Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

An Analysis of the National Budget for FY2018-19

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CPD IRBD 2018 Team

Dr Debapriya Bhattacharya and *Professor Mustafizur Rahman,* Distinguished Fellows, CPD were in overall charge of preparing this report as Team Leaders.

Lead contributions were provided by *Dr Fahmida Khatun,* Executive Director; *Dr Khondaker Golam Moazzem*, Research Director; and *Mr Towfiqul Islam Khan*, Research Fellow, CPD.

Valuable research support was received from *Mr Md. Zafar Sadique,* Senior Research Associate; *Ms Umme Shefa Rezbana*, Senior Research Associate; *Mr Mostafa Amir Sabbih*, Senior Research Associate; *Mr Md. Arfanuzzaman*, Programme Manager (Project); *Mr Muntaseer Kamal*, Research Associate; *Ms Sherajum Monira Farin*, Research Associate; *Ms Sarah Sabin Khan*, Research Associate; *Mr Md. Al-Hasan*, Research Associate; *Mr Md Kamruzzaman*, Research Associate; *Mr Syed Yusuf Saadat*, Research Associate; *Mr Kazi Golam Tashfique*, Research Associate; *Mr Suman Biswas*, Research Associate; *Ms Lumbini Barua*, Research Associate; *Mr Sk. Faijan Bin Halim*, Research Associate (Project); *Mr Syed Muhtasim*, Programme Associate; *Ms Anika Muzib Suchi*, Programme Associate; *Ms Tanishaa Arman Akangkha*, Programme Associate, *Mr Mahir A. Rahman*, Programme Associate; *Ms Tanzila Sultana*, Programme Associate; *Mr Md. Minhaz Mohaimim Reza*, Programme Associate (Project); *Mr Md Irtaza Mahbub*, Programme Associate (Communication); *Ms Jarin Tasnim Nashin*, Intern; *Ms Shamila Sarwar*, Intern; *Ms Barisha Towhid*, Intern; and *Mr Tahsin Ahmed*, Intern, CPD.

Inputs were also received from *Mr M Shafiqul Islam,* Director, Administration & Finance*; Mr Uttam Kumar Paul,* Deputy Director, Accounts*; Mr Md. Shamimur Rohman,* Senior Accounts Associate*; Mr Muhammad Zillur Rahman*, Accounts Associate*;* and *Mr Md Aurangojeb,* Program Associate (Accounts), CPD.

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2018 Team.

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The CPD IRBD 2018 Team alone remains responsible for the analyses, interpretations and conclusions of this presentation.

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I. INTRODUCTION

- ***The budget for FY19 is being brought out in the context of –***
  - An election year – an opportunity for the incumbent government
  - The penultimate year of Seventh Five Year Plan (FY16-FY20)
  - 1000 days of SDGs implementation (FY19)
  - Double transition – recent entry to the LMIC group (2015), forthcoming graduation from the LDC group (2024)
  - One million Rohingya influx
  - The global economy picking up, commodity prices going up as well
  - Inflationary pressure in China and India, looming trade war in the West, paralysis of multilateral system
- ***Our budget assessment approach***

  Two core objectives based on review of the state of the economy –

  1. Counteracting the emerging stresses on macroeconomic stability
  2. Making economic growth and other achievements more inclusive

I. INTRODUCTION

- *The budget is being brought out in the backdrop of*

Short term strengths

- Stability in growth
- Increased public investment
- Increased export and remittance growth
- Inflation within target
- Expansion of social protection
- Increased flow of foreign assistance

Medium to long term strengths

- Upturn of manufacturing share
- Increased investment in infrastructure
- Improvement in human assets
- Improved food security

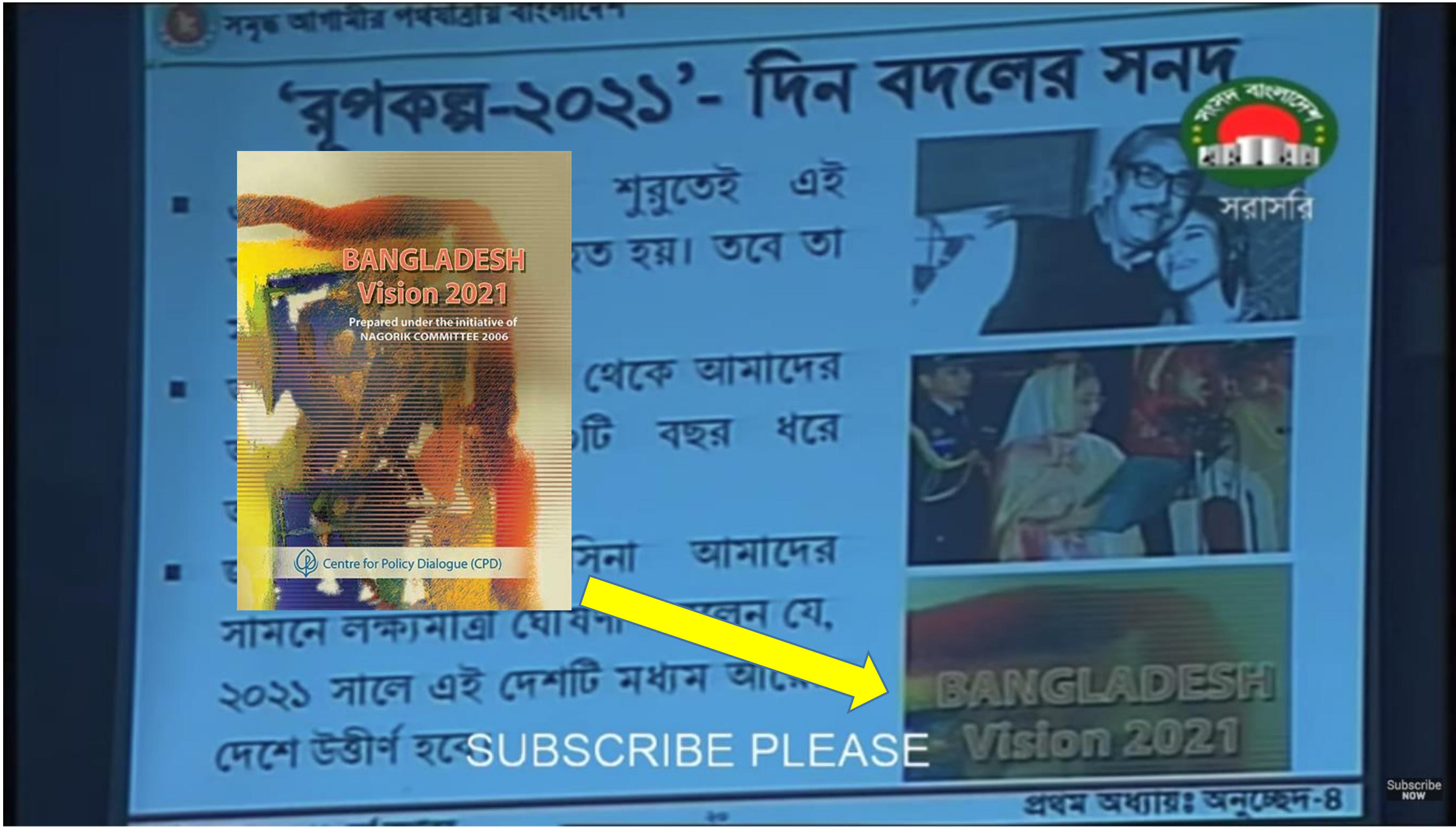
Short term stresses

- Weak revenue mobilisation
- Weak ADP implementation
- Weak price incentives for farmers
- Imbalance in the external sector – increasing current account deficits, pressure on exchange rate and falling terms of trade
- Pressure on food inflation building up
- Banking sector in doldrums
- Volatile capital market

Medium to long term stresses

- Stagnant private investments
- Inadequate employment growth and informalisation of employment
- Skills and productivity deficits
- Entrenched regional imbalances including unplanned urbanisation
- Slowing down of poverty alleviation rates
- Increasing consumption, income and assets inequality

I. INTRODUCTION



CPD (2018): An Analysis of the National Budget for FY2018-19

II. MACROECONOMIC FRAMEWORK

II. MACROECONOMIC FRAMEWORK

GDP, investment and inflation

- For FY19, **GDP growth** target has been set at **7.80%** (7.65% in provisional estimates for FY18, 7.28% in FY17)
- Moderate improvement in GDP growth and marginal increase (0.2 percentage point) in **public investment** have been considered. **Private investment** has been estimated to be **25.1%** of GDP: a **1.9** percentage point **increase** from FY18
  - In FY19, (approx.) Tk. 117,000 crore will be additionally required for private investment (22.7% increase in nominal terms)
  - In FY19, (approx.) Tk. 30,000 crore will be additionally required for public investment (16.1% increase in nominal terms)
- **ICOR** is expected to be **4.3** inFY19 – productivity of capital to decline (4.1 in FY18)
- **Inflation** is assumed to be stable at **5.6%**
  - Upward trends observed in general, food and non-food inflation in the closing months of FY18 [general, food and non-food inflation was 5.83%, 7.32% and 3.58% respectively on April 2018 (on an annual average basis)]
  - Global inflation is predicted to increase (as stated in the MTMPS) in the backdrop of rising prices of key commodities including oil, food, etc.

II. MACROECONOMIC FRAMEWORK

Poverty and inequality

- Poverty and employment estimates pose questions regarding the quality of attained growth in recent years (2010-16)
  - Quite perplexing that pace of poverty reduction and employment growth slowed down when the economy was growing at an average annual rate of 6.5% during the aforesaid period
- The East-West (East: Chittagong, Dhaka, Sylhet; West: Barisal, Khulna, Rajshahi) divide in Bangladesh poverty scenario appears to have resurfaced between 2010 and 2016, contrasting the 2005-10 dynamics
- During the 2010-16 period, income inequality in Bangladesh was on the rise at national, rural and urban levels (Income Gini Co-efficient at the national level: 0.458 in 2010 vs. 0.483 in 2016)
  - Over the same time frame, consumption inequality was fairly constant (Consumption Gini: 0.321 in 2010 vs. 0.324 in 2016 at the national level)
  - Wealth inequality, at the national level, exhibited an increasing trend between 2005 and 2010 (Wealth Gini: 0.72 in 2005 vs. 0.74 in 2010)

II. MACROECONOMIC FRAMEWORK

- If monthly household income distribution is investigated at the decile level, it appears that the bottom 5% and 10% households, at national, rural and urban levels, have suffered significant decline between 2010 and 2016
  - 59.1% and 29.9% decline (in nominal terms) for households in bottom 5% and 10% respectively at the national level
- In contrast, the top 5% and 10% households enjoyed a considerable rise
  - 57.4% and 47.9% increase (in nominal terms) for households in top 5% and 10% respectively at the national level
- The situation was more equitable between 2005 and 2010
- Rich are getting richer, while the poor are getting poorer!

II. MACROECONOMIC FRAMEWORK

Erosion of real income of labour

- Between 2013 and 2015-16, over three years, average real monthly income per worker had **declined** by (-) **3.9**%
- Compared to 2015-16, average real monthly income had suffered an **erosion** of (-) **2.5**% in 2016-17
  - The **decline was higher for female** [(-) 3.8%] compared to male [(-) 1.9 %]
  - It can be seen that pace of **deceleration has accelerated** in 2016-17
- This is observed at a time when wages of formal labour force had been adjusted, particularly for those working in the public sector
- No surprise, despite registering accelerated economic growth and generating employment, the pace of poverty reduction had slowed down
- This indicates that, in recent years the larger share of economic growth may have been **disproportionately distributed** in favour of capital and asset owners, compared to the labour

Domestic savings

- Except for two atypical years (FY16 and FY17) Gross Domestic Saving has been around **22%-23%** of GDP since FY13
- Global literature suggests that one of the common reasons for declining domestic savings is the falling real income and decreasing income growth - is this the case for Bangladesh?
- For Bangladesh, declining Gross Domestic Saving (as % of GDP) might be attributable to the rising dissaving at the lower decile households

Table: Gap between income and consumption (Tk. per month per HH)

Household decile	2010			2016		
	National	Rural	Urban	National	Rural	Urban
lowest 10%	-1940	-1963	-1932	-4095	-4132	-4050
lowest 20%	-1805	-1850	-2028	-3105	-3316	-2460
lowest 30%	-1719	-1717	-1955	-2502	-2733	-1558
lowest 40%	-1555	-1574	-1553	-2059	-2348	-1436
lowest 50%	-1331	-1373	-863	-1647	-1978	-1221

Source: Authors' estimation from HIES 2010 and 2016 data.

II. MACROECONOMIC FRAMEWORK

Public debt

- ❑ Public debt as share of GDP is at a **reasonable** state for Bangladesh (30.8% in FY17, 29.8% in the revised target for FY18)
  - ➢ May increase to some extent in FY19 – driven by increases in both domestic and external debt
- ❑ Currently about **60%** of the public debt is attributable to domestic debt
  - ➢ This composition is expected to rise for our public domestic sources (**62.3%** in FY21)
- ❑ Government needs to use low-cost borrowings –which has not been the case in recent years
- ❑ Interest payments for domestic debt has already risen significantly
- ❑ As we will see later, 19.3% of total operating expenditure goes for debt service liability in FY19 of which 94.8% is for domestic debt
- ❑ In future, debt servicing for large infrastructure projects financing may put additional pressure in case of foreign sources – debt sustainability may become an issue

II. MACROECONOMIC FRAMEWORK

Monetary and external sector

- A stable outlook is perceived for the monetary and external sector during FY19 to FY21
- Growth of credit to private sector is moderate (16.5%) for FY19, which is expected to reach 16.9% in FY21
- Growth target for export has been set at 10.0% in FY19
  - Up to May FY18, total export growth was 6.7% - mainly driven by RMG export (9.8% growth), but non-RMG export remains a concern [(-) 6.6% growth]
- Growth target for import has been set at 12.0% in FY19
  - Up to March FY18, total import growth was 24.5% which MTMPS expects to come down to 20% by the end of the year. The target for FY19 appears to be on the lower side given the high import demand of ongoing and upcoming large infrastructure projects

Monetary and external sector

- Remittance growth target for FY19 has been set at 15.0%. On the basis of "quite significant growth in overseas employment (not true – only 1.1% up to April FY18)"
  - Up to May FY18, remittance inflow grew at 17.7% – but this was on top of the dismal performance in FY17 (and also FY16)
- Exchange rate is expected to be stable – reaching Tk. 82/USD on an average in FY19, but pressure on Taka may increase if current account falters further
- It appears that weakness in external sector is either not recognised or projected to recover
  - Currently Tk. 83.7/USD - predicted BDT to appreciate against USD

III. FISCAL FRAMEWORK

Supplementary budget

- A total of Tk. 400,266 crore was allocated to 62 ministries/divisions
- In revised budget, allocation increased by Tk. 15,339.83 crore for 24 ministries/divisions where combined allocation (additional) share of Prime Minister's Office and Power division is 47.41%
- Allocation decreased by Tk. 46,055.66 crore for 35 ministries/divisions
- Overall budget allocation decreased by Tk. 28,771 crore (7.2%) and stood at Tk. 371,495 crore

Top 5 Ministry/Division by increase in % allocated	Share (%) required	Allocation share of development sector	Purpose of supplementary budget
Power Division	25.59%	99.7%	Allocation for 26 ongoing and 18 new projects
Prime Minister's Office	21.82%	96.9%	Allocation for 5 ongoing project
Local Government Division	12.18%	70.8%	Allocation for 84 ongoing and 44 new projects
Roads and Highways	7.71%	42%	Allocation for 25 ongoing and 55 new project
Economic Relations Division	7.58%	.003%	Foreign debt and interest payment

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III. FISCAL FRAMEWORK

Medium Term Outlook

- Compared to RBFY18, both revenue and total expenditure (as share of GDP) is expected to grow by about 1.8 percentage points in FY19
- No reflection on implication of revenue mobilisation related reforms (e.g. VAT and SD Act 2012 to be implemented in FY20 according to the revised timeline)!
- Foreign assistance to finance budget deficit in FY19 is expected to be 2.1% of GDP – same as RBFY18
  - To decline gradually till FY21 with higher dependence on domestic sources

Fiscal framework as share of GDP (%)

Indicators	FY15	FY16	FY17	FY18 (B)	FY18 (RB)	FY19 (T)	FY20 (T)	FY21 (T)
a. Revenue	**9.5**	**10.0**	**10.3**	**13.0**	**11.6**	**13.4**	**13.8**	**14.2**
a.1 Tax revenue	8.5	8.7	9.1	11.6	10.4	12.2	12.5	12.9
a.1.1 NBR tax	8.2	8.4	8.8	11.2	10.1	11.7	11.9	12.3
a.1.2 Non NBR tax	0.3	0.3	0.3	0.4	0.3	0.5	0.6	0.6
a.2 Non-tax revenue	1.0	1.2	1.2	1.4	1.2	1.3	1.3	1.3
b. Expenditure	**13.0**	**13.5**	**13.7**	**18.0**	**16.6**	**18.3**	**18.8**	**19.2**
b.1 ADP	4.0	4.3	4.2	6.9	6.6	6.8	7.0	7.2
c. Budget deficit	**-3.5**	**-3.5**	**-3.4**	**-5.0**	**-5.0**	**-4.9**	**-5.0**	**-5.0**
c.1 Domestic financing	2.8	3.0	2.8	2.7	2.9	2.8	3.2	3.4
c.1.1 Banking	0.3	0.6	-0.4	1.3	0.9	1.7	2.4	2.6
c.2 Foreign financing	0.6	0.5	0.4	2.3	2.1	2.1	1.8	1.6

III. FISCAL FRAMEWORK

Broad fiscal framework

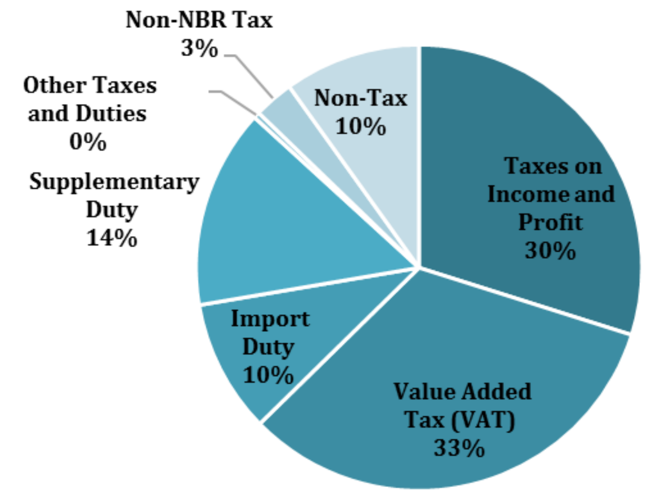
- **Revenue** (30.8% against trend growth rate of 16%) projected to grow **faster** (to collect additional Tk. 79,826 crore) than **public expenditure** (25.1% against trend growth rate of 14.7%)
  - Total budget expenditure is set at 18.3% of GDP (16.6% in RBFY18)
  - Revenue income will be 13.4% of GDP (11.6% in RBFY18)
- **Development expenditure** (16.9%) programmed to grow **slower** than **operating expenditure** (29.8%): **77% of total incremental budget allocation for operating expenditure** (earlier known as non-development expenditure)!
- **ADP**: 37.2% of total public expenditure (39.9% in the RBFY18)
- **Budget deficit** has been projected at 4.9%of GDP (5.0% in RBFY18, actual in FY17 was about 3.1% of GDP)
- Balance in financing the budget deficit is likely to be restored through limited foreign financing and increased bank borrowing
  - NSD sales is programmed to be reduced – contradicting ongoing trend

III. FISCAL FRAMEWORK

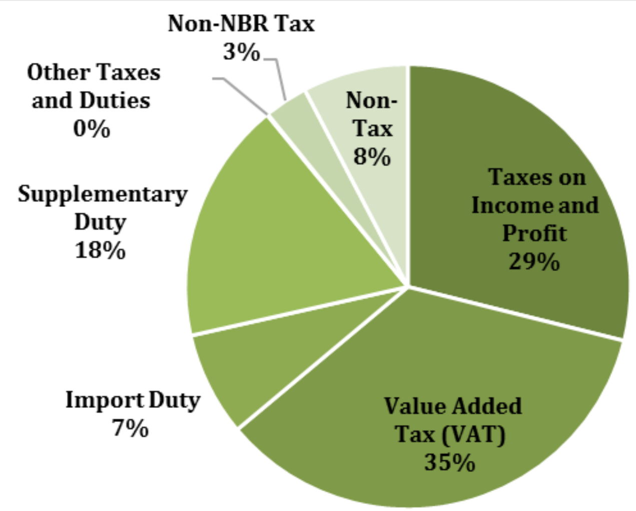
Revenue mobilisation

- ❑ Budget FY19 targets an additional Tk. 79,826 cr. revenue with a 30.8% growth over RBFY18
  - ➢ CPD projection: more than 40%
- ❑ NBR to take the lead role (accounting for 89.2% of incremental revenue) with 31.6% growth
- ❑ Non-NBR revenue (non-tax plus non-NBR tax) growth for FY19 is relatively lower (25.0%)
- ❑ Import duty collection growth target is 22.7%

Share of revenue FY19



Incremental share of revenue FY19



III. FISCAL FRAMEWORK

- More reliance on VAT (to grow by 33.7%) compared to income tax (29.6%)
- More reliance on individual income tax (to grow by 58.4%) compared to corporate tax (15.9%)
  - LTU to collect Tk. 2,370 crore less compared to RBFY18
- More reliance on VAT at domestic level – opposite for SD
  - VAT on import to grow by 31.2%, while on domestic by 35.1%
  - SD on import to grow by 51.4%, while on domestic by 37.1%
- Overall revenue growth will still need to be triple than the trend growth rate (FY10-FY17)

III. FISCAL FRAMEWORK

Total Public Expenditure

Sector	Share in BFY19	Share in RBFY18	Change in FY19B over FY18R		Incremental Share
	%		Crore Tk	%	%
Public Services	18.0	11.2	41777	100.1	44.9
Education and Technology	14.6	16.1	8007	13.4	8.6
Transport and Communication	12.2	12.6	9510	20.3	10.2
Interest Payments	11.1	10.2	13420	35.4	14.4
LGRD	7.0	8.1	2689	9.0	2.9
Defence Services	6.3	7.1	2669	10.1	2.9
Social Security and Welfare	5.8	5.9	5260	24.0	5.7
Public Order and Safety	5.7	6.5	2613	10.9	2.8
Agriculture	5.7	5.7	5226	24.8	5.6
Energy and Power	5.4	6.5	660	2.7	0.7
Health	5.0	5.4	3369	16.8	3.6
Housing	1.1	1.0	1180	31.2	1.3
Recreation, Culture and Religious Affairs	0.9	0.9	928	27.2	1.0
Industrial and Economic Services	0.7	0.8	510	17.3	0.5
Others (Memorandum Item)	0.5	1.9	-4740	-65.6	-5.1
Total Expenditure	**100.0**	**100.0**	**93078**	**25.1**	**100.0**

- Public services and interest payments account for about 59% of total incremental expenditure

III. FISCAL FRAMEWORK

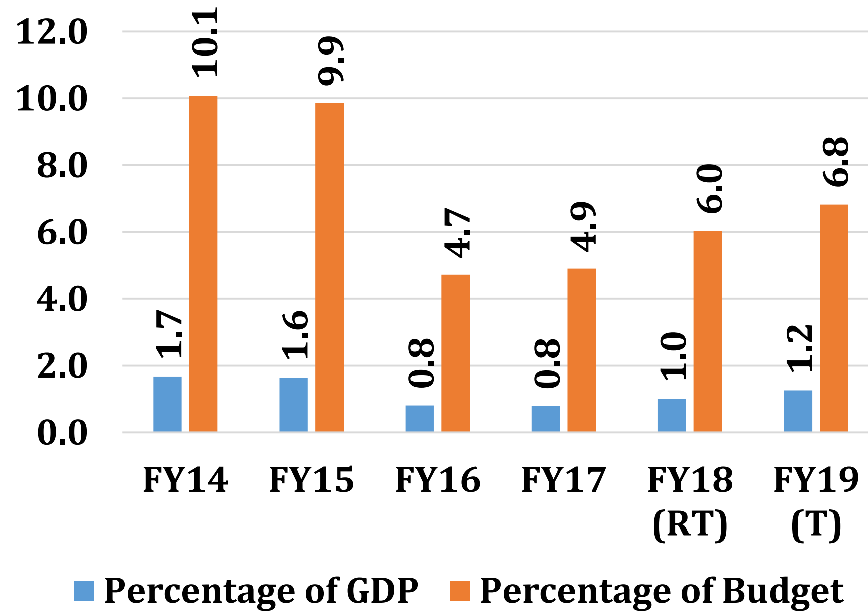
- **Public Services Sector** receives incremental Tk. 41,777 crore of which Tk. 41,172 crore is for Finance Division
  - Subsidy and Incentives increases incrementally to Tk. 11,001 crore (Total allocation - Tk. 19,601 crore)
  - Pension and Gratuities increases incrementally to Tk. 12,431 crore (Total allocation - Tk. 22,439 crore) – kept for retired government employees
  - Investments in Equities increases incrementally to Tk. 22,491 crore (Total allocation - Tk. 24,556 crore)??!!
  - Curiously, of the total incremental allocation of Finance Division, about Tk. 39,391 crore increased for operating expenditure (Tk. 25,501 crore for recurrent and Tk. 13,890 crore for capital)
  - Historically, Finance Division is known for being the custodian of all lump allocations
  - Surprisingly, no explanation has been given for keeping such a large amount for investment in equities!
- Total incremental allocation for Interest Payments – Tk. 13,420 crore
  - Of which, domestic - Tk. 12,973 crore
  - Incremental allocation for interest on national savings (NSD) - Tk. 13,154 crore

III. FISCAL FRAMEWORK

Subsidy and incentives

- ❑ Total allocation for FY19: Tk. 31,700 crore
  - ➢ 41.6% increase from RBFY18, highest since FY14
  - ➢ Agriculture received 28.4% of the total allocation (Tk. 9,000 crore)
- ❑ In FY19, no subsidy (loans) was allocated to BPDB or BPC whereas Tk. 13,700 crore (43.2%) was given to 'others'

Subsidy: Share of GDP and total budget



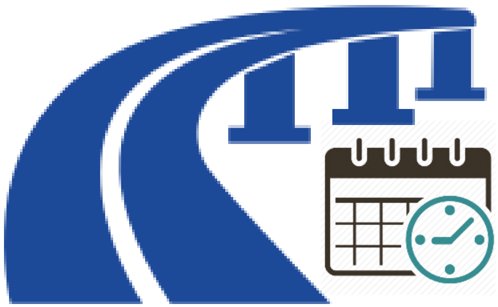
- ❑ The composition of allocation appears way off the mark given that BPDB and BPC is expected to make a loss of Tk. 1,247 crore and Tk. 1,111 crore respectively in FY19 (BPC's profit making for three years may help)
  - ➢ Power generation with imported LNG and upward trend in global oil price may create added demand for subsidy
- ❑ Industry sector which includes BTMC, BSFTI, BCIC, BJMC had been in consecutive loss – a major concern! – Whither privatisation agenda!

III. FISCAL FRAMEWORK

Budget Deficit and Financing

Description	BFY19		RBFY18		Growth	AFY17	
	Crore Tk	% of GDP	Crore Tk	% of GDP	BFY19 over RB FY18	Crore Tk	% of GDP
Foreign Grants	4,051	0.2	4,457	0.2	(9.1)	701	0.0
Foreign Loan-Net	50,016	2.0	41,567	1.9	20.3	11,603	0.6
Domestic Borrowing	71,226	2.8	66,017	2.9	7.9	55,985	2.9
Bank Borrowing (Net)	42,029	1.7	19,917	0.9	111.0	-8,379	-0.4
Non-Bank Borrowing (Net)	29,197	1.2	46,100	2.1	(36.7)	64,364	3.3

- Share of domestic financing 56.8% in FY19 (58.9% in RBFY18)
- Tk 42,029 crore (59% of domestic financing) will come from the bank borrowing (30.2%% in RBFY18) – will drastically reduce NSD sale (Tk. 22,000 crore), but no measure indicated
- Gross foreign aid requirement will be around USD 7.9 bln (USD 6.8 bln in RBFY18) – USD 4.0 bln being received during Jul-Mar FY18
- Much will depend on project aid utilisation of ADP – about 93% of total foreign resources are for ADP projects



IV. ANNUAL DEVELOPMENT PROGRAMME

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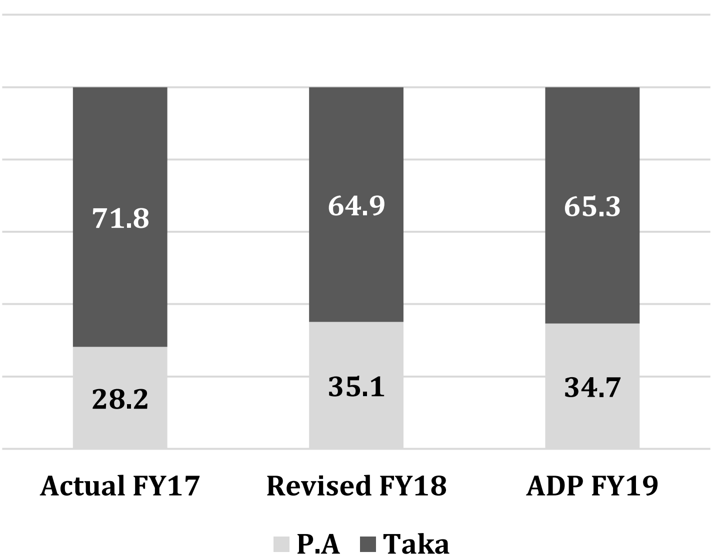
Annual Development Programme

- ADP of Tk. 1,73,000 crore has been proposed for FY19
  - 6.8% of GDP in FY19 (same in FY18)
- 12.8% higher than ADP and 16.6% higher than RADP for FY18
  - The rate of implementation of original ADP in FY17 was 70% (lowest since FY07), average: 81% in last 10 fiscal years
  - Project Aid to finance 34.7% of total ADP in FY19 (35.1% in RADP of FY18)
    - Project Aid for FY19 increased marginally by 5.3% from original ADP of FY18
    - **Rooppur Power Plant** accounts for 14.2% of project aid allocated for overall ADP for FY19
  - Revenue surplus to finance 24.1% (Tk. 41,773 crore) of total ADP in FY19: 20.4% (Tk. 30,315 crore) in RADP of FY18

ADP Financing Structure (% of total)



IV. ANNUAL DEVELOPMENT PROGRAMME

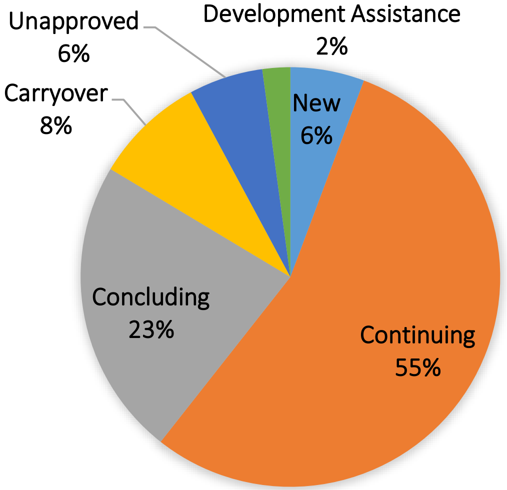
Top Five Sectors in ADP FY19

Sector	No of Projects ADP FY19	Share (%) ADP FY19	Share (%) RADP FY18	Share (%) ADP FY18	Growth (%) ADP FY19 over RADP FY18
Total Five Sectors	**786**	**69.1**	**71.4**	**68.3**	**12.9**
Transport	225	26.3	25.3	26.8	21.2
Power	87	13.3	15.1	12.3	2.6
Physical Planning, Water Supply & Housing	231	10.3	10.2	9.7	18.1
Rural Development & Institutions	125	9.6	11.3	8.6	-0.2
Education & Religious Affairs	118	9.6	9.6	10.9	17.2
Other 12 Sectors	**553**	**28.9**	**26.2**	**29.5**	**28.3**
Development Assistance	**NA**	**2.0**	**2.4**	**2.2**	**-2.3**
Total	**1,339**	**100.0**	**100.0**	**100.0**	**16.6**

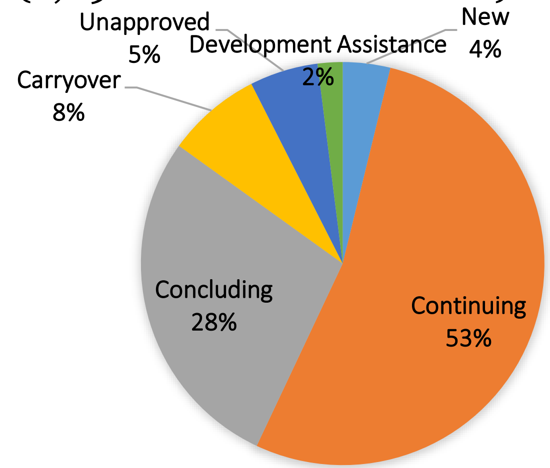
- The **top 5 sectors** have received **69.1%** of total ADP allocation – concentration ratio to increase marginally from FY18
- Transport Sector once again has received the highest allocation (26.3% of total) for the second highest number of projects (225): 21.2% growth over RADP FY18
- For FY19, Physical Planning, Water Supply & Housing has received third highest share in ADP allocation: 18.1% growth over RADP FY18 – with the highest number of projects (231)
- Apart from Rural Development and Institutions, all other top 5 sectors received higher allocations compared to RADP FY18 – RDI received substantial rise in RADP allocation
- Tk. 3,467 crore was provided to Development Assistance (2.3% lower than ADP FY18)

IV. ANNUAL DEVELOPMENT PROGRAMME

- The ADP for FY19 contains **1,347 projects** (1,192 for ADP of FY18)



FY18 Number of Total Projects: 1,192



FY19 Number of Total Projects: 1,347

- Almost similar trend in the structure of ADP continues, apart from more allocation for concluding projects and less allocation for continuing projects for FY19 compared to FY18 – **positive sign!**
- **112 new projects** are included in FY19 (90 in FY18): 4.1% of total ADP allocation (5.7% in FY18);
  - 311 new projects were included in the RADP for FY18
- 53% of allocation is provided to 436 projects which will continue to the next ADP (for FY20)

Independent Review of IRBD Bangladesh's Development

IV. ANNUAL DEVELOPMENT PROGRAMME

- However, a total of 538 projects are scheduled to be concluded in FY19, according to project completion timeline
- **267 carryover projects** consist of **7.6%** of the total allocation
  - Physical Planning, Water Supply & Housing sector has 51 of these projects, followed by Transport (45), Industry (25), Education (24) and Power (23)
  - Thus total number of projects which should be concluded: **805**
- Planning Commission identified **446** projects which may be **completed in FY19**
  - Many of these are unlikely to be completed by FY19
- 78 projects were included in the PPP list in FY19 (36 in FY18) **- no visible progress in earlier ventures!**
  - Tk.2,000 crore allocated for PPP purpose – kept with finance division
- Too many projects are listed without allocation – this number is increasing consistently

Project Status	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Unapproved projects without Allocation	800	702	720	662	624	857	1,172	1,315	1,338
Projects listed to seek Foreign Funds	292	259	327	346	338	382	349	360	326
Total Number of Projects in the ADP	**916**	**1,039**	**1,037**	**1,046**	**1,034**	**999**	**1,141**	**1,192**	**1,347**
PPP	23	16	13	44	40	40	32	36	78
Possible Completion	287	305	330	305	324	324	354	411	446

IV. ANNUAL DEVELOPMENT PROGRAMME

Status of ‘to be completed’ projects in important sectors

- Majority of the projects in the priority sectors that are scheduled to be completed by FY19 but unlikely to be completed even if it spends entire allocation for FY
  - About 69% of all to be completed **Roads and Infrastructure** projects (88) will achieve less than 90% progress
  - In **power and energy** sector, only 21.7% of its 46 to be completed projects will achieve more than 90% progress
  - The situation is relatively better for Local Government projects

Maximum possible completion of projects in priority sectors by FY2019

Sectors	No. of Projects to be completed by FY19	Possible completion in FY19 (%)		
		<50	(50-90)	>90
Roads and Infrastructure	88	26.1	43.2	30.7
Power and Energy	46	28.3	50.0	21.7
Education and Health	71	9.9	43.7	46.5
Local Government	46	13.0	23.9	63.0

- Few mega projects that are scheduled to be completed in FY19 but will not be completed include **Padma multipurpose Bridge project**, Providing Electricity Connection to 15 lakh clients through Rural Electricity extension, Installation of Single Mooring with Double Pipe Line etc.

IV. ANNUAL DEVELOPMENT PROGRAMME

Fast Track Projects

- Tk. 28,849 crore is allocated for FY19 which is 17% of total ADP of FY19 (Tk. 30,929 crore and 19.8% in FY18)
- Most of the projects did not make considerable progress except Padma Bridge project
  - Unable to utilise allocated budget (unutilised resources in FY17 was Tk.13,689 crore)
- Given the progress of work of Padma bridge, it would not be possible to complete the remaining works of main bridge, river training and rail links by December 2018

Progress of Fast Track Projects

Project Name	Project Period	Project Cost (Tk.cr.)	Projected Progress till Apr, 2018	Possible Progress till June, 2019
Padma multipurpose Bridge project	Jan 2009-Dec 2018	28,793	53.6%	80.2%
Dhaka Mass Rapid Transit Development Project (Metro Rail)	Jul 2012-Jun 2024	21,985	14.9%	42.8%
Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project	Jul 2014-Jun 2023	35,984	14.0%	22.2%
2x660 MW Moitree Super Thermal Power Plant (Rampal)	Jul 2009-Jun 2020	16,000	15.9%	N/A
Construction of Rooppur Nuclear Power Plant	Jul 2016-Dec 2025	113093	8.1%	19.7%
Padma Bridge Rail Link	Jan 2016-Jun 2022	34,989	6.3%	40.6%
Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border	Jul 2010-Jun 2022	18,034	16.4%	26.3%
Developing Port Infrastructure/Support Facilities of Payra Port for Commencing Port Operations	Jul 2015-Jun 2020	3,351	20.9%	31.4%

IV. ANNUAL DEVELOPMENT PROGRAMME

- Practice of **providing symbolic allocation** (the minimum to keep the project in the ADP list) is still **pervasive and increasing**
- **64 projects under ADP received only Tk. 1 lakh** for FY19; 26 projects received such allocation in FY18: 2.5 time more
  - Projects under Tk. 1 lakh have been increasing for subsequent years (18 projects in FY16)
  - 59 of those projects are investment projects (All of them in FY18)
  - **57 (89%) of those are carried over from ADP FY18**
  - 19 of the 64 projects are from Physical Planning, Water Supply & Housing sector (Only 2 in FY18)
- **90 'investment' projects under ADP received only Tk. 1 crore or less** for FY18; (48 in FY18)
  - FY17 had 31 such 'investment' projects
  - 76 of the projects are carryover (48 of those were carryover in FY18)
  - As a whole, these 90 projects received only Tk. 19.1 crore allocation in ADP FY18 (averaged Tk. 21.18 lakh per project)
  - Projects from 15 different sectors shared this allocation

IV. ANNUAL DEVELOPMENT PROGRAMME

❑ Ageing projects (Zombies!)

- Out of 1,225 investment projects, 586 (47.8%) are at least 2 years old
- Average age of these 586 projects are 4.6 years
- **11** of these 586 projects are 10-16 years old while **4** of them are more than 15 years old
  - Establishment of 250 bedded National Institute of Ophthalmology & Hospital (16 years), Upgradation of 50 bed National Institute of Cancer Research and Hospital into 300 Bed (15 years), Tannery Industrial Estate, Dhaka (15.5 years), Construction of Third Karnaphuli Bridge (15 years) – revised more than once
  - Average implementation rate of these four projects was about 69% up to Feb 2018
- 18.7% of such projects have already been revised between 1-4 times
- Number of revisions of projects: 1st (146), 2nd (52), 3rd (16), 4th (1)
- Revised unapproved projects: 71

❑ 326 projects has been listed with an expectation to be financed with foreign aid

- The estimated cost for all of the projects were considered as USD 124.8 billion
- Estimated project aid to be obtained from different sources are USD 51.3 billion
- Highest share of project aid obtained is in power (37.7% for 46 projects) and transportation (31.9% for 107 projects) – emphasis on infrastructure to continue!

Cost and time overrun reduces the efficacy of public investment

- Cost escalation and time extension is observed for flagship infrastructure projects
  - **For example, the timeline of PMB increased by 42.9% due to successive revisions which led to an increase in cost by 183.3% - further extension of time and allocation of additional resources is inevitable!**
  - **Similarly, infrastructure development of Payra Port project also faced cost (210.8%) and time escalation (66.7%)**

Cost and Time Overrun of Major Projects

Project Name	Cost (Crore Tk.)			Timeline (Years)		
	Initial Cost	Revised Cost	% increase	Planned Years	Revised (Expected date of completion)	% increase
Padma Multipurpose Bridge	10,162	28,793	183.3	7	10	42.9
Joydevpur-Mymensingh Road Improvement Project (JMRIP)	902	1,815	101.2	3	6	100.0
Developing Port Infrastructure/Support Facilities of Payra Port for Commencing Port Operations	1,128	3,506	210.8	3	5	66.7
SASEC Road Connectivity: Improvement of Joydebpur-Chandra-Tangail-Elenga Road (N-4) to 4-Lane Highway	2,788	3,365	20.7	6	7	16.7
Support to Dhaka Elevated Expressway PPP Project	3,217	4,869	51.4	4	10	150.0
Dhaka-Chittagong Railway Development Project	1,151	2,138	85.7	7	12	71.4
Construction of Bibiana-3, 400 MW Combined Cycle Power Plant	3,358	3,358	0.0	3	6	100.0
Shikalbaha Duel Fuel 225 MW Combined Cycle Power Plant	2,008	2,008	0.0	4	6	50.0
School Feeding Programmes in Poor and Distressed Areas (SFP)	1,143	4,992	336.8	4	11	175.0
Physical Infrastructure Development for Selected Private Secondary Schools (PIDSPSS)	2,115	2,253	6.5	3	7	133.3

IV. ANNUAL DEVELOPMENT PROGRAMME

- **Self-financed development budget is reported for the fifth time (since FY14)**
- Allocation for autonomous bodies and corporations has been increased to 7,869 crore (26.8% decline over FY18) in FY19
  - Lowest number of projects (105) since FY14 – good initiative since a large part of the allocated resources remain unutilised at the end of fiscal year
  - Among the 105 projects, 'Physical Planning, Water Supply & Housing' has the highest number of projects (46), followed by 'Oil, Gas and Natural Resources' (26), Transport (17) and Power (9)
  - Implementation rate is no better than others
    - The implementation rate (40.3%) in the first ten months of FY18 was lower compared to overall ADP implementation (50.2%) in the corresponding period

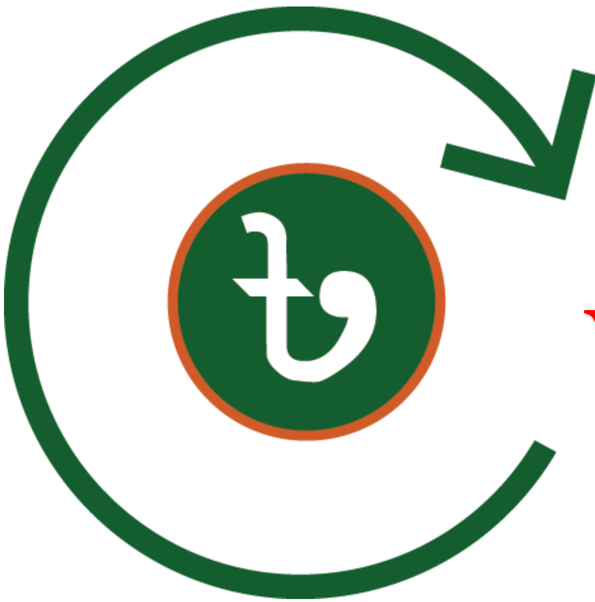
Self-financed projects of autonomous organisations

	FY14	FY15	FY16	FY17	FY18	FY19
Number of projects	130	153	125	155	116	105
Allocation	8,114	5,685	3,997	12,646	10,754	7,869
Utilisation	34.9	45.9	67.0	50.5	40.3 (Jul-Apr)	
Overall ADP implementation	86.4	85.3	86.1	91.1	50.2 (Jul-Apr)	

IV. ANNUAL DEVELOPMENT PROGRAMME

- **The business as usual regarding ADP continues -**
  - Large number of projects with stagnating implementation capacity
  - Rising number of unfunded projects
  - Inadequate fund for concluding projects and persistence of carry-over projects
  - Pervasive practice of providing symbolic allocation
  - Persistence of ageing projects and '**zombie**' projects
  - Cost and time-overrun for major infrastructure projects continue

Independent Review of Bangladesh's Development



V. FISCAL MEASURES

Personal Income Tax (PIT)

- No change in the tax slabs and tax rates of personal income tax
- Tax-free income threshold for personal income stays same at Tk. 2.5 lakhs – *does not consider the added pressure of the rising food inflation and decreasing average monthly real wage*
  - The PIT threshold was last increased in FY16 from the previous ceiling of Tk. 2.2 lakhs in FY15 (13.6% increase)
    - Compensation *needed* for the 16.9% increase in CPI between July 2015 and March 2018
  - The ratio of current threshold amount to *per capita income* of FY17 is **1.85:1**
  - ***CPD has proposed raising the threshold to Tk. 3 lakh and adding a new (first) slab with 7.5% tax***
- Rather, perquisites ceiling has been increased to Tk. 5.5 lakhs from Tk. 4.75 lakh *- will benefit the higher income people and not the low-income ones*

V. FISCAL MEASURES

- Tax-free income will be Tk. 50,000 (previously Tk. 25,000) higher for parents or legal guardians of persons with disabilities –*promoting social equity*

Wealth Surcharge

- Minimum net wealth exemption limit remains at Tk. 2.25 crore
- Wealth surcharge coverage expanded: owners of at least two cars or at least 8,000 sq. ft. of housing property– *welcome move to increase revenue and from equity perspective*
- Minimum wealth surcharge applicable for net wealth exceeding Tk. 10 crore has been increased to Tk. 5,000 (previously flat rate Tk. 3000 was applicable)

Additional tax imposition to promote inclusivity

- Imposition of 5% additional tax on medical service provider, if it fails to ensure special accessibility facilities for persons with disability to the place of service (applicable from 1 July 2019) – *this will help ensure services to persons with disability*

Corporate Tax

- The tax rate for banks, insurance and financial institutions has been reduced by **2.5%** which leads to the following:
  - Publicly traded institutions and the ones approved by government in 2013: 40% to **37.5%**
  - Non-publicly traded institutions: from 42.5% to **40%**
    - *Reduction may lead to loss of revenues worth about Tk. 1000 crore*
    - *Wrong signal: No distinction made based on performance*
    - *Hardly likely to increase liquidity*
- Tax on RMG export earnings have been increased – *more revenue generation*
  - 12.5% (from 12%) if the company is publicly traded, and 15% (from 12%) otherwise
  - 12% for companies with Green Building Certification (from 10%)– *to encourage environment-friendly production, the rate could have remained the **same***

Special Tax incentives (waivers/exemptions)

- Tax exemption on *taxed dividend* to be received by a company resident in Bangladesh
- Tax exemption for
  - income from operation of day care home (for elderly and children)
  - income from the operation of an educational or training institution run exclusively for persons with disability

    - *good initiatives in terms of promoting social responsibility*
  - Remittance earning from proceeds of sales of software and services to a foreigner (individual or company) - *this will promote development of export-oriented ICT sector which has significant potentials*
- Return of income tax waived for non-resident Bangladeshis (NRBs) having no permanent establishment or fixed base in Bangladesh – *Will reduce hassle for NRBs*

V. FISCAL MEASURES

New measures to expand tax base

- TDS (tax deducted at source) on the payment received by the owners of motor vehicles used in ride sharing services at the rate of 3%
- 5% VAT on provider (e.g. Uber, Pathao) of popular app based services – *the burden will be passed on the consumer*
- Dealers of companies/distributors *brought under tax net*: 1% TDS to be deducted by dealing banks or financial institutions – *will enhance revenue*

New provisions to expedite and monitor tax collection

- Collection of information regarding filing of return: All employers to inform the NBR about submissions of returns by employees
- Automation of sharing data of other departments and agencies with tax department and also via e-mails
- Serving notice via e-mail
    - *These provisions will reduce tax evasion and bring more people under tax net*

V. FISCAL MEASURES

Undisclosed money

- Existing provisions about undisclosed money remain **same** : opportunities to invest in real estate under Special tax treatment (19BBBBB), opportunities to invest in government treasury bond by paying only 10% tax (19C), and voluntary disclosure of income through payment of 10% penalty in addition to regular tax (19E)
- ***CPD's position:***
  - *The existing provisions should be discarded to disincentivise tax avoidance/tax evasion*
  - *A legal framework to deal with benami property is necessary*

Tax Administration

- On-line return submission coverage expanded *- will reduce hassle and increase efficiency*
- Mandatory installation of Electronic Fiscal Device (EFD) instead of Electronic Cash Register (ECR) and Point of Sale (POS) in all hotels, restaurants, resorts and shops across the country from FY20 – *will help ensure transparency in VAT collection system*
- New Customs Act 2014 not likely to be passed in this year – *Government fails to give priority to needed reforms to modernize the tax system*
- Formation of Investment Promotion Team and National Single Window (NSW) working group – *needs to expedite*

V. FISCAL MEASURES

VAT-related Developments

- ❑ Changes in the Value Added Tax Rule 1991 to facilitate online return submission
- ❑ VAT Online system to be introduced
- ❑ 15% standard rate of VAT to continue according to VAT Act 1991
- ❑ Turnover tax rate remained unchanged at 4% for traders with turnover threshold between Tk. 36 lakh and Tk. 1.5 crore
- ❑ Truncated VAT rates are reduced from 9 to 5 rates for FY19
  - ➢ these are 2, 4.5, 5, 7 and 10%
- ❖ Attempts to take preparatory steps in view of operationalisating VAT and SD Act 2012 from July 2019

Changes in duty structure at local level

Protection for the small industries and marginal groups

- ❑ Food items such as **cheap loaf, handmade biscuits**, etc. which are priced below Tk. 100/kg has been VAT exempted. Similar measure has been proposed with regard to **sandals and slippers** made of rubber and plastic – *marginal groups friendly steps*
- ❑ For protection and development of local livestock industries, import of millet seed as a Fodder Crop Seed has been exempted from VAT on import – *will reduce animal food price*

V. FISCAL MEASURES

Development of local industries

- VAT and surcharge exemption have been proposed **on local manufacture of mobile phone.** At the same time, imports of mobile handsets are to be discouraged with imposition of 2% surcharge on the import - *expected to incentivise the industry and attract investment*
- Exemptions and concessionary rate of import duties for some **pharmaceutical raw materials** including cancer medicines and Active Pharmaceutical Ingredients (APIs) – *will reduce production cost*
- VAT exemption on **motorcycle parts** – *will benefit local import-substituting manufacturers*

V. FISCAL MEASURES

- To bring consistency, slabs for different truncated VAT rates have been reduced to 5 rates:

Flat sale/resale sees discriminant taxation

- 2% flat VAT proposed to impose on the **sale of flats** of size 1-1,600 sft. Previous rates were 1.5% for flats of size 1-1,100 sft and 2.5% for flats of size 1101-1,600 sft – *middle-class buyers to benefit, however, rate for lower income groups increased*
- The resale of all sizes of flats will be facing 2% new VAT – *will increase the cost for limited income buyers*

Additional fiscal burden for Furniture industries

- VAT on selling and manufacturing of furniture raised by 1 percentage point – *will raise price*

Increased duty rates for local clothing brands

- Truncated VAT on branded garment outlets increased from 4% to 5%. Same VAT shall also be applicable on sale of non-branded garment items in the local market – *no distinction between branded and non-branded local outlets which will discourage the promising local brands*

VAT on Information technology enabled services (ITES) raised

- 5% VAT (instead of 4.5%) on information technology enabled services that include digital content development, animation, geographical information services (GIS), website services, data entry – *will it discourage employment?*
- 5% VAT shall be imposed on a newly generated service code named "Virtual Business" to bring these online and bring app based virtual businesses within the tax net
  - E-commerce will remain outside the net (zero rated) as per the SRO in 2016
  - Ride sharing services will be subject to 5% VAT imposed on the popular app based service providers – *the additional cost may be passed on to the consumers*

Tobacco tax sees new height

- SD (at local stage) raised on low and medium segment cigarettes to 55% and 65% respectively. Price of homemade bidi (with filter) has also been increased
- 25% CD were imposed on tobacco export in FY18. However, CD has been withdrawn on tobacco exports in FY19 – *will it contradict the consumption related measure?*

Duties at import stages

- Duty to be changed only on a few products (270)
- Advanced Trade VAT rate has been increased across the board (both at import and trade stages) from 4% to 5% - *will generate additional revenue at import stage*
- Existing (six) slabs of Customs Duty (0%, 1%, 5%, 10%, 15%, and 25%) will remain unchanged
- Supplementary duties and regulatory duties have been newly imposed on a number products - *to generate more revenue*
- Attempt to provide protection to selected domestic industries, incentivise export, and to rationalise tariff structure by reducing prevailing discrepancies

Duty changes

Types of duty	Increased	Decreased	Newly imposed	Waived	Total number of changed items
Custom Duty	10	15	0	1	26
Supplementary Duty	8	26	80	1	115
VAT on Import	0	0	20	37	57
Advanced Income Tax	0	0	2	3	5
Regulatory Duty	6	4	40	7	57
Excise Duty	0	0	3	7	10
Total	**24 (8.9)**	**45 (16.7)**	**145 (53.7)**	**56 (20.7)**	**270 (100)**

V. FISCAL MEASURES

Change in duties on selected items

- Duty imposed on semi-milled and wholly milled rice: CD (25%), RD (3%), VAT (15%), AIT (5%); TTI = 60.3%; Also VAT imposed at import stage on all types of rice – *CPD had proposed this earlier. Welcome initiative to safeguard interests of farmers. However somewhat late*
- VAT on a number of pharmaceuticals ingredients reduced to zero from 15%. Tax incidence reduced by about 14% - *will reduce cost of production of pharmaceutical items*
- RD on a number of items e.g. Aluminium Alloy increased (from 3% to 20%) – *apparently for revenue purposes*
- SD on a number of items decreased; *e.g. ambulance fitted with equipment (SD of 45% reduced to zero): A good initiative that has reduced TTI by 56%*
- Twenty items on which VAT has been newly imposed at import stage include (semi) Chemical Wood Pulp , Cotton Linters Pulp etc.

Imposition of Regulatory Duty on selected items

- 20% on Wire of aluminum (> 7mm), 20% on Wire of aluminum (<= 7mm),
- 10% RD on Wheat Starch, Potato Starch, Manioc Starch, Other Starches. 3% imposition of 33 products includes Brazil Nuts, coconuts, Hazelnuts etc. :Revenue purpose

V. FISCAL MEASURES

Duty on luxury goods continues to rise – Welcome initiative!

- In FY18, duties were increased on luxury goods. SDs on bathtubs, jacuzzi and shower trays, toiletries, perfumes (except attar), body sprays, cosmetic and beauty products and similar items (except aromatic vapour) have been increased in FY19 as well – *will generate additional revenue and discourage import*

Health and Environmental issues – *Welcome initiative!*

- SD to be imposed on production of all kinds of polythene and plastic bags at the rate of 5%: *welcome move*
- Energy Drink: SD increased from 25% to 35%: *measure taken to reduce health risks*

V. FISCAL MEASURES

- According to the budget documents, CD, SD and VAT at import stage was planned to grow at more than 30%, 50%, and 20% respectively in FY19
- CPD has analysed the duty structure for FY19 based on import data for July-March FY18 to assess validity of targets in public finance framework at import stage. We have considered MTMPS assumption of import grow of 12% for FY19
- CPD analysis found that, changes in the proposed duty structure did not conform with fiscal framework targets for growth of import duties. The estimated growth based on the changes in the duty structure diverges significantly from the budgetary targets: → *revenue at import level will fall short of target*

Duties	**Growth (%) planned for BFY19 over RBFY18**	**Growth (%) from changes in duty structure**
VAT	31.2	11.2
Custom Duty	22.7	10.6
Supplementary Duty	51.4	11.9

Note: Annual average growth of NBR import was 14.5 for last five years

Key Observations

- In terms of personal income tax the expected relief to lower income group taxpayers did not materialise
- Corporate taxation changes were geared not to stimulate investment but to succumb to pressure from the banking lobby
- Whilst there are attempts to broaden the tax net and provide protection to domestic market oriented and import substituting industries, CPD estimates show that some of the highly optimistic projections in revenue mobilisation are highly unlikely to be attained
- Without commensurate institutional strengthening and the much-needed reforms the significant gap between high ambitions and actual achievement in revenue mobilisation will continue to persist

VI. SELECTED SECTORAL ISSUES

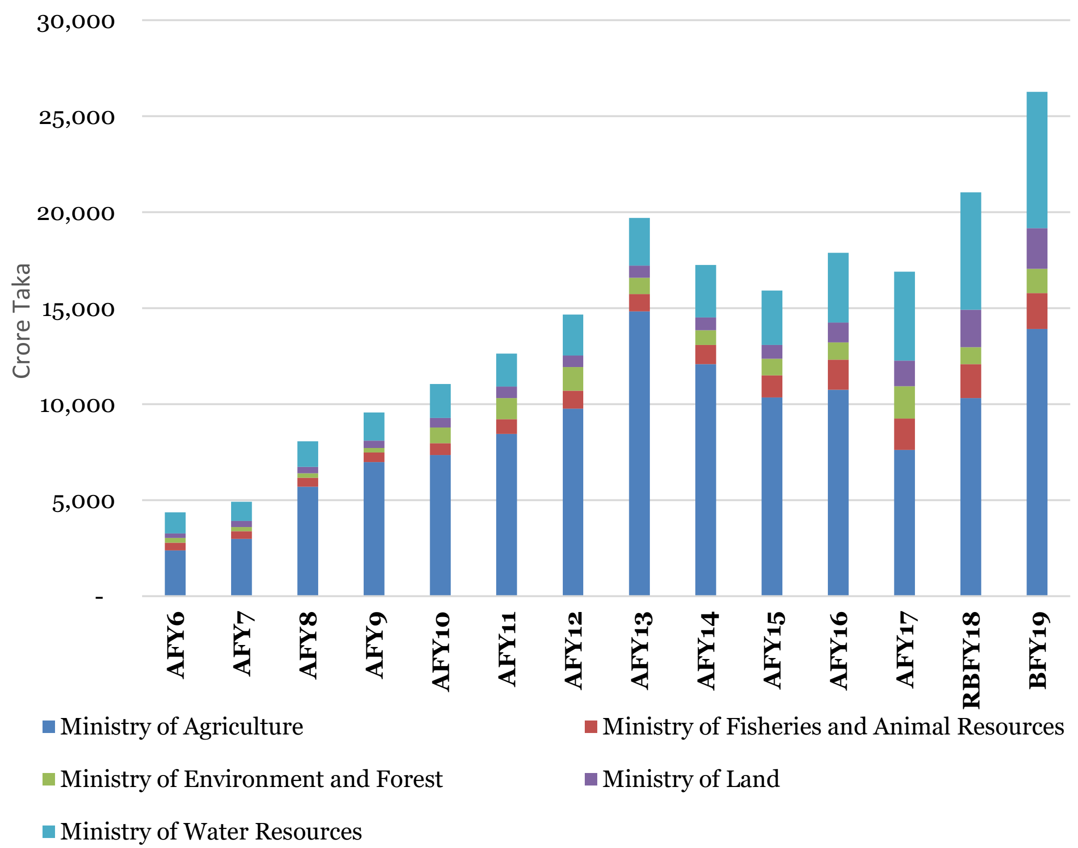
VI. SELECTED SECTORAL ISSUES

Agriculture

- Allocation for Agriculture and Allied Sectors (AAS) increased by 7% in BFY19 compared to that of RBFY18.
  - Highest allocation of budget is in Ministry of Agriculture.

7FYP Target	Current Status
Attain significant growth of agricultural sector	Zero rates kept unchanged for the import of key ingredients such as fertilizer, insecticides. To ensure sustainable development, environment-friendly and climate adaptation programmes are being emphasised.
Improve water resource management for supporting agricultural growth	Budget allocation for Ministry of Water Resources has increased by 13.7% in BFY19 compared to that of RBFY18.

Trends in Agriculture and Allied Sectors (AAS)

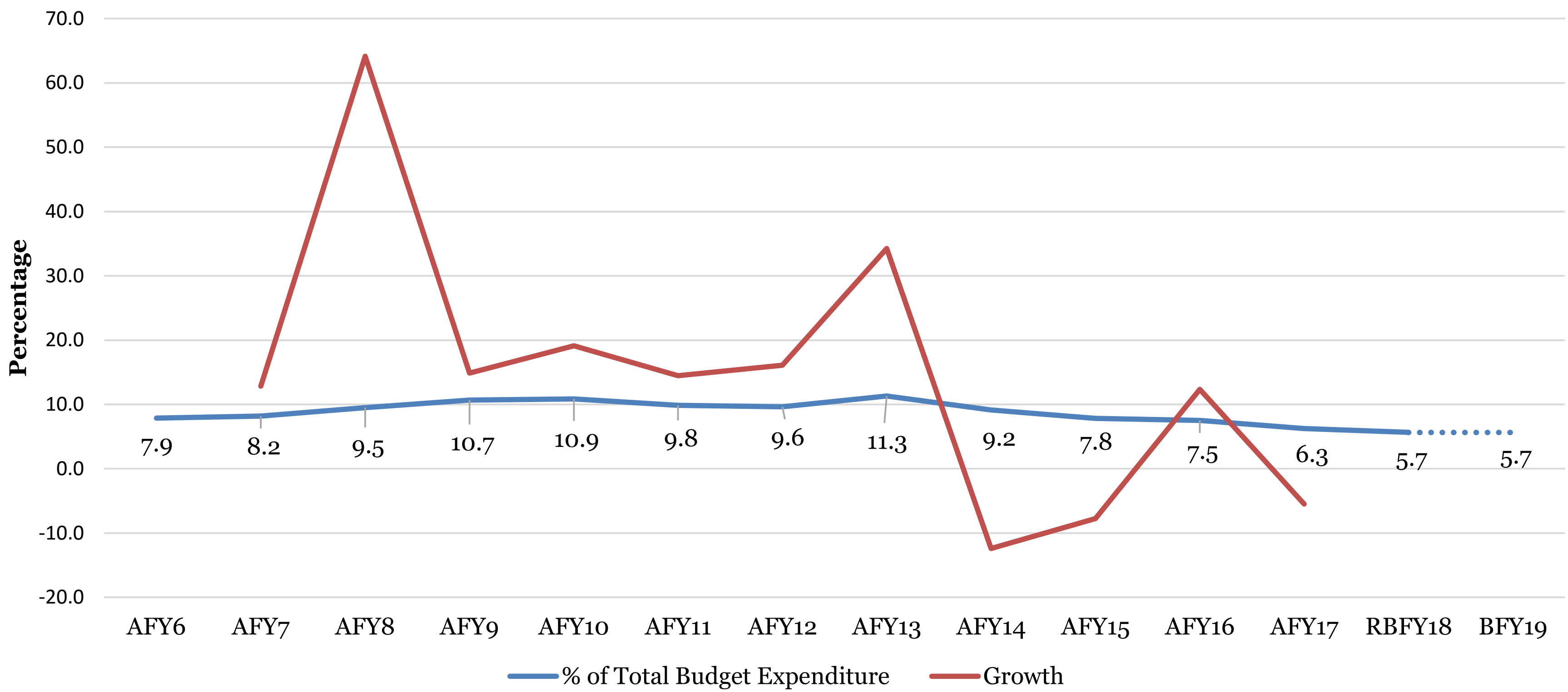


VI. SELECTED SECTORAL ISSUES

Agriculture

- However, share of AAS in total budget has continued to decrease over time (5.7 per cent in BFY19) due to low cost of fertiliser.
- Moreover, growth of actual budget declined from 12.3% in AFY16 to –5.5% in AFY17.

Share in Budget and Growth of Actual Budget



Note: (i) AFY: Actual Budget for Fiscal Year; (ii) Revised Budget for Fiscal Year

Education

Budgetary allocation for education has increased

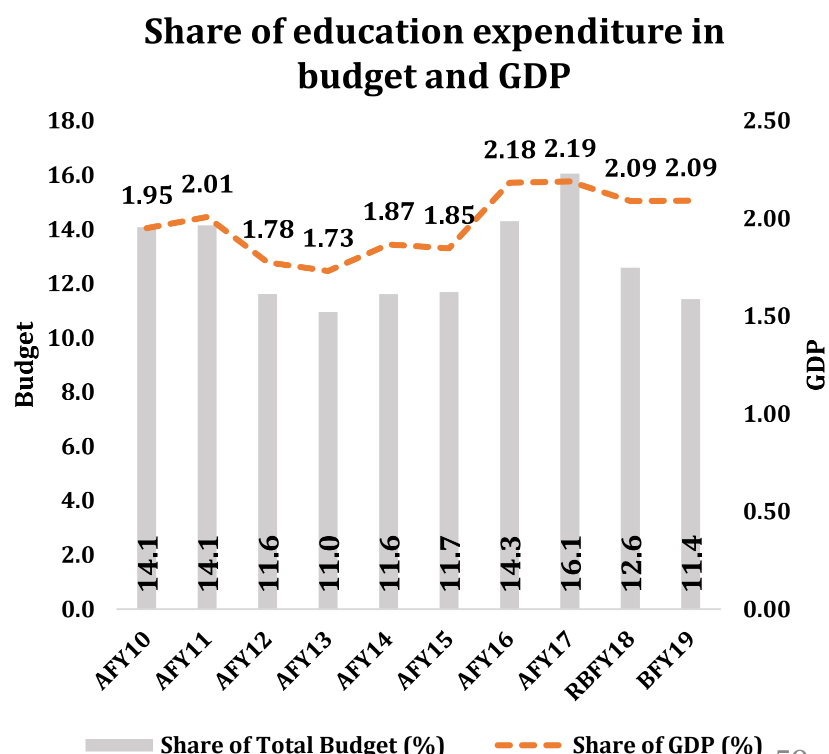
- Allocation in BFY19 is Tk 53,504 crore while it was Tk 46757 crore in RBFY18
- Largest incremental share for education was in Secondary and Higher Education Division.
- Although allocation is on the high side, share of allocation in budget and GDP is worrying

Allocation for education fell as share of total budget

- In BFY19, education received 11.4% of total budget while it was 12.6% in RBFY18

Allocation as Share of GDP remains stagnant

- Share of GDP in BFY19 and RBFY18 is **2.09%**



Education

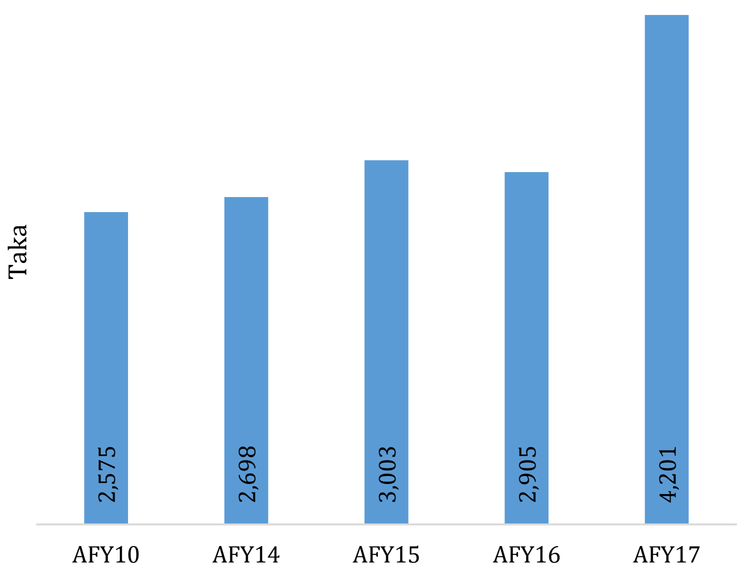
Both figures remain below the standards set by 7FYP and Education 2030 Framework for Action of UNESCO

- 7FYP requires spending of 2.84% of GDP in BFY19
- The Education 2030 Framework for Action set
  - 4 -6% of GDP
  - 15 -20% of public expenditure.

Expenditure per student enrolled in primary and pre-primary education has increased

- Public expenditure per student enrolled in primary and pre-primary school education has increased by Tk 1,626 during FY2010-17

Expenditure per student enrolled in primary and pre-primary education (in Taka)



VI. SELECTED SECTORAL ISSUES

Health

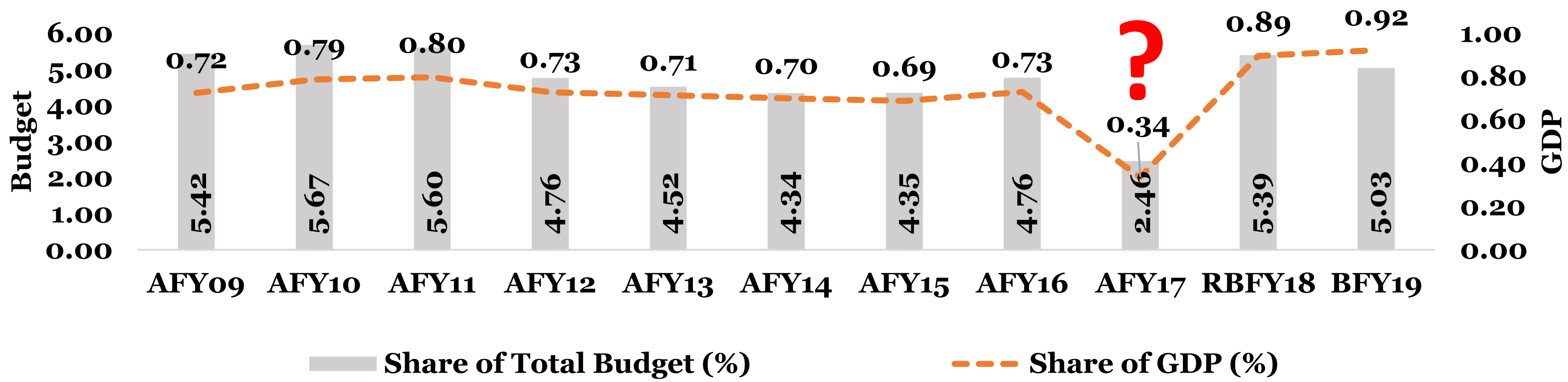
Budgetary allocation for health has increased in nominal terms

- Tk 23,383 crore has been allocated for BFY19, which was Tk 20,014 crore in RBFY18
- Largest incremental share for health was in Health and Service Division

Allocation for health as share of total budget has fallen

- Health received 5.03% of total budget which was 5.39% in RBF18
- In FY17, two-thirds of the allocated Tk 20,652 crore was unspent (*source: Statement II: Operating and Development Expenditure; pg 22*)

Share of health expenditure in budget and GDP



Note: (i) AFY: Actual Budget for Fiscal Year; (ii) Revised Budget for Fiscal Year

VI. SELECTED SECTORAL ISSUES

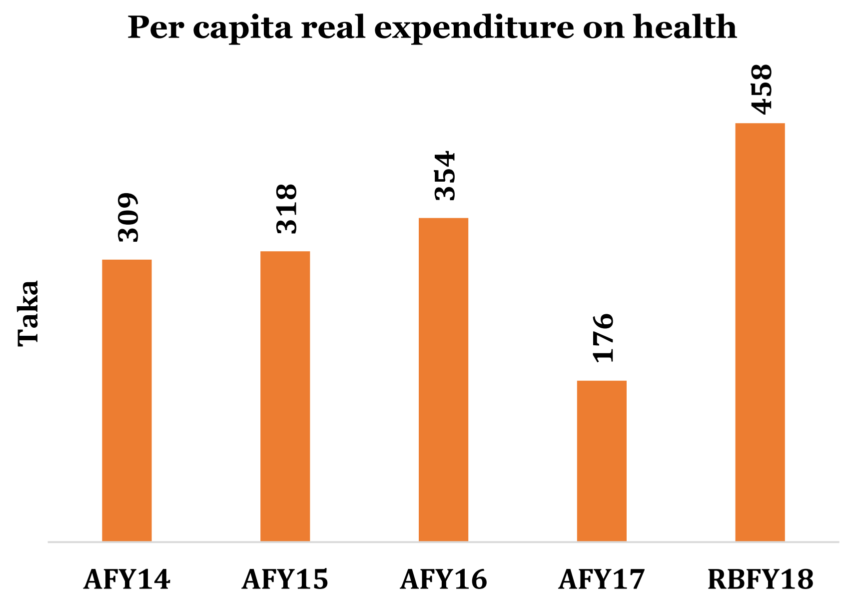
Health

Share of GDP has increased but stays below 7FYP and World Health Organization (WHO) targets

- Health sector received 0.92% of GDP which was 0.89% in RBFY18
- 7FYP targeted spending 1.04% of GDP in BFY19
- WHO considers a benchmark of 5% of GDP or GNI of the country for health expenditure.

Insignificant rise in per capita public expenditure

- Per capita real public expenditure on health has increased by TK 149 during FY2014-18
- This is worrying as over two-thirds of total health expenditure is financed by out-of-pocket spending.



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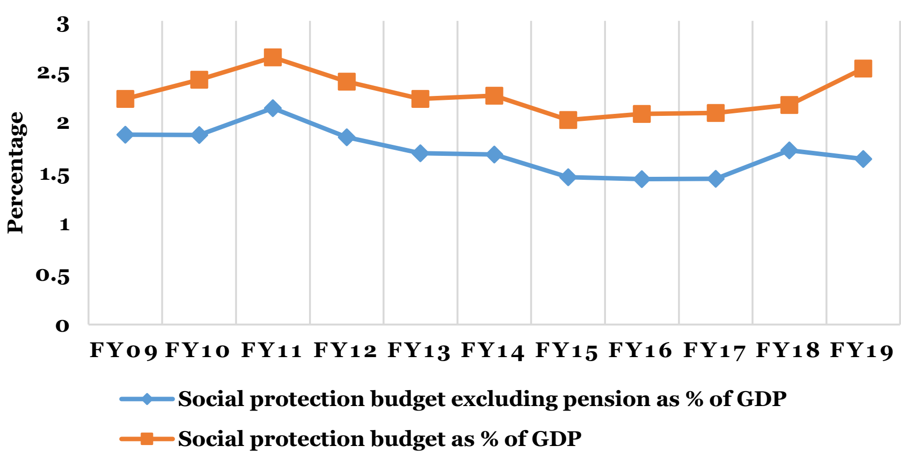
VI. SELECTED SECTORAL ISSUES

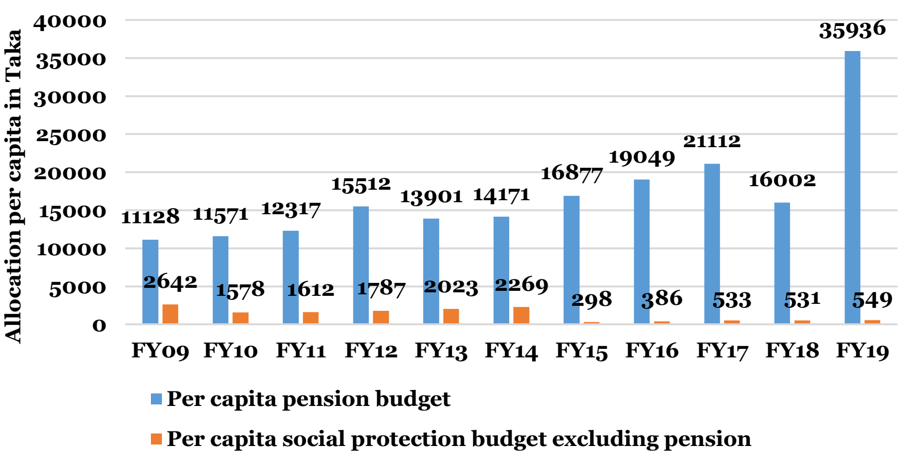
Social Protection

- In the proposed budget for FY2018-19, three praiseworthy changes were made in line with CPD's budget recommendations in April 2018
  - The budget for social protection excluding pension was made 1.6% of GDP
  - A digital database of all social protection beneficiaries is being created
    - However, such a database must be publicly available in order to ensure transparency
  - Direct transfer of social protection benefits from government to people (G2P) through electronic fund transfer (EFT) has been started
- Nevertheless, the total allocation for pension account for 35% of total social protection budget and the per capita allocations for pension continue to dwarf the per capita allocations for all other social protection programs

Social protection budget as % of GDP



Per capita allocations of pension and all other social protection programs

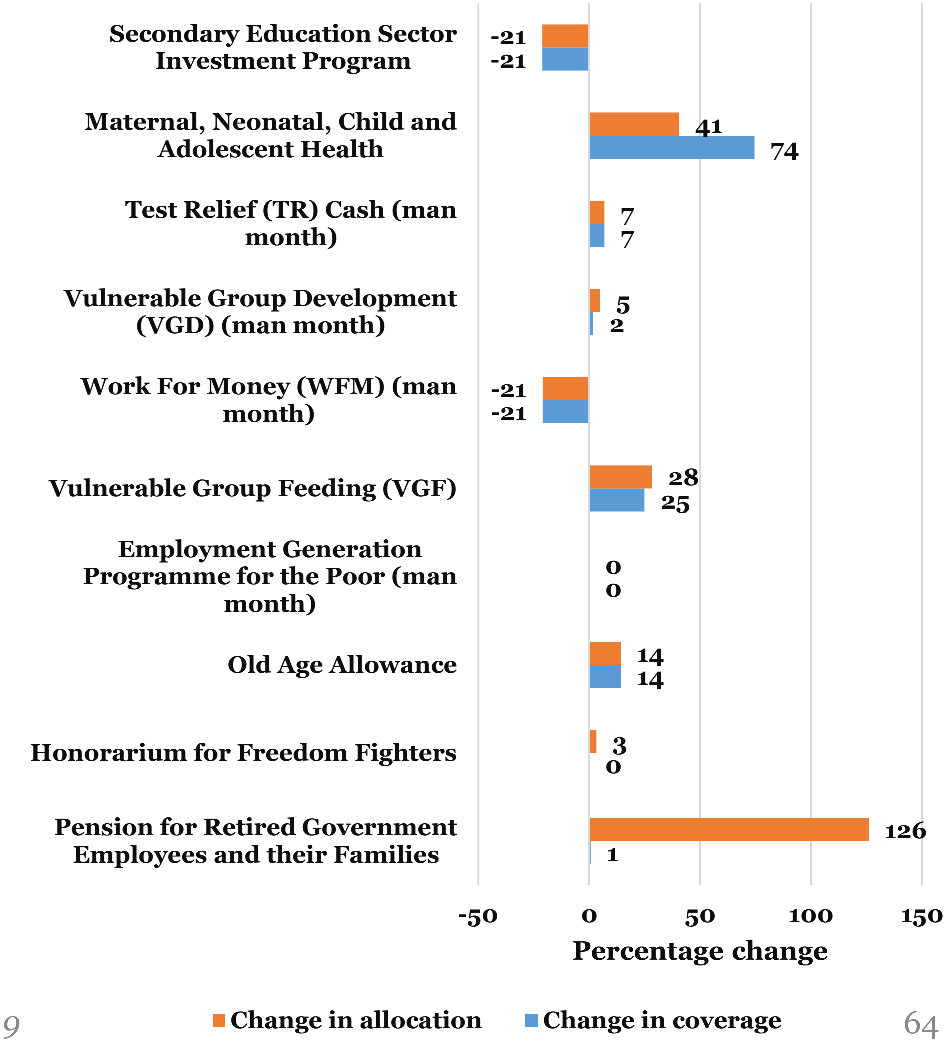


VI. SELECTED SECTORAL ISSUES

Social Protection

- The coverage and allocation for 8 out of the 10 largest social protection programmes has increased from the previous year
  - However, per capita allocation for maternal, neonatal, child, and adolescent health programme has decreased by 19%
  - Per capita allocations for 3 out of the 10 largest programmes increased by only 3%, while per capita allocation for 5 out of the 10 largest programmes remained unchanged
- Coverage of Vulnerable Group Development (VGD) programme has been increased, with special emphasis on Teknaf and Ukhiya indicating that communities that host Rohingya refugees are the intended beneficiaries
- A broad framework for a universal pension scheme was outlined in the budget speech
  - However, no budget allocations were made for the universal pension scheme, citing the need for fundamental structural reforms and huge cost as obstacles

Change in coverage and allocation of largest social protection programmes between FY2017-18 and FY2018-19



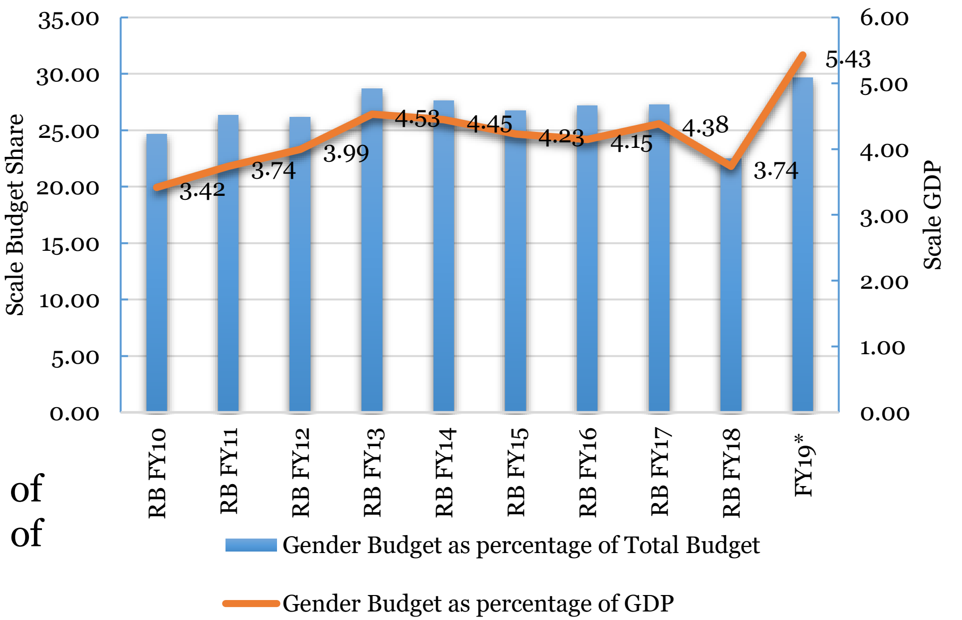
VI. SELECTED SECTORAL ISSUES

Gender Budget (43 Ministries/Divisions)- Increased allocation, low transparency in expenditure

- Allocation for Gender Budget in FY19 (Tk 1,36,938 crore) increased by 63.74% against RBFY18.
- Share of Gender Budget in Total budgetary allocation in **FY19 (29.48%) is highest since Gender Budget was introduced.**

Year	Gender Budget (Tk in crore)	Revised Gender Budget (Tk in crore)	Difference (% of original budget)
FY14	61567	59756	2.94
FY15	66739	64087	3.97
FY16	79087	71871	9.12
FY17	92765	86586	6.66
FY18	112019	83633	25.34

Trend of Gender Budget



- **Highest** allocation in Power Division (10.5% of Gender Budget) and **Lowest** in Ministry of Commerce (0.03% of Gender Budget)
- **Ministry of Labour and Employment** has received **reduced share of Gender Budget** in the total budget allocation for the Ministry, **from 63.6% to 42%**
- Lack of transparency in the actual spending of Gender budget: **Realized Gender Budget is not available.**

Child Budget – steady allocation, low transparency in expenditure

- Two additional ministries are now associated with child budget. Total number of child-centric ministries have gradually increased to 7, 13 and 15 in FY 2016-17, FY 2017-18 and FY 2018-19 respectively.
- The government has targeted to allocate 20% of total budget for children by 2020.
- Encouragingly, child budget as percentage of **GDP** has **increased from 2.50% to 2.59%.**
  - **Largest incremental share** is in **Public Security Division**.
  - Allocation has increased from 13.96% in FY18 to 14.13% in FY19.
  - **Highest allocation** is under Ministry of Primary and Mass Education where child-centric budget is 99.5 % of total ministry budget and lowest allocation is under Law and Justice Division (0.7 % of ministry budget).
- Lack of transparency in actual expenditure due to non-reporting of data.

Fiscal Year	Budget Allocated (BDT crore)	Growth of child centric budget (%)	As % of Total Budget	As % of GDP
FY16 (B)	38388		13.01	2.22
FY17 (B)	49612	29.2	14.57	2.51
FY18 (B)	55860	12.6	13.96	2.50
FY19 (B)	65650	17.5	14.13	2.59

Some of the major achievements of child-centric ministries:

- Of the of 39,841 government record of Rohingya children, 9,000 are being provided with a monthly stipend of TK 2000 by UNICEF.
- Education Support Fund has been introduced with Tk 1000 crore allocated for ensuring right to education of disadvantaged children.
- 91 action programmes were conducted through which 50,000 children were saved from hazardous work during the last three years.

Senior Citizen – Highlights

- Beneficiary coverage of old age allowance has increased from 35 lakh in FY18 to 40 lakh in FY19. However, per capita allocation remains unchanged from the previous year.
- Moreover, the per capita allocation is insufficient considering the high cost of living in Bangladesh. Following the normal demographic trend, the proportion of elderly population would also increase as in other developed countries, thereby making it difficult to support senior citizens through budget transfers.
- The GoB has proposed the distribution of allowances of old age, widow, tortured women, and disabled persons in 11 districts through G2P payment system to be finalised by the next fiscal year.
- Tax payable threshold for senior citizen aged 65 years and above remains unchanged at a level of Tk 3 lakh per annum.

	Coverage (persons in lac/Man Month)	Budget (Taka in lakh)	Change in coverage	Change in allocation	Per capita allocation
Revised FY18	35	21000			600
Budget FY19	40	24000	14.29	14.29	600

VI. SELECTED SECTORAL ISSUES

Climate Change

- **Climate Relevant Allocation for FY 19**
  - **Out of 20 Ministries' Budget: 8.82% is Climate Relevant (GoB)**
  - As a share of GDP, climate allocation is **increasing**
  - As a share of total budget, climate allocation is **increasing**
  - Growth rate of climate relevant allocation is **decreasing**

Bangladesh Climate Change Strategy and Action Plan (BCCSAP): Areas of allocation

➢**Food Security, Social Protection and Health:** highest allocation **46.01%; 7.81% lower** as share of total climate allocation from FY 2018

➢**Research and Knowledge Management: lowest** allocation **0.04%** of ministry budget, **declining 9.98%** from FY 2018

➢**Climate Resilient Infrastructure:** allocation **increasing 46.76%** from FY 2018

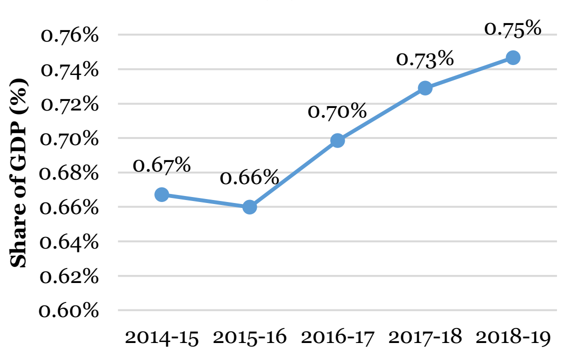
Government Ministries' allocations

➢**Ministry of Environment, Forest and Climate Change:** allocation as share of ministry budget **highest** at **52.68%, increasing 15.21%** from FY 2018

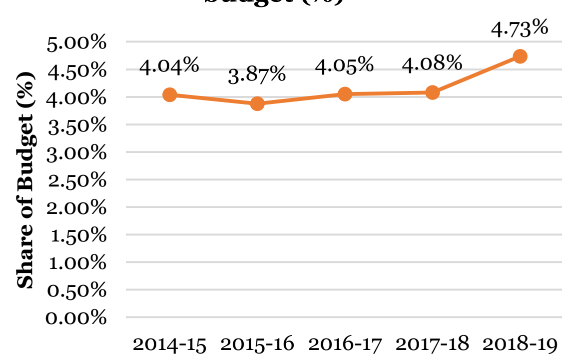
➢**Ministry of Fisheries and Livestock:** allocation **declining** by **5.11%** from FY 2018

➢**Ministry of Women and Children Affairs:** allocation as share of budget **declining** the most by **15.69%** from FY 2018

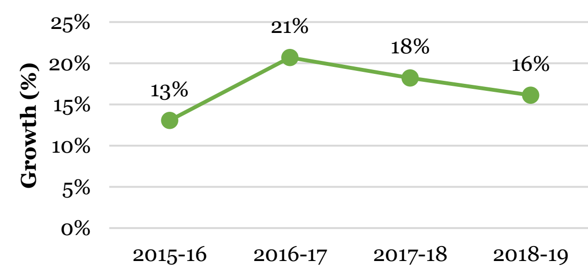
Climate allocation as share of GDP (%)



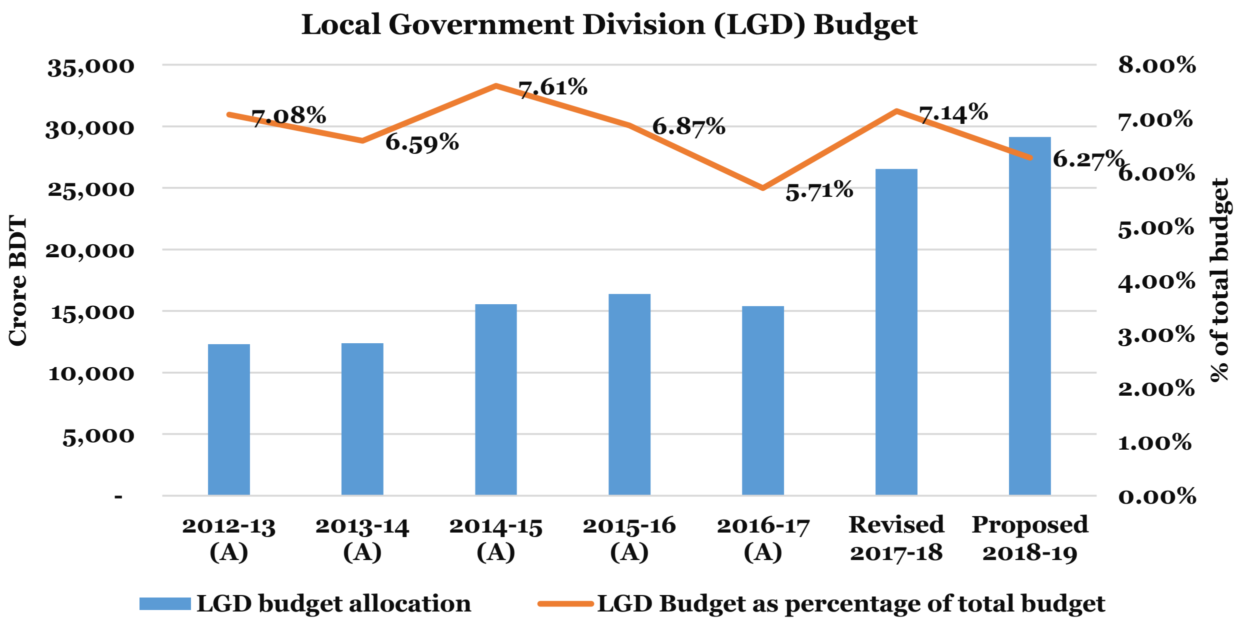
Climate allocation as share of total budget (%)



Growth in climate relevant allocation (%)



Local Government Division



Budget Allocation in FY19:

- ❑ Allocation for LGD in FY19 **increased (growth in FY19 over RBFY18 was 9.8%)**
- ❑ However, allocation as a share of total budget **decreased from 7.14% in RBFY18 to 6.27% in FY19**

- ❑ Pattern for LGD allocation share of total budget follows an **alternating trend -** decreased in ABFY14, ABFY16, ABFY17 and FY19 from respective prior FYs
- ❑ Allocation for Rural Development and Cooperatives Division in FY19 **increased by 0.59%** from RBFY18 and **17.25%** from FY18
- ❑ Overall, LGRD budget in FY19 **increased by 8.97%** from RBFY18, but its **share in the total budget decreased to 7.03% from 8.07%** over the same period

VI. SELECTED SECTORAL ISSUES

Defence

- The budget allocation for defence for FY19 is Tk 29,048 crore, which is 12.9% higher than the allocation for the previous year.
- Overall, share of defence in the budget has decreased (from 6.48 % in FY18 to 6.26 % in FY19).

Table: Defence expenditure and allocation in recent years

	Actual 2015-16	Actual 2016-17	Revised 2017-18	Budget 2018-19
Ministry of Defence - Defence Services				
Non-Development	17656	21248	23611	26750
Development	416	406	680	1152
Total	18072	21654	24291	27902
Ministry of Defence - Other Services				
Non-Development	290	447	1435	1147
Total	290	447	1435	1147
Armed Forces Division				
Non-Development	21	29	30	35
Total	21	29	30	35
Total Defence Services	18383	22130	25756	29084
Growth		20.4	16.4	12.9
% of Total Budget Allocation	6.23	6.51	6.43	6.26

Defence

- Actual spending in defence has been surpassing the original defence budget over the past few years.
- In India, the allocated amount for defence accounts for 12.10 per cent of the total central government expenditure for the year 2018-2019.

Table: Change in budget allocation for defence

Year	Original	Revised	Actual	Change in actual (% of Revised)	Change from original to actual (% of Original)
FY14	14,458	15,180	13,920	-8.30	-3.72
FY15	16,462	17,770	17,490	-1.58	6.24
FY16	18,383	20,694	20,313	-1.84	10.50
FY17	22,130	23,212	23,621	1.76	6.74

VII. POLICY AND INSTITUTIONAL ISSUES

VII. POLICY AND INSTITUTIONAL ISSUES

- An elected government is expected to deliver what it pledges to the people,
  - Similarly, what it announces in national policies and consequently announces in national budgets.
- However, significant gaps exist between election pledges and their actual implementation

Election Pledges: Not Fulfilled

Issue	Manifesto 2008	Manifesto 2014
Employment	Comprehensive employment policy will be developed	
Local government	Devolution of state power and planning and budgeting authority to zila parishad	
Tax administration		An Ombudsman will be appointed
Land management		Scientific land management policy

VII. POLICY AND INSTITUTIONAL ISSUES

- According to 15.4 of the *Public Money and Budget Management Act-2009*, the Finance Minister is supposed to report about the status of implementation of budget to the National Parliament at the end of each quarter.
  - Till May, 2018 a total of 28 reports were to be prepared; of those only 16 reports have been prepared
  - **Instead of quarterly reports, those were half yearly reports**

Budget Implementation Status

List	FY	Quarter	Date
July-March 2009-10	2010	July-March	May-10
July-December 2009-10		July-December	Mar-10
July-September 2010-11	2011	July-September	Dec-10
July-December 2010-11		July-December	Mar-11
July-September 2011-12	2012	July-September	Jan-12
July-December 2011-12		July-December	Mar-12
July-September 2012-13	2013	July-September	Nov-12
July-December 2012-13		July-December	Mar-13
July- September 2014-15	2015	July-September	Feb-15
July- December 2014-15		July-December	Feb-15
July- September 2015-16	2016	July-September	
July- December 2015-16		July-December	
July- September 2016-17	2017	July-September	
July- December 2016-17		July-December	May-17
July-December 2017-18	2018	July-December	May -18

VII. POLICY AND INSTITUTIONAL ISSUES

- Despite the Election Year, the broader discussion on economic reforms is largely absent in the budget speech.
  - Various sections of the budget speech including 'Reform and governance' did not highlight a forward-looking agenda
- During 2009-2018, government has framed/adopted 215 Acts and Rules and 145 Policy Strategies (see next slide)
  - Major changes in rules and procedures are observed in: local government, environment, home affairs and science and technology
- Various other measures have been reported in different documents
  - Documents include election manifestos, 7th FYP and national budget speeches for various years
- CPD has reviewed the extent of implementation of different announced measures by the government over the years.

VII. POLICY AND INSTITUTIONAL ISSUES

List of Laws, Rules and Policies Framed and Adopted Between 2009-2018

Ministries	Act/rules	Policy strategies	Ministries	Act/rules	Policy strategies
Commerce	11	14	Cultural Affairs	2	4
Food	7	6	Bridges	1	
NBR	3	0	Health and Family Plan.	4	0
Civil Aviation and Tourism	11	2	Industry	4	5
Road Transport and Highways	10	7	Information	5	6
Defense	2	0	Jute and Textiles	6	2
Fisheries and Livestock	6	5	Labour and Empl.	5	6
Cabinet	8	10	Law, Justice and Parliamen	2	0
Comptroller and Auditor Genl	1	4	Land	5	5
Environment and Forests	17	0	Local Government	23	3
Home Affairs	17	0	Planning	3	2
Technical and Madrasah	1	0	Posts and Telecom	6	5
Religious Affairs	1	0	Social Welfare	10	15
Shipping	7	0	Water Resources	2	1
Women and Children Affairs	4	11	Liberation War	2	8
Youth and Sports	8	5	Science and Technology	12	9
Expatriates' Welfare & Overs.	2	3	Supreme Court	4	0
Disaster Management	3	7	**Total**	**215**	**145**

Source: CPD Compilation

VII. POLICY AND INSTITUTIONAL ISSUES

- We highlight reform related issues reported in the budget speeches of various years: Financial sector, Local government, Public expenditure management and Tax related Issues and Energy Sector
- **Out of 87 different initiatives undertaken between FY2015-FY2019, only 34.5% have been implemented, 36.8% have been ongoing and another 28.7% are yet to be implemented**

Summary of Status of Implementation of Selected Reform Measures (FY15-FY19)

Areas	Status of Implementation (no. of initiatives)			
	No. of measures/initiatives	Implemented	Ongoing	Not Implemented
Local Government	10	4	3	3
Public Expenditure Management	6	2	2	2
Public Administration	7	2	3	2
Tax	18	8	5	5
Tariff	8	3	3	2
Banking	13	7	2	4
Capital market	3	1	2	0
Insurance	7	0	4	3
Power and energy	15	3	8	4
Total	87	30	32	25

Source: CPD Compilation

VII. POLICY AND INSTITUTIONAL ISSUES

- Various reform measures undertaken over the years did not generate the expected results in sectors such as local government institutions, financial sector and tax and tariff related areas
- Some of the key measures as proposed by CPD are yet to be undertaken-
  - Enforcement of VAT and Customs Act 2012
  - Setting up Public Expenditure Review Commission
  - Setting up Financial Sector Reform Commission
  - Devolution of power to the LGI
  - Lack of implementation of the Coal Policy

VII. POLICY AND INSTITUTIONAL ISSUES

- Organisations are weak in ensuring internal and external coordination and integration which further delay the process of implementation and undermine the quality of expected results
- Various interest groups exert pressure on the government which further delay adoption of laws/rules and adversely affect their enforcement
- There is a need to address the issues that inform the political economy of reform

VIII. CONCLUDING REMARKS

Independent Review of iRBD Bangladesh's Development

VIII. CONCLUDING REMARKS

1. Addressing the emerging stresses on macro-economic stability

A number of laudable fiscal measures have been taken to strengthen domestic-oriented industries and enhance revenue earnings. Support to the social safety net programmes is also appreciated. However, budget for FY19 is, overall, one of maintaining the status quo. The budget statement builds more on a review of the past, rather than a focus on future. It lacks sensitivity towards existing and emerging macro stresses e.g. pressure on balance of payment and exchange rate, inflationary expectations etc. as well as scant attention to areas requiring reforms.

Moreover,

- No well-crafted action plan to implement the budget: strengthen revenue collection, deliver public expenditure, raise allocative efficiency, improve expenditure efficacy, and ability to pursue the deficit financing programme

VIII. CONCLUDING REMARKS

1. Addressing the emerging stresses on macro-economic stability (contd.)

- No concrete initiatives towards strengthening of implementing institutions and oversight mechanisms
- Inconsistent budget programming e.g. import growth target totally out of line with foreign finance driven import demand
- No substantive work programme to reenergize the stagnant private investment
- Cost overrun and time overrun of ADP projects creating fiscal pressure and impeding private investment
- Absence of adequate response measures to the challenges in the banking sector; Rather a number of measures that indicate to the contrary
- Ironically, the issue of underwriting the cost of hosting Rohingyas is missing

Independent Review of Bangladesh's Development

VIII. CONCLUDING REMARKS

2. Addressing inclusivity of growth and other achievements

Compared to the macro-stresses, inclusivity has been better addressed in the budget, albeit mostly through short term measures. The medium to long term challenges e.g. inequality, both income and wealth, unplanned urbanisation and other issues mentioned in the fourth quadrant in the aforesaid budget backdrop, remain ignored.

Moreover,

- The anticipated (food and non-food) price pressure will fall disproportionately on low income people and worsen consumption and income inequality situation
- Increased food inflation may adversely affect low-income households
- Lower and middle income groups to bear the pressure of the higher (indirect) tax incidence
- Stagnating shares of education and health are anti-equity – the high investment in infrastructure coupled with resource constraints may be resulting in allocative trade off

VIII. CONCLUDING REMARKS

Although,

- Enhanced safety net coverage likely to improve income and transfer
- Enhanced surcharges on assets are steps in the right direction
- Announcement of universal pension scheme to improve inclusivity albeit only when implemented

Hope all the concerns raised in our review will find space in the upcoming debate

Thank You

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