no clear indication of the total subsidy demand in the FY2013-14 Budget. However, various parts or sections of the budget indicated that it would be around Tk. 28,695 crore, which was equivalent to 2.4 per cent of GDP, a reduction by 23.3 per cent from FY2012-13 subsidy allocation. *Dr Khatun* felt that this was clearly reflected in loans and advances allocation, which was reduced by 25.3 per cent in the budget.

The sector-wise subsidy allocation in the FY2013-14 Budget showed that the allocation for agriculture sector subsidy was Tk. 9,000 crore in comparison with Tk. 12,000 crore in the Revised Budget of FY2012-13. According to CPD estimates Tk. 8,300 crore would be required in the agriculture sector for fertiliser alone. Subsidy for the BPC would be about Tk. 8,000 crore, which would be 47.8 per cent lower than the previous year. On the other hand, subsidy for the Power Development Board (PDB) was expected to be more than Tk. 5,000 crore, which was 6.4 per cent higher.

Citing these, *Dr Khatun* observed that another set of price adjustment would be required, and raised the question whether the incumbent government would be able to undertake this.

Issue Seven: Are Social Sectors being Marginalised in the Recent Budgets?

Dr Khatun recounted that for the last few years, education, health and social safety net programmes (SSNPs) had been receiving lower allocation, which led to the question whether social sectors were being marginalised. In FY2013-14, the SSNPs receiving lesser attention were allocated 2.1 per cent of the GDP while in FY2012-13 it was 2.2 per cent. Total beneficiaries of SSNPs had also decreased by 4 per cent, while 33 of the continuing programmes received lower allocation than in FY2012-13.

She added that the trend of lower allocation was also observed in case of food security programme in FY2013-14 than FY2012-13, in terms of total social safety net as a percentage of the total budget and total GDP. This trend was also evident in case of open market sales (OMS), Vulnerable Group Development (VGD) and Food for Works (FFW) programmes. This might be because of lower need for SSNP measures due to stable market price of rice, noted *Dr Khatun*.

Dr Khatun also pointed to lower allocations in Employment Generation Programme (EGP). Allocation for the EGP for the poor, an important SSNP component, was less than 1 per cent of the total budget and only 0.14 per cent of the total GDP in FY2013-14. In FY2013-14, total EGP coverage had also decreased by 33.64 per cent from the previous years. Eleven programmes, including the *Employment Generation for Ultra Poor in Northern Region*, received no allocation in FY2013-14.

Regarding health and education, *Dr Khatun* observed that the education sector received higher allocation in FY2013-14 compared to FY2012-13. However, allocation for the health sector had declined as percentage of the total budget while only three new projects were included for the Health, Nutrition, Population and Family Planning sector.

Regarding gender budget, *Dr Khatun* remarked that it was a good initiative of the government to provide a separate budget for the women for the last couple of years and getting 40 ministries (with 15 new) to prepare their gender budgeting documents for FY2013-14. However, allocation for the Ministry for Women and Children Affairs had been reduced from 0.7 per cent to 0.65 per cent. Although the budget speech mentioned that 27.7 per cent of the total budget was considered as gender empowering budget, there was no clear cut explanation as to how this gender empowerment budget was estimated, noted *Dr Khatun*.

Issue Eight: Does the Pilot District Budget Signal Any Qualitative Change Initiated to Finance Local Government?

Dr Khatun noted that allocation for the Local Government Department (LGD) as percentage of the total budget had been reduced to 5.8 per cent in FY2013-14, whereas it remained above 6 per cent over the last five years. Similarly, share of LGD in ADP allocation was reduced from 21.5 per cent to 17 per cent in FY2013-14.

To achieve good governance, the government had a plan to transfer 11 lakh officials to the district level administration. *Dr Khatun* remarked that the reasons given behind this much talked-about transfers were difficult to understand because if the goal was to improve the quality of public services, only transfer of officials will not result in improvement in efficiency of the bureaucracy.

Regarding the district budget in FY2013-14, *Dr Khatun* indicated that the pilot district budget for Tangail was "a good initiative by the government." She added that the government must be able to craft the district budget as per the needs of each district so that the successful experiment could be replicated in all other districts. Besides, the government must ensure the transparency and accountability of the district budgets.

Issue Nine: Is Emerging Political Situation the Main Obstacle to Budget Implementation?

Dr Khatun voiced her concerns about budget implementation in view of the current and the emerging political situation in the country. She said that the FY2013-14 Budget would be implemented during three successive governments, and a key deciding factor would be whether the budget would be front-loaded or back-loaded, i.e. whether most of the expenditures would be made during the first six months of the fiscal or towards the end. And how much effort the outgoing government would put in implementing the budget in its residual tenure, was also an issue, she cautioned.

Furthermore, *Dr Khatun* apprehended that the prevailing political uncertainties would possibly increase, given that the election year could seriously undermine the possibility of taking advantage of various proposals of the FY2013-14 Budget which were aimed at stimulating the investment scenario and the economy.

She also noted that Bangladesh had not been able to attain more than 7.0 per cent GDP growth in past couple of years. With a 7.2 per cent GDP growth target for FY2013-14, it would require increasing of the investment-GDP ratio as well as lowering of the capital-output ratio. She felt that both would be highly challenging as these would call for important departures from the business as usual scenario. This would require significant breakthrough in terms of resource generation, resource allocation, utilisation of resources and efficacy of development administration. *Dr Khatun* raised the question as to whether the government would have an appetite for all these in an election year.

Concluding Remarks

Dr Khatun summed up her presentation with two remarks. First, the challenges of budget implementation, as it would have to go through an election year, and the emerging political scenario which was apprehended to become unstable. Second, the global economic recovery was yet to gain momentum. She advised the government to be more cautious and careful in implementing the budget, and suggested that the fiscal framework might need to be revisited to undertake a mid-term correction in view of the real situation.

REMARKS FROM TWO PANELLISTS

Mr Kazi Akram Uddin Ahmed

Mr Kazi Akram Uddin Ahmed, President of the FBCCI thanked CPD for arranging the dialogue.

Mr Ahmed expressed his concern that many FBCCI recommendations were not given due attention in the budget. He particularly mentioned about the proposed imposition of supplementary duties on some imported raw materials, which he felt would be a major blow for the relevant domestic industries. Raising the 'package VAT' to Tk. 12,000 from Tk. 9,000 for some 30 thousand small shopkeepers who were under the umbrella of the FBCCI would be another major blow, he added. On the positive side, he appreciated the proposal for reduction of taxes on most raw materials in the budget.

Mr Ahmed remarked that the government's aim to sketch out a capital-friendly budget comprising an envisaged 7.2 per cent GDP growth would result in widespread social progress, educational development and business expansion. Despite criticisms that the budget had been 'overambitious', he held the view that one has to be ambitious to reach a higher level of goal. He felt that due to the ambitious budgets during all democratic governments since the 1990s, the country made headway towards development by achieving significant growth in national budget every year, reaching up to 25 per cent last year.

Recounting the eagerness of some foreign investors he had met at the Kunming Fair in China, *Mr Ahmed* quoted them saying that Bangladesh would need to have political stability as a pre-condition for accelerated development as well as for successful implementation of the budget. Recalling how harmful the spell of *hartal* (general strikes) had been throughout the last decade, he said that such political weapons would discourage foreign investment in the country. In this connection, he mentioned about the foreign delegates who come into contact with the FBCCI on a regular basis, are always interested in cheap labour as well as cheap land that are available in Bangladesh. Referring to discussants at the Bangladesh, China, India and Myanmar (BCIM) Forum, he informed the dialogue that China and India were ready to help Bangladesh with investment if a congenial environment prevails in the country. In view of these opportunities, *Mr Ahmed* anticipated that a successful implementation of the FY2013-14 Budget should not be very difficult.

Speaking on the provision of whitening the black and undisclosed money, *Mr Ahmed* alleged that along with some business people, some government officials, too, possess black money. Expecting an end to this, he felt that it would be best if the sources of such sum were nipped in the bud so that the question of making such provision does not arise.

Mr Ahmed observed that tax must be paid and the government must make maximum effort to collect tax in order to bridge the gap between Tk. 55,000 crore deficits and Tk. 65,000 crore worth ADP. He expressed hope that the deficit could be reduced if the government could bring at least 12-14 lakh people within the tax net from among the 1.5 crore people who emerged above the poverty line over the last five years. He also made the observation that the government will be able to resort to bank borrowing to reduce the fiscal gap since the private banks had an excess liquidity worth Tk. 69,000 crore.

As regards the PMBP, *Mr Ahmed* recommended spending Tk. 6,000 crore for the Bridge in a gradual manner. He also suggested spending the required amount for PMBP from the Tk. 18,000 crore allocation given to the Transport sector. He anticipated that GDP growth would accelerate by more than one per cent when the Padma Bridge project would materialise. The Bridge would bring the country under a wider transport and connectivity network. *Mr Ahmed* noted how perishable goods were conveniently transported from the North Bengal after the Jamuna Bridge was built, which changed the face of the region. For national interest and economic growth, he suggested that required allocations be made in the budget for building the Bridge.

Regarding the issue of subsidy, *Mr Ahmed* commented that the agriculture sector had now reached a state where it required lower amount of subsidies. As electricity was the main infrastructural shortfall, he favoured subsidising the expenditure for quick rentals which had saved the country from alternate-hour load-shedding as was the case in Pakistan. This has helped higher growth and led to more export worldwide. The development achieved, thus, was greater than the cost arising from quick rentals, he added.

Before concluding, *Mr Ahmed* informed that the Finance Minister had assured the FBCCI of another meeting, with the presence of the NBR Chairman. He hoped that the FY2013-14 Budget would be made more business-friendly through this discussion.

Dr Salehuddin Ahmed

Dr Salehuddin Ahmed, former Governor of Bangladesh Bank began with the comment that having a big budget for a country like Bangladesh was of no harm, provided that the incumbent governments pass the acid test of implementing it. About people's confidence over the budget, he remarked that being ambitious of very high growth is of no use if such growth does not benefit the poor or generate employment. In this connection, he also mentioned about the past big budgets which had very poor implementation and lacked specificity of actions.

Dr Ahmed reminded the audience about Bangladesh's continuous good performance as regards macro fundamentals such as high reserve, stable foreign exchange, moderated inflation and a reasonable 6.2-6.3 GDP growth. Despite having good fundamentals, taking concrete steps towards achieving the stipulated targets, consolidating the plus-points, and thus taking the economy forward were major challenges, he observed.

Identifying problematic areas such as the downturn in private sector investment, broad money growth at only 14 per cent, financial and capital markets, and the banking sector, *Dr Ahmed* said that transparency, efficiency and accountability of the regulatory bodies and bureaucracy were in question. These cannot be dramatically changed within the coming six or nine months. He considered financial sector reformation and stock market revitalisation as other major challenges. He alleged that the budgetary proposal of recapitalising the loss-bearing state-owned commercial banks with Tk. 5,000 crore would not be fruitful due to the inefficiencies in the entire system and interference and corruption of the board of directors and management. At the same time, the money is being eaten up due to the alliance of corrupt bankers and so-called borrowers in the private banking sector, he felt. Referring to incidences of Greece and Cyprus salvaging their banks, he said that the economy may have to face difficulties if attempts are made to revitalise the capital market by paying more to the commercial banks.

Agreeing with CPD's evaluation that the accounting system of the financial sector was inappropriate, he alleged that external audit reports filed to the Anti-Corruption Commission (ACC) or Bangladesh Bank by chartered accountants were not up to the mark. He recommended that the country's financial institutions and also the capital market authorities should follow international financial standards in this age of globalisation. He felt that this was long overdue.

Regarding the expenditure side of the budget, the most important thing was to ensure the quality of budgetary expenditure instead of having a financial progress report stating ADP achievements, said *Dr Ahmed*, adding that the Implementation Monitoring and Evaluation Division (IMED) alone cannot monitor the quality of implementation as it only records whether the allocated sum had been spent within the stipulated time.

On revenue collection, *Dr Ahmed* advised that the existing tax collection system can maximise tax collection by compelling all Taxpayer Identification Number (TIN) holders to pay tax and by ascertaining the use of electronic cash registers (ECRs) for all businesses so that the maximum amount of VAT is deposited to the NBR.

While discussing budget deficit, *Dr Ahmed* observed that when the government resorts to bank borrowing to address deficit, Bangladesh Bank cannot refuse. The only problem is that this puts the private investment in jeopardy because the government usually borrows at a cut-off rate of around 11-12 per cent which pushes the cost of lending upward. Loaded with bond security, the banks also increase the interest rates; in case of any private scams this has adverse implications on interest rate. *Dr Ahmed* cautioned that high bank borrowing by the government could also increase the inflationary pressure because the government would not be spending the borrowed money for real production of goods and services. Considering the debt service payments of the government budget, he considered foreign borrowing to be more cost effective than borrowing from domestic resources.

Dr Ahmed voiced his concerns along with the CPD that due emphasis on agricultural research was missing in Bangladesh for a prolonged period, and reminded the audience that agricultural scientists from Bangladesh Agricultural Research Institute (BARI), Bangladesh Rice Research Institute (BRRI) and Bangladesh Agricultural Research Council (BARC) had been migrating abroad. Their contribution to the green technology and the seed-fertiliser technology in countries like Australia had brightened Bangladesh's image, but Bangladesh has been deprived of their service. Referring to China's experience of spending billions on biotechnology and genetic research, *Dr Ahmed* felt that it was time to promote agricultural research in Bangladesh. He also noted that meagre allocation to BRRI and BARI could hardly support their requirement to pay salaries, depriving them of any laboratory research or field testing.

Regarding employment, *Dr Ahmed* said that besides lowered expenditure towards employment generation for our huge, young and active labour force, specific actions were missing to reap the demographic dividends of the country.

Being concerned about the coordination of fiscal and monetary policies, *Dr Ahmed* pointed to the ineptness of the monetary policy coordination council and criticised the Bangladesh Bank's attempt to control inflation by applying contractionary monetary policy. He also observed that the Bangladesh Bank cannot tame inflation by reducing money supply unless the monetary and fiscal policies address the supply-side constraints that include imperfections in the market, toll taking, extortion and poor market network.

Taking a holistic perspective, *Dr Ahmed* observed that the FY2013-14 Budget was more concerned with the stabilisation rather than economic growth, and was trapped within the Washington Consensus policy recommendations such as stabilisation, liberalisation, privatisation, etc. He felt that important aspects pertaining to majority of Bangladeshi people such as economic development, especially sustainable and equitable economic growth were missing in the budget. He also lamented that regardless of governments, the budget has become some sort of arithmetic exercise of allocating money.

He summed up agreeing to Dr Fahmida Khatun's observation that the budget will possibly require a mid-term correction if some of the projects do not do well.

FLOOR DISCUSSION

Perspective on Budget Implementation: Realistic or Unrealistic?

Professor Dr Barkat E Khuda of Department of Economics at University of Dhaka termed the budget 'unrealistic', given a number of ground realities such as political instability, infrastructural deficits, dipping private investment and stagnated investment-GDP ratio. He mentioned that GDP project at 7.0 per cent would be fine if there is a private investment growth over 30 per cent, and if credible redistribution and equitable growth were ensured. He felt that the steps towards achieving the government's targets in the budget were not clearly and adequately defined.

Echoing the Professor*, Ms Syeda Ashifa Ashrafi Papia, MP*, BNP opined that achieving the anticipated growth in budget would be impossible, referring to a World Bank projection which mentioned that GDP growth will not go over 5.8 per cent.

In contrast to these observations, *Dr Wajedul Islam Khan*, General Secretary of Bangladesh Trade Union Kendra felt that although the budget appeared to be ambitious, progress cannot be achieved without ambition. He asserted that the budget was appropriately formulated, and hoped that with everyone's cooperation from the respective places implementation will be sped up. However, he cautioned that this could be challenging in view of the emerging difficult political situation.

Drawing on the Awami League government's achievements regarding budget implementation, *Ms Apu Ukil, MP* affirmed that after the current government assumed power, successful implementation of budgets from 2008 onwards catalysed the country's achievements. She recalled that although many from the opposition and the civil society were saying that the earlier budgets were huge and thus impossible to implement, she felt the Awami League government had materialised 92 per cent of all budgets after 2008.

Relating to implications of political instability on budget implementation, *Mr Enam Ahmed Chowdhury*, Former Chairman of Privatization Commission and Member of the Advisory Committee of the Chairperson of BNP commented that although budget implementation depended on political stability to a large extent, the present government had not come forward to end the prevailing political impasse by coming into terms with the opposition regarding the question of holding national election under a non-partisan government.

Mr Chowdhury felt that evidently, most of the political parties would not be willing to participate in an election held under the present government. It could give rise to instabilities, confrontational politics and bloodshed, and consequently the situation envisaged for implementing the budget might get undermined. He drew government's attention to the importance of political stability and peace if it really wished for the people's welfare and to achieve the stipulated targets.

Pointing at the Planning Commission's role in budget implementation, *Mr A K M Mayeedul Islam, MP*, also Member of Parliamentary Standing Committee on Ministry of Finance was of the opinion that notwithstanding the Prime Minister's promises to strengthen the Commission thrice at the parliament, it became totally non-functioning by turning into, what he thought, "a dumping ground." He stated that such ineffectiveness would affect budget implementation, and that discussions on the budget would be of no avail without having the Commission functioning.

Major Challenges Concerning Revenue Collection and Mobilisation

Many at the dialogue felt that the revenue mobilisation target was too ambitious, supporting the views presented in the CPD analyses of the budget. *Mr Enam Ahmed Chowdhury* maintained that revenue mobilisation was the weakest link in the budgetary framework and it was evident that the revenue collection target would not be fulfilled.

On a similar note, *Ms Papia, MP* termed the budget's revenue earning proposal "a double whammy", because firstly, such target would overburden the commissioners beyond their capacity; and secondly, this was not realistic.

Mr Mir Nasir Hossain, former President of FBCCI also felt that the targets regarding revenue collection were rather ambitious, considering the shortfall of this fiscal, which, he said, might go up to 22 to 25 per cent. The size of the budget did not matter much, he said, noting that implementation and financing were the main challenges.

Addressing budget revision, *Dr Quazi Mesbahuddin Ahmed*, former Managing Director of the Palli Karma-Sahayak Foundation (PKSF) expressed discomfort as regard the issue that in the Revised Budget of FY2012-13, the Finance Minister did not change the revenue collection figures. He noted that underachievement from the current year's estimation would result in lower benchmark and increase the burden of revenue collection for next year. He urged the Finance Minister to rely less on discretionary measures for mobilising resources.

A complete opposite view was proposed by *Dr Ahmed Al-Kabir*, Chairman of Rupali Bank Limited. He said that the government had successfully reached their revenue targets in the last four years. Despite Tk. 4,000 crore gap in the first ten month's revenue collection, *Dr Kabir* hoped that the government would collect close to their target of Tk. 112,000 crore. He commented that target for FY2013-14 were somewhat challenging, yet realistic.

Adding a different perspective on this issue, *Mr Manzur Ahmed*, Advisor, FBCCI stated that despite the increase in revenue expenditure budget in last few years, the level of efficiency of the tax administration did not improve in any perceptible manner. He alleged that some vested groups from inside the administration were discouraging the Alternative Dispute Resolution (ADR) process to function. He observed that if the ADR system could be energised as per the FBCCI proposal, an amount around Tk. 10,000 crore could be mobilised as revenue.

Mr Amanullah Khan, Chairman of the United News of Bangladesh (UNB) observed that slashing tax rate, which is higher than some neighbouring countries, would encourage more people and organisations to pay taxes, resulting in higher amount of revenues for the government. Tax coverage and the number of taxpayers would also rise if procedures were made more simplified and transparent, he added. He also apprehended that the raising duty rates on import of newsprints would hit hard on the newspaper industry and the print media in general, and might force a number of struggling newspapers to close down. He added that it would also impede free flow of information, a basic human right, particularly in the context of our rising literacy rate.

Anomalies in the Banking Sector: Scams, Non-Performing Loans, High Interest

Mr Mir Nasir Hossain referred to Bangladesh Bank's contractionary monetary policy which aimed to have 18.5 per cent credit flow towards the private sector which in reality, he said, had gone down to 12.7 per cent. He raised a question on why the interest rate was not coming down when the private sector banks had an excess liquidity of Tk. 69,000 crore. He apprehended that it could be due to prevailing indiscipline in the financial sector, and in consequence of the Hall-Mark scam. In this context, he drew attention to the public sector non-performing loan (NPL) portfolio issue. He felt that NPL may have gone up to 30 per cent due to the incidences of Bismillah Group and the Hall-Mark scams. Adding that it had also affected the private sector banks, *Mr Hossain* urged that discipline must be restored in the banking sector to stimulate investment.

Addressing Mr Hossain's comments, *Mr Mohammed Nurul Amin*, Chairman of the Association of Bankers, Bangladesh Ltd. explained that there were two-three types of NPLs that were increasing because of the looming uncertainties in view of the transition of government. He also informed the audience that the lending rate was not coming down because the advance/decline ratio was well below 75 at all banks.

From the perspective of governance and politics, *Ms Papia, MP* pointed out that a nation's budget implementation depends on good governance, political intention and integrity, honest and capable leadership; on the other hand, political interference coupled with corruption would undermine the implementation. She held the view that the government had not properly tackled the recent events in the banking sector including the Hall-Mark scam. Although two persons were jailed, those who had exerted pressure to lend money were able to get away. She emphasised that punishment to the responsible must be meted out by formulating the required laws concerning all plundering, graft and pilfering because without preventing graft, she apprehended, the budget would be eaten away by vested quarters.

Disagreeing with Ms Papia, *Dr Ahmed Al Kabir* of Rupali Bank Limited defended that the banking system should be appreciated for identifying anomalies such as the Bismillah Group scam. He said that accountability in the banking sector had improved and this needed recognition instead of making statements to the effect that the government had been unkind to the state-owned banks.

Dr Kabir informed that the banking automation during the last 3-4 years had moved very fast. This included automation of risk management system along with establishing data centres and data recovery centres, banking application software usage, enterprise data warehouse, enterprise resource planning, etc. Referring to the current challenges, he said that many of these were inherited from the past.

Financing Budget Deficit: Bank Borrowing and Interest Payments Affecting Economic Growth

Professor Dr Barkat E Khuda of Dhaka University felt that the budget deficit at 4.6 per cent of the GDP was within reasonable limit, but using bank borrowing to finance the deficit budget would have adverse impact on the overall economy. He said that the increased target for bank borrowing over Tk. 28,000 crore in FY2013-14 would result in higher amount of interest payments.

The Professor cited that during the first half of FY2012-13, growth of interest payments had been around 34 per cent against its target of only 16 per cent. He felt that this fund could have been used for productive purposes instead. In terms of its opportunity cost, the payments for interest had affected the private sector growth due to reduced access to bank loans, thereby adversely affecting economic growth, including employment creation in the country.

On this issue, *Mr Nurul Amin* of Association of Bankers informed that profit of private commercial banks had shown negative growth during the last two quarters, despite the fact that private banks are the most important driving force of the economy. He noted that some primary dealer banks tend to take the major burden of government borrowing and that there were other mismatch in the functioning of foreign-owned banks, government banks and private banks. He apprehended that that the government was allocating some funds for capitalising or supporting state-owned banks, which should have been applicable also for private banks because NPLs were on the rise.

Expressing concern over bank borrowing, *Ms Papia, MP* commented that all government and non-government banks would be in trouble because of the government borrowing of about Tk. 26,000 crore, of which Tk. 14,355 crore would be long-term loan and Tk. 11,638 crore short-term loan. She said that loan requirements of industries and entrepreneurs would consequently be difficult to meet. She urged the government to reduce dependency on banks and make an extra effort to achieve the revenue target set in the FY2013-14 Budget.

Echoing similar concerns, *Mr Enam Ahmed Chowdhury* expressed doubt over achieving the revenue target, and said that it would be impossible to attract people to invest in non-bank borrowing instrument, which in turn would increase reliance on bank borrowing to finance the deficit.

Dr Mesbahuddin Ahmed of PKSF encouraged the idea of using National Savings Bond (NSD) for the government instead of bank borrowing because many among the poor and middle class people live on their monthly income from NSD. He added that borrowing from the private sector NSD would mop off purchasing power and reduce the push on inflationary pressure. He also informed the audience that despite provisions, sales of NSD were low compared to bank borrowing.

Debates over Legalising Black Money

Mr Hafiz Ahmed Majumder, MP, also Chairman of Pubali Bank Ltd. was of the view that it would be an offence for the government to apply any legislative authority to whiten black money because it always remains black, and the person earning it remains accountable to law. He added that black money coming through bribery, robbery or income tax evasion should be punishable under law, and that the government should inquire about the sources of undisclosed money deposited with the banks.

However, *Mr Majumder, MP* suggested that considering the reality in Bangladesh, an investment-friendly climate must be created irrespective of the source of the money. Expressing disagreement with CPD's stance on black money, he argued that this process should not be hindered for the sake of morality because black money, once invested, comes under the tax net, and thus raises revenue collection, and also helps generate employment.

Correspondingly, *Dr Mesbahuddin Ahmed* advised in favour of diverting investments of undisclosed money from the real estate sector towards the more productive sectors. Only then it would be beneficial to the people, who would, otherwise, be hard-hit by serious injection of huge amount of black money in the unproductive sector.

Taking cue from Dr Ahmed, *Mr Ali Zaman*, President of SME Owners Association of Bangladesh stated that when the real estate sector thrives, generally the manufacturing sector deteriorates. He opined that if the real estate sector booms, it would adversely impact the land market, and if so, the SME sector would be severely affected.

Speaking further on the issue, *Mr Amanullah Khan* of UNB opined that despite whitening undisclosed money being morally unjustifiable, the rate of tax should be somewhat reduced to attract more people to declare their undisclosed money. Undisclosed money can also be driven towards productive and industrial sectors in order to hasten the process of industrialisation, he argued.

Refinancing Capital Market would not Regain Public Trust

Mr Suhel Ahmed Choudhury, former Commerce Secretary recalled that the last three budgets along with the FY2013-14 Budget did not do anything significant to revive the capital market which collapsed in 2010.

Disagreeing with him, *Mr Enam Ahmed Chowdhury* said that the FY2013-14 Budget had included a number of fiscal measures to revive the capital market. But those were rather weak, ineffective and would have limited impact in term of regaining the confidence of potential investors in the capital market. *Mr Chowdhury* also noted that the budget did not mention anything about the refinancing scheme of Tk. 900 crore which was indicated earlier.

Low Subsidy and Allocations to Hurt Agriculture, Health and Social Safety Net Programmes

Professor Khuda of Dhaka University inquired whether the reduced allocation and lower subsidy for the agriculture sector would affect the government's objective of maintaining food autarky and would constrain allocation for agricultural research. Mentioning the reduced allocation in the health sector, he said that there was considerable room for enhanced allocation in this sector, particularly in respect to addressing issues such as malnutrition among women and children. He also inquired whether considerably low budgetary allocation for the SSNPs would adversely affect the government's goal towards poverty reduction and employment creation as laid down in the budget.

Adding to these queries, *Mr Enam Ahmed Chowdhury* brought to attention that the subsidy allocations for state-owned enterprises (SoEs) were lower than the limit provided by the IMF-ECF (International Monetary Fund's (IMF) Extended Credit Facility (ECF)) programme. *Ms Papia, MP* also opined that the agriculture sector had been pushed into decline due to reducing the subsidy allocation by Tk. 500 crore, coupled with price hike of production inputs, wage rise of workers and natural calamity.

Ms Apu Ukil, MP refuted the idea that lowered subsidy would affect the agriculture sector adversely, because Bangladesh had achieved food autarky over the last two years. Regarding agricultural research, she defended the Agriculture Minister and said that she had set aside funds for agricultural scientists who were developing salinity-resistant crops in cultivable lands around saline-water, and also, allocation for jute genome sequencing research. She felt that this would help revitalise the jute industry and will provide support for the advancement of the sector. She considered this to be an unprecedented incentive in the budget.

Dr S M Khalilur Rahman, Member Director (CC) at BARC of Ministry of Agriculture, however, felt that the Finance Minister's budget speech concerning subsidy as an investment for agricultural production was contradictory because the subsidy amount had been reduced by about Tk. 3,000 crore. Quoting CPD's estimation, he mentioned that Tk. 8,300 crore alone would be needed for fertiliser. He said that there were other subsidy requirements including for electricity, irrigation and cash incentives for farmers. If the total subsidy is Tk. 9,000 crore, the math does not match. Highlighting developments in Boro, Aman and Aus rice and maize production, *Dr Rahman* noted that adequate funds were needed for research, adoption and extension of technology employed for the production as well as for human resource and capacity development.

Revenue Targets May Overburden Taxpayers

Mr Mir Nasir Hossain expressed his concern that the government could press the tax collectors and taxpayers by arbitrarily fixing tax rates to increase their target. He felt that there was very little protection for the aggrieved taxpayers in the system, and this should be dealt with adequately.

Echoing Mr Hossain, *Ms Papia, MP* opined that coupled with the burden of huge budget and high revenue target, the government was likely to be tempted to impose the burden of taxation on the public. She said such steps are generally followed by significant price hike, which place the common people in a disadvantageous situation.

In this connection, *Dr Mesbahuddin Ahmed* said that the budget did not explain the details about the gains and losses due to imposition and withdrawal of certain taxes respectively. This, however, was mentioned in all past budgets.

Noting a similar concern, *Mr Manzur Ahmed* of FBCCI observed that the multinational companies (MNCs) were evading tax extensively. This may lead to a crisis that needs to be looked into, he added. Citing examples from European countries, he urged that tax be imposed on electronic media as he felt that this could generate significant amount of revenue for the exchequer.

Declining Private Investment, Imports, Overseas Employment Hurting Job Creation

Professor Dr Barkat E Khuda felt that job creation had emerged as a major challenge due to low private sector credit growth (at around 12 per cent in April this year, the lowest in the decade) along with low investment and declining trends in overseas employment of remittance earners in recent months. He added that declining imports resulted in fewer jobs in the service sector including financial intermediation.

Professor Khuda noted that the private investment-GDP ratio stood at 19 per cent in FY2012-13, the lowest in six years and domestic savings dropped to its record-low in the past decade. Regarding job creation, he also pointed out that about 2 million enter into the national labour market every year and about 0.6 million of those get overseas job, which indicated that a large share of the rest 1.4-1.5 million job-seekers basically end up in low productivity-low wage informal sector within the country.

District Budget Encouraged, Yet Preparation Inadequate

Mr Amanullah Khan of the UNB felt that the district budget, introduced as a pilot, signalled a qualitative change by bringing the promotion of local government institutions a step closer. This is enshrined in the Article 9 of the Constitution. He hoped that this step in the right direction would initiate a process of devolution and decentralisation in Bangladesh.

Dwelling on the same issue, *Dr Mesbahuddin Ahmed* felt that preparation of district budget plans was difficult. He said that it would not be pragmatic to prepare district budgets just by discussing with the people with a view to estimating their demands. This was because district budget would have to be prepared in line with the national budget.

Local Government's Authority Questioned

Mr Enam Ahmed Chowdhury expressed his displeasure over transferring 11 lakh government officials to different districts to strengthen local government without laying out specific requirements for these positions. In this context, question remained over the responsibilities given to the local government. He felt that local governance had totally failed and the government's pledges regarding transferring power and authority to the local governments was "nothing but a hoax."

Dealing with the same issue, *Mr Mayeedul Islam, MP* observed that the district boards had no elected chairmen; instead, all were administrative officers who were not vested with any power under the current law. He said that an administrator would be powerless and only a 'showman' without the full administrative body as well as authority. He urged for a sustainable empowerment system for the local government.

Arguments on ADP Allocation and Implementation and the Padma Bridge

Dr Mohammad Fazlul Bari, Member, Planning Commission was of the opinion that the ADP allocation for FY2013-14 was commensurate with the GDP growth target; the Transport sector had been duly given the highest priority. Apart from allocations, a fast-track project monitoring committee had also been formed to oversee the implementation of large-scale projects included in the ADP, such as the metro rail, rapid transit project (bus) and the PMBP, he added.

Dr Bari felt that prioritising road maintenance over construction of new roads was a good approach pursued in the budget. He also appreciated the importance that had been given to the railway sector through rehabilitating and repairing of railroads and construction of some new tracks that were undertaken in Barisal, Faridpur and Pabna regions.

Mr Enam Ahmed Chowdhury drew attention to the fact that incremental allocation for the Padma Bridge had taken 83.4 per cent of the ADP. He cautioned that because of allocating over Tk. 6,000 crore for the Padma Bridge, development sectors would pay a heavy toll, while health, education and agriculture sectors would also suffer. He expressed discontentment that the government had included Padma Bridge in the ADP just to fulfil the election pledges, which he termed as "a grave mistake."

Mr Manzur Ahmed felt that the ADP implementation was a 'black hole' in the budget due to the lack of transparency in implementation of projects, with some very few exceptions. He was very unhappy that no government had done anything to improve this situation.

Referring to the 55 investment projects that received Tk. 1 crore allocations each, *Mr Enam Ahmed Chowdhury* termed the symbolic allocations "an exercise of futility." He also raised questions as regards block allocation for the 662 unapproved investment projects in the ADP, amounting to around Tk. 3,437 crore.

Dr Mesbahuddin Ahmed was unsure about the sudden surge in project aid utilisation in the ADP in FY2012-13. Relating to the recent experiences, he felt this high rate was rather unusual and urged for more clarification regarding such disbursement.

In response, *Dr Fazlul Bari* mentioned that the efficiency of the project implementation agencies has enhanced over time. He, however, mentioned that despite improvements in the delivery capacity, ADP implementation does not reach hundred per cent because the number of projects is always more than what the government is actually capable of handling. A five-year project in some cases gets dragged on for ten years due to shortfall in required allocation.

Public-Private Partnership for All Sectors Unviable, Implementation Poor, Discouraged

Putting a query as to the status of PPP allocations made in last four budgets, *Mr Enam Ahmed Chowdhury* remarked that there was no development in this regard; particularly the legal framework regarding PPP implementation had not been formulated. He added that the Privatization Commission could have played a part to encourage PPP for certain sectors, but complained that this was not the case.

Expressing reservations regarding PPP, *Dr Mesbahuddin Ahmed* said that the experience around the world shows that PPP had been more of a free ride on the public sector. It is found to be effective only in the physical infrastructure sector where it was successful, including in the US and European countries, but not in other sectors.

Gas Connection for Industries – Advised for Investment and GDP Growth

Mr Mir Nasir Hossain noted that private sector investment had gone down to 19 per cent of GDP against 20 per cent of last fiscal while the SFYP investment projection for FY2013-14 stood at 27.6 per cent. He felt that the government should pay more attention to other factors conducive to investment, such as supply of gas and electricity to the industrial sector and the physical infrastructure.

Government should also provide the needed fiscal incentives to protect local industries and to boost private sector investments. He recalled that the industries were not being given gas connections for the last 4-5 years, despite promises from policymakers and energy advisers of the government regarding prioritisation of industries in relation to domestic gas connection. He opined that the government, however, opened new gas connection for domestic usage to gain favour in the election. This was not a good policy choice.

Mr Hossain suggested that the government should focus on developing industries if it wanted a GDP growth rate at around 7.2 per cent, for which they would need an investment of more than 30 per cent of GDP. He also referred to a World Bank report that noted that the investment should have been over 31.5 per cent of GDP whereas it remained at around 26.8 per cent this year. He appreciated the government for providing fiscal incentives to boost investment, but said that fiscal measures are not the only tools for investment. He urged the government through the Chairman of the Parliamentary Committee of the Finance Ministry to provide gas connections for the industrial sector on a priority basis. Other factors conducive to investment, such as availability of electricity and physical infrastructure were also very important, he added.

Budget Lacked Development Projects for North Bengal

Mr Mayeedul Islam, MP alleged that regional allocation was not made in the budget the way it should have been. He observed that the budget did not include any development project for the North Bengal region. He felt that disparity between the East and the West of the country was similar to that of the case between East and West wings of erstwhile East-West Pakistan; and that it would have worsened further without the Jamuna Bridge.

Furthermore, *Mr Islam* complained that the North Bengal receives a mere 10 per cent electricity supply; and impact of development can be felt only in the cities in this region.

Terming the budget “a violation of the constitution,” he questioned why there were no developments in the North Bengal despite the fact that it was repeatedly mentioned in the national parliament. He urged the CPD to undertake a study concerning this issue and then forward the recommendations to the government for the benefit of the people of North Bengal.

Opportunities Demanded for Youth, New Entrepreneurs, Safety for Investors

Mr Tabith Mohammed Awal, Deputy Chief Executive Officer at Multimode Group held the view that opportunities for the young generation were side-lined in the budget, although majority of the population are youth. As a representative of the young generation, he was of the view that Bangladeshi young entrepreneurs wanted to create jobs, but the required budgetary provisions were missing. He also noted that it was difficult for a new entrepreneur to get capital from the market and banks. *Mr Awal* urged all the concerned individuals engaged in budget preparation for providing incentives to young, prospective entrepreneurs and innovators, and give them the opportunity to take the country forward. In this context, he also noted that private commercial banks were also not providing support to the young entrepreneurs.

Mr Awal also expressed his discontent by saying that in absence of the necessary provisions, many of the young and prospective entrepreneurs were being motivated to rely on political support by either participating in government tenders or in opposition party rallies, which had become a source of income for them. He also called for government investments in productive sectors to create more work opportunities. He emphasised the need for investment in research, education and science, technology, because universities offering BBA/MBA degrees are not centres for academic development of a nation.

In response to Mr Awal’s request for supporting the new entrepreneurs, *Mr Nurul Amin* of Association of Bankers, Bangladesh Ltd. explained that banks do not encourage collateral-free loans for the young entrepreneurs in apprehension that the loans could turn into NPLs. He also said that the recent scams in private and state-owned banks had affected the credit demand of the private sector. He thought that it was the government that should promote and support new entrepreneurs.

Relating to another youth employment issue across the country, *Mr Mayeedul Islam, MP* said that the National Service did not provide adequate support for youth employment because the programme had been initiated only in Kurigram, Gopalganj and Barguna, possibly because the latter two were the constituencies of the Premier and the Finance Secretary respectively.

Professor Dr Barkat E Khuda referred to Dr Salahuddin Ahmed’s comment about lack of specific actions as regards employment generation programme for the large number of youth and active labour force. He emphasised the need for reaping the demographic dividends of Bangladesh. He mentioned that countries in East Asia took advantage of demographic dividends by making heavy investment in education and health to turn the youth into a skilled workforce. Otherwise, they would become a demographic burden resulting in unemployment, social unrest, crime, etc.

Workers' Welfare Requires State Intervention, Budgetary Incentive and Safety Net

Dr Wajedul Islam Khan of Bangladesh Trade Union Kendra stated that the private sector had been adequately emphasised in the budget; the budget should pay equal attention to both private and state-owned enterprises to create competitiveness. He reasoned that privatisation following 1975 induced businesses to go for profit maximisation by taking advantage of cheap labour. He gave the example that it takes Tk. 2-4 lakh to send a worker abroad through private organisations, whereas with the help of Ministry of Expatriates' Welfare and Overseas Employment a proposal to send workers to Malaysia at a cost of only Tk. 30-40 thousand has been initiated.

He felt the budget appeared to have given incentives to entrepreneurs and the business sector but there were no such incentives for the workers and to improve their living condition. He drew attention to the rising price of daily essentials in a free market economy. He observed that the workers were in need of a pay raise because they were getting paid the same wage for several years. He demanded provisions for wage increment in proportion to commodity price hike as was the case in India. He suggested creation of safety net in this regard; he also demanded provisions for full rationing, low-cost housing and free medical care for workers. He mentioned that budgetary allocation for health sector had been curtailed whereas the costs of medications and healthcare have multiplied over the same years. In this regard, he suggested extended community healthcare services in remote areas to ensure free healthcare services through PPPs.

Budgetary Allocation Demanded for Expatriate's Welfare and Foreign Missions

Mr M S Shekil Chowdhury, Chairperson of the Centre for Non-Resident Bangladeshis observed that there was a serious lack of budgetary provision towards maximising the utilisation of expatriates' knowledge and resources. He stated that the Finance Minister's announcement to launch five cultural centres abroad for building a positive image of Bangladesh, as a pre-requisite for creating goodwill in overseas market, has remained unfulfilled. He said that overseas markets for Bangladeshi products and workers would shrink if the government failed to pay attention to the fact that in 2012 about 8.6 million migrant Bangladeshis had sent USD 14 billion in remittance, equivalent to 11 per cent of the GDP, six times of the foreign aid and almost 13 times of foreign direct investment (FDI).

He also suggested that the foreign missions of Bangladesh should receive adequate budgetary allocation to strengthen their capacities, so that they can be of more assistance to the migrant workers facing difficulties. He particularly mentioned about strengthening the missions in the Middle East for speedy delivery of machine readable passports, without which around 2.6 million Bangladeshis in Saudi Arab and 2 million in the United Arab Emirates (UAE) would face trouble having entry and work permit after 2014. Requesting the Finance Minister's attention, he cautioned that remittance would be hampered without a comprehensive policy for market expansion and if the Labour Wings were not further strengthened.

Clarification Demanded for Refinancing of SMEs

Mr Ali Zaman of SME Owners Association of Bangladesh recalled that in the budget speech where Finance Minister had stated that 33,000 SME enterprises had been given refinancing loan. He informed of the existing specific conditions for refinancing which stipulates that the loan would be given to production sector and its interest rate would have to be within single digit. He requested the Bangladesh Bank to publish a list of recipients on its website with information as to whether any refinancing loan had actually been given.

Referring to the second Bangladesh Bank circular as regards the Banking Regulation & Policy Department (BRPD), *Mr Zaman* observed that the circular discouraged the SME sector by listing it under risky areas, alongside consumer credit and credit card. He also expressed displeasure about the 20 to 24 per cent bank interest on loans for SMEs. This was not a rational measure at all to promote the SME sector, he said.

RESPONSES FROM TWO PANELLISTS

Dr M Osman Farruk

Dr M Osman Farruk, former Education Minister and Member of the Advisory Council of the Chairperson of BNP thanked the CPD for its regular and impartial analysis. In his initial response to the FY2013-14 Budget, he found the Finance Minister's budget speech surprising as the Minister had said that the complementary budget's success lied in having no difference between the original and the revised budget. *Dr Farruk* said that the budget should not be just an accounting document of a country's development outcome, rather its development blueprint is supposed to be informed by its budget.

Strongly disagreeing with the Finance Minister's claim of the cabinet's contribution towards the process of budget preparation, *Dr Farruk* said that a printed copy of the budget document was disseminated in the cabinet meeting a few hours before the presentation of budget. He added that the parliament also spends very little time on the budget, and therefore, there is very little opportunity for the cabinet and the MPs' views to get reflected in the budget. This would only change with a change of attitude in the government and leadership, he added.

Drawing upon the speculation that South Asia would control 20 per cent of the world's GDP by 2050, *Dr Farruk* suggested that Bangladesh should put in perspective ways to boost development, reduce poverty and minimise regional disparity, and especially take initiatives to partake advantage of the global development wave towards Asian countries. He noted that at least 4-5 crore people are still below the poverty line despite the past development. Also the country suffers from an economic stalemate because the GDP growth has remained between 5.9 and 6.0 per cent for about 20 years.

Regarding investment, *Dr Farruk* said that the investment-GDP ratio since 1990s had increased from 19 per cent to almost 27 per cent. A 7.0 or 8.0 per cent GDP growth projection would not matter if the investment-GDP ratio remains lower than the savings-GDP ratio, which is indicative of a lack of investment-conducive environment in the country. He apprehended that the government's projections in the SFYP to attain 8.0 per cent GDP growth by 2015 would not materialise in view of the current stalemate. Despite insufficient investment and infrastructure, a sustained 8.0 per cent GDP growth was 'a must' for Bangladesh to graduate to a middle income country, he remarked.

Dr Farruk pointed out a number of issues for which the country has moved away from achieving the macroeconomic targets made over the last four years. Along with a 20-year record-high inflation in FY2011-12, investment did not improve by much amidst heightened political unrest. Regarding regional disparity, the earning ratio among people of various regions was also stagnant or had deteriorated as per the Gini Co-efficient, and the macroeconomic scenario had not improved as anticipated. He emphasised on taking full advantage of the country's potentials to make the necessary progress as regards all these aspects.

Speaking on remittance, *Dr Farruk* noted that Bangladesh had made significant progress in this sector, but he felt that the government's contribution in this was not significant. Workers are migrating amidst hardship, they were on their own, and were sending money to support their families. He referred to surveys showing that poverty incidence was reduced to 15 per cent in areas having migrant workers, against a 30 per cent countrywide average. He acknowledged the government's contribution towards the RMG sector, in areas such as policy framework, back-to-back letter of credit (L/C) and bonded warehouse. However, the FY2013-14 Budget did not address ways to increase labour productivity, he added.

Dr Farruk considered the ADP in the budget as a list of a few discrete projects devoid of interconnectivity, because he believed that the projects were included as per respective ministry's pressure instead of putting projects and sectors within a logical framework. *Dr Farruk* felt the budget lacked any measures to recover from the decelerating growth rates experienced over the last four years.

Given the PMBP's problematic backdrop and that it would account for a large portion of the ADP, *Dr Farruk* remarked that the government did not have any moral justification for binding the upcoming governments with the Bridge project. He felt that the current government would not be able to do much in six months; rather the next government should be given an opportunity to do away with the discrepancies and then renegotiate with the donors and get the required foreign aid against affordable conditionalities to build the Bridge. He considered this as a matter of national interest that should be materialised irrespective of party politics.

Regarding sectoral allocation, *Dr Farruk* said that reducing allocation in education, agriculture, health and social safety net and making increments in government services from 6.8 per cent to 14-15 per cent this year could not be an example of a welfare state. As a result, the social safety net and sectors related to human resources would suffer, as was also mentioned by many participants at the dialogue. *Dr Farruk* also criticised that Bangladesh, as a developing country at post-industrial stage, was not adequately investing towards human resource development.

As regards the provision of whitening black money, *Dr Farruk* distinguished between undisclosed lawful income and ill-gotten black money, saying that legal yet undisclosed income could be allowed to be taxed; however, allowing black money for earning profit was immoral. He felt that investing black money into housing sector was totally unacceptable as it would result in more profit and purchasing of more luxury items only. Rather, it should be invested in human resource development such as construction of school buildings, roads, etc. He reiterated that the revenue collection from black money would not be worth wasting the NBR's time on this. He emphasised taking a moral highpoint regarding black money.

He noted that subsidy and interest payments account for a significant share in the budget, which was disturbing. FDI coming down below 1.0 per cent was yet another concern that *Dr Farruk* flagged in his remarks.

In his concluding remarks, *Dr Farruk* called for reviewing some basic principles alongside statistics. He felt that issues related to economic development must be kept outside of party politics. Through discussion, a mutual consensus among the political parties must be developed prior to the formulation of budget, he said, urging the need for an avenue where people from various perspectives, background, ideas and political thoughts would be consulted in pursuit of the cause of economic development.

Mr A H M Mustafa Kamal, MP

Mr A H M Mustafa Kamal, MP, also Chairman of the Parliamentary Standing Committee on Ministry of Finance thanked the participants for their helpful and constructive suggestions which, he hoped, will enrich the process of revising the budget. He pointed out that more than 80 per cent of Bangladesh's export goes to the developed countries of North America and Europe. Hence, economic situation in the developed countries have significant influence on performance of the Bangladesh economy. In this connection, he recalled that the Awami League assumed power in January 2009, at a time when the worldwide capital market lost 55 per cent of its value due to the global recession. In the backdrop of such a prolonged worldwide recession, *Mr Kamal, MP* felt the government's macroeconomic performance over the last four years to be a brilliant achievement, with an average GDP growth of 6.2 per cent and positive performance of almost all macroeconomic components. However, he also mentioned about some failures in areas such as collapse of the capital market and failure to prevent the Hall-Mark scam or the Bismillah Group scam.

Mr Kamal reiterated that economic performance should be evaluated in terms of the GDP growth record which was over 6.0 per cent for the last couple of years. About revenue collection, he recalled that the incumbent government started with Tk. 49,000 crore and reached Tk. 112,000 crore last year. Of the total revenue collection, earning 33 per cent from direct tax was another achievement, he mentioned. Reducing the gap between individual and corporate tax receipts, increasing the number of individual taxpayers from 8 lakh to 11.59 lakh were other achievements made possible through reform initiatives of the government, noted *Mr Kamal.* In this connection, he also mentioned other achievements such as total tax revenue as percentage of GDP increasing from 10 per cent to 13.5 per cent, export trade growth from USD 14 billion to USD 27 billion with a growth rate of about 15 per cent. He added that despite political instability and other setbacks, achieving 11-12 per cent growth in export trade was a brilliant success.

Mr Kamal felt that the government should be appreciated for increasing the remittance inflow from USD 8 billion to USD 14-15 billion, as well as for the reform measures taken to improve remittance receiving service, which have taken Western Union, MoneyGram, mobile banking and numerous bank branches to remote areas of the country. However, he considered that the current remittance earned by nine million Bangladeshi workers was rather low against the worldwide remittance flow of USD 400 billion earned by 225 million migrant workers.

Shedding light on some of the other achievements of the incumbent government, *Mr Kamal* presented a number of examples: reduction of point-to-point inflation from 9.9 to 7.9 per cent with about 7.5 per cent being the annual average; maintaining the debt-GDP ratio at 45 per cent, which was much lower than the internationally given benchmark; reducing the percentage of people below the poverty line from 38 to 27; maintaining outstanding balance of the external debt at USD 22.5 billion; achieving over 9 per cent trade sector growth and over 8 per cent real estate growth; stabilising the exchange rate. He particularly thanked senior researchers from the CPD for their advice given at a number of parliamentary meetings convened to discuss issues of macroeconomic management.

Mr Kamal believed that the economy was progressing towards sustainable growth. He felt that the way this government had taken steps, without increasing the debt and by moderating inflation and expanding the range of social safety nets, leaves no reason to worry. In this context, he recalled Mr Tabith Awal's comments at the dialogue and expressed satisfaction by saying that the progress achieved by the government in different areas could be safely handed over to the young generation for continuation. He thought that young generation needs to come forward to exploit the available resources and opportunities and take the country forward. Acknowledging the opposition party's right to stage protests, as it happens in all democratic systems, he highlighted that the recent spell of violent *hartals* was a threat to new investors. Private sector investments require political stability, he stressed. *Mr Kamal* felt that together with the business community, the government and the opposition would have to agree on some grounds, which are important for the development of the country.

Explaining why the overall import had plummeted, *Mr Kamal* observed that this was partly due to lower imports of capital machineries for power plants. For the first three years of the government's tenure major imports were made, and later it had reduced because there was less need for the machineries to be imported. Fall in imports of consumer goods for everyday use was another reason, he noted. He ruled out the apprehension that lower imports would affect the economy.

Concerning taxation, *Mr Kamal* argued that lowering tax rate would increase revenue intake. He admitted that the prevailing corporate tax at 42.5 per cent and individual tax at 25 per cent were higher than tax rates in countries such as Singapore, Hong Kong, Malaysia and Japan. *Mr Kamal* also expressed optimism about the prospects of the country's shipping, electronic and furniture sectors, and felt that these sectors had the potentials of becoming next generation of the RMG sector if proper policies are followed.

Before rounding off his remarks, *Mr Kamal* requested the CPD to identify Bangladesh's potentials and ways of making progress based on that and called upon the CPD to include these into their regular macroeconomic analyses.

CONCLUDING REMARKS BY THE CHAIR

Professor Rehman Sobhan summed up the dialogue programme by expressing his thanks to the panellists, discussants and all distinguished participants. He also expressed his appreciation to the media for covering the event and conveying the discussion to the greater audience. He concluded with the hope that the issues raised in the debate and the discussants' reflections over various issues in the proposed budget would be taken cognisance of by the government in the process of revising the FY2013-14 Budget.

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