



বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

## CPD Policy Brief on Budget Recommendations for FY2016-17

*The Brief was prepared based on a CPD paper on **State of the Bangladesh Economy in FY2015-16 (Second Reading): CPD's Budget Recommendations**, which was released to the media on 17 April 2016, in Dhaka*



CENTRE FOR POLICY DIALOGUE (CPD)  
B A N G L A D E S H  
a civil society think tank

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## **A Set of Recommendations from CPD for National Budget FY2016-17**

Centre for Policy Dialogue (CPD) has published the second report of the state of the Bangladesh economy in FY2016 prepared under CPD's flagship programme titled *Independent Review of Bangladesh's Development (IRBD)*. The primary objective of the report was to put forward a set of recommendations in the context of the upcoming national budget for FY2016-17. These recommendations were shared with media at a press briefing held on 17 April 2016 at CIRDAP Auditorium.

### **Recommendations:**

#### **Quality and Sustainability of Economic Growth is Important**

The Government of Bangladesh (GoB) expects the gross domestic product (GDP) growth in FY2016 to surpass the 7 per cent threshold. However, this projection is informed by a number of concerns. Private investment is lower than the projected level; income tax collection remained much lower than was estimated earlier, and the pace of employment generation is yet to evince any visible movement. The nature of the recent acceleration of GDP growth suggests that it is largely driven by the services sector, particularly on the account of significant rise in public salaries. As is known, from the perspective of sustainability and quality of the high GDP growth, it is critically important that growth be driven by enhanced private investment, job creation and distributive justice.

#### **Quality of Fiscal Framework should be Strengthened**

The budget framework for FY2017 needs to be more robust than it has been in the preceding years. The target figures should be set on a more realistic basis, taking the actual figures as reference points. The government has two options: either to go for an ambitious target (i.e. setting high revenue collection and public expenditure targets which are unlikely to be realised), or a moderately ambitious target. Setting moderately ambitious targets with much effort to achieve those is considered to be a better option. Taking advantage of the expanded fiscal space triggered by the reduction in subsidy demands, government can go for higher allocation favouring human development sectors and social protection schemes. Indeed, such an expansionary move would also help *alleviate domestic demand depression*.

#### **Resource Mobilisation should be Given the Utmost Priority**

In view of its stage of development, Bangladesh needs to raise its public expenditure significantly as the percentage of GDP. Hence, stronger efforts more energetic steps are needed towards greater financial resource mobilisation. In this respect, reclaiming the momentum of domestic revenue collection – particularly under the income tax head – will be crucial. In connection to this, the initiatives that need to be undertaken in the FY2017 budget should include:

- Adequate capacity enhancement of concerned government agencies and businesses along with other preparatory measures to operationalise the forthcoming **VAT and SD Act 2012**.
- Plugging the loopholes in term of tax evasion and leakages through illicit financial outflows.
- Greater efforts to mobilise additional financial resources to service the expenditure targets. This should be underpinned by measures geared towards institutional reforms. Measures should include expansion of the tax base, introduction of a **Benami Property Bill**, changes in tax procedures for exporters, greater use of ICT-based tax compliance, further strengthening of Transfer Pricing Cell and expanded use of Alternative Dispute Resolution (ADR).
- Putting in place appropriate institutional set-up to assess the impact and implications of the various fiscal measures in terms of effective rate of protection (ERP), foregone tax revenues, expected benefits and justification for the duration for which such incentives were to be offered in the national budgets.
- The international leaks including the “**Panama Papers**” call for appropriate investigation by the concerned authorities in Bangladesh.
- Free business registration of SMEs would increase tax compliance, as formal registration costs account for up to one-fifth of their expenditure.

### **Increase Expenditure for Health, Education and Social Sectors**

- In various strategic documents including the 7FYP the government has pledged to give education, health and other social sectors the highest priority. Budgetary allocation and future projections regarding social sector spending need to echo this conviction.
- Implementation of **National Social Security Strategy (NSSS)** will require significant allocation of resources.
- Net budget deficit financing from foreign sources is increasingly falling; on the other hand, NSD certificate has emerged as the single largest contributor to financing the budget deficit. In this backdrop, a **foreign aid utilisation strategy** needs to be formulated which would envisage a more proactive role of foreign aid, identify ways to strengthen the aid effectiveness unit at the Economic Relations Division (ERD), and recommend how the process for fund disbursement can be simplified.
- A special **task-force** needs to be formed to closely monitor **important infrastructure projects** which are approaching towards the finishing line.
- In order to protect the interest of the small savers the government may restrain from lowering the rates of interest on NSD certificates. It may rather limit the maximum purchase amount.

### **Being More Transparent in Budget Formulation**

The substantive success of the national budget for FY2017 will hinge on the reform measures it will propose and implement in different areas. There is also a need for a transparent **budgetary process**. Following measures are proposed for this to happen:

- In view of increased volume and change in the composition of government spending, it is important to set up an independent **Public Expenditure Review Commission**. The Commission can provide medium term policy guidelines to the government and formulate a concrete set of strategies in order to improve efficacy of public expenditure in Bangladesh.
- A separate but integrated **budget for local government institutions** will help to provide a strong impetus towards improving the opportunities for higher domestic resource mobilisation and improved demand-driven public investments.
- Stakeholders are keen to know the reasons as to why the **District Budget** initiative was so unceremoniously discontinued in FY2016.
- It is strongly reckoned that establishment of a permanent **Local Government (Finance) Commission** may effectively contribute towards devolution of power and introduction of appropriate financing modalities for local government. This initiative will help to ensure that public expenditure has greater impact at **grassroots levels**.
- There is a need for presenting **detailed financial accounts** of the state-owned enterprises including their assets and liabilities, contingent debts and dues, and accounting practices; this will strengthen budgetary transparency.
- At present it is important to clarify how the **windfall gains of Bangladesh Petroleum Corporation (BPC)** from lower fuel prices in the global market has been utilised.
- There should be **full disclosure** of the details of projects financed from external sources through foreign lines of credit of different non-concessional loans.
- More sunshine is required on the **defence economy** including budgetary and off-budget allocations and spending as well as the way income from quasi-commercial sources are utilised.
- Since NGOs use a significant amount of funds on their own and as part of implementing projects financed from official development assistance (ODA), **linkages of NGO finances with government spending** in different sectors will give a clearer picture about aggregate resources being spent on various developmental activities in the economy.

### **Reforms needed for Raising Efficacy of Delivering Budget**

Given that net financing from foreign sources remains low due to poor aid utilisation, there is a need for initiatives for strengthening project management capacity of government bodies and the human resources involved. Pace of ADP implementation ought to be significantly improved. Domestic revenue mobilisation capacity will also need to be further strengthened in FY2017. Capacity to improve both the quantity and quality of public expenditure should be given highest priority. In this connection, **strengthening monitoring and evaluation system** of the Implementation Monitoring and Evaluation Division (IMED) will be of defining importance.

- Indeed, the government will need to transit from “financial disbursement-based project assessment” to “results-based assessment”. This new approach needs to be introduced in tandem with putting in place a prioritised monitoring mechanism for foreign aided projects.

- Capacity development and improved implementation quality execution power of the concerned government institutions will hinge on finalisation of the **Public Service Act 2011** which needs to be put into action without delay.
- It is observed that currently, the banking sector and the financial markets are not adequately prepared to provide the necessary support towards implementation of the expected budgetary measures and boost private investment. Indeed, it is high time that a high-powered **Financial Sector Reforms Commission** is set up to provide an objective and in-depth assessment of the current health of the banking and non-banking financial institutions of the country. The proposed body will recommend measures to address the problems inhibiting the financial sector and for enhancing its performance.
- It will also be necessary to improve financial reporting and auditing standards in order to properly implement the **Financial Reporting Act 2015**. In this connection, steps should be taken with proper timelines for setting the envisaged **Financial Reporting Council**.
- The recently occurred **Bangladesh Bank heist** has been a wake up call. There should be detailed discussion in the Cabinet, Parliament and Parliamentary Standing Committees as regards to who should be held responsible, state of cyber security in Bangladesh and measures to deter such events in future.
- In the backdrop of ongoing debate as regards to quality of data, GDP growth estimations and also data that will be needed in the context of the Sustainable Development Goals (SDGs), the rational for setting up an independent **National Statistics Review Committee** has become all the more stronger.

## Global Environment

The economy of Bangladesh is being increasingly integrated with the global economy and **international supply chains**. The emergent global economic environment may not remain the same and the benefits gained from the fall in **fuel and commodity prices** may not be available. The upcoming budget should have some **built-in safeguards** in its implementation strategy which may be triggered in case of change in the prevailing scenario and may have possible adverse impact emanating from the global economy.

For the full report, see <http://cpd.org.bd/index.php/cpdirbd>



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